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May 26, 2026

VIA eFILING

Matthew L. Homsher, Secretary
Pennsylvania Public Utility Commission
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**Re: Pennsylvania Public Utility Commission v.
Pennsylvania-American Water Company
Docket Nos. R-2025-3057983 and R-2025-3058051**

Dear Secretary Homsher:

Enclosed for filing in the above-captioned proceedings is **Pennsylvania-American Water Company's Exceptions to the Recommended Decision of Administrative Law Judge Jeffrey A. Watson and Administrative Law Judge Emily I. DeVoe** dated May 15, 2026 (the "Exceptions").

As evidenced by the enclosed Certificate of Service, copies of the Exceptions are being served upon Administrative Law Judge Watson and DeVoe, all parties of record as well as the Commission's Office of Special Assistants as requested in the Commission's May 15, 2026 Secretarial Letter.

If you have any questions, please contact me directly at 215.963.4603.

Very truly yours,



Enclosures

c: Per Certificate of Service (w/encls.)
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	Docket No. R-2025-3057983
	:	(Water)
v.	:	
	:	Docket No. R-2025-3058051
PENNSYLVANIA-AMERICAN WATER COMPANY	:	(Wastewater)

CERTIFICATE OF SERVICE

I hereby certify that I have this date served true and correct copies of the **Pennsylvania-American Water Company's Exceptions to the Recommended Decision of Administrative Law Judge Jeffrey A. Watson and Administrative Law Judge Emily I. DeVoe** on the following individuals in the matter specified in accordance with the requirements of 52 Pa. Code § 1.54:

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Dated: May 26, 2026

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**EXCEPTIONS OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

**To the Recommended Decision of
Administrative Law Judge Jeffrey A. Watson and
Administrative Law Judge Emily I. DeVoe**

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TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. EXCEPTIONS	3
A. Exception No. 1: The RD Errs in Concluding That the Record Evidence Supports Complete Denial of Any Rate Relief to PAWC (RD, pp. 1, 425-27, 498)	3
B. Exception No. 2: The RD Errs by Recommending a 9.70% Return on Equity and a Hypothetical Capital Structure (RD, pp. 227-46, 248-69).....	7
1. The Commission Should Not Rely on a Proxy Group of Only Four Utilities.....	8
2. The Commission Should Approve a Higher ROE than I&E’s 9.70% Recommendation	13
3. The Commission Should Approve PAWC’s Actual Capital Structure	19
C. Exception No. 3: The RD Errs by Disallowing PAWC’s Revenue Requirement Claims Related to the Farmington and Manwalamink Acquisition Adjustments (RD, pp. 81-87)	21
D. Exception No. 4: The RD Improperly Reduces PAWC’s Claimed Performance Compensation Expense Supported by a Detailed Third-Party Compensation Study That Is Wholly Ignored by the ALJs (RD, pp. 136-149)	24
E. Exception No. 5: The RD Improperly Adjusts the Company’s Claimed Waste Disposal Expense Using a Three-Year Average of Actual Expense Instead of the Change in Expense (RD, pp. 163-68)	27
F. Exception No. 6: The RD Errs by Ordering PAWC to Continue to Prepare a Separate Cost of Service Study for Each System Acquired Under Section 1329 of the Public Utility Code and Included in Its Revenue Requirement in This Rate Case (RD, pp. 302-07).....	27
G. Exception No. 7: The RD Errs by Rejecting the Company’s Proposed CAP Rider (RD, pp. 407-18)	28
H. Exception No. 8: The RD Errs by Recommending Changes to PAWC’s Arrearage Management Program (RD, pp. 434-43)	30
I. Exception No. 9: The RD Improperly Adopts Unreasonable Screening, Outreach, and Enrollment Procedures for the H2O Program Proposed by the OCA and CAUSE-PA (RD, pp. 443-53)	32
J. Exception No. 10: The RD Errs by Recommending Rejection of PAWC’s Proposed RAPP (RD, pp. 462-67)	33

K.	Exception No. 11: The RD Errs in Recommending Additional Auditing of Call Handling Based on the OCA’s Mischaracterization of the Company’s Customer Service Performance (RD, pp. 190, 470-78)	34
L.	Exception No. 12: The RD Improperly Adopts an Unnecessary Root Cause Analysis Requirement Proposed by the OCA (RD, pp. 478-88)	36
M.	Exception No. 13: The RD Errs in Recommending Denial of the Company’s Deduct Adjustment Proposal for Wastewater Customers (RD, pp. 382-97)	37
N.	Exception No. 14: The RD Errs in Recommending Exclusive Use of Direct-Cost Analysis (RD, p. 293-298, 301)	38
O.	Exception No. 15: The RD Errs in Recommending Increases for Wastewater Rate Zone 2a (Scranton) (RD, p. 382)	38
P.	Exception No. 16: The Commission Should Clarify How OSBA’s Recommended Wastewater Rate Design for the Company’s Sanitary Sewer Operations Will Be Implemented in the Final Order (RD, pp. 354-64, 381-82)	39
III.	CONCLUSION.....	40

TABLE OF AUTHORITIES

COURT CASES

Bluefield Waterworks and Imp. Co. v. P.S.C. of W. Va.,
262 U.S. 679 (1923).....5, 11

Fed. Power Comm’n v. Hope Nat. Gas Co.,
320 U.S. 591 (1944).....5, 11

COMMISSION CASES

*Joint Application of Pa.-Am. Water Co., Manwalamink Water Co. and
Manwalamink Sewer Co.*,
Docket Nos. A-2023-3044418 *et al.* (Opinion and Order entered Mar. 27,
2025)22, 23

Pa. P.U.C. v. Aqua Pa., Inc.,
Docket No. R-00072711 (Order entered July 31, 2008).....24

Pa. P.U.C. v. Aqua Pa., Inc.,
Docket Nos. R-2021-3027385 and R-2021-3027386 (Opinion and Order
entered May 16, 2022)24

Pa. P.U.C. v. Columbia Gas of Pa., Inc.,
Docket No. R-2025-3053499 (Opinion and Order entered Dec. 9, 2025)..... *passim*

Pa. P.U.C. v. Columbia Water Co.,
Docket No. R-2023-3040258 (Opinion and Order entered Jan 18, 2024).....9

Pa. P.U.C. v. PPL Elec. Utils. Corp.,
Docket No. R-2012-2290597 (Opinion and Order entered Dec. 28, 2012).....24, 25

Pa. P.U.C. v. Pa.-Am. Water Co.,
Docket Nos. R-2020-3019369 and R-2020-3019371 (Opinion and Order
entered Feb. 25, 2021)24, 25

Pa. P.U.C. v. Pa.-Am. Water Co.,
Docket Nos. R-2023-3043189 and R-2023-3043190 (Opinion and Order
entered July 22, 2024)..... *passim*

Pa. P.U.C. v. UGI Utils., Inc. – Elec. Div.,
Docket No. R-2017-2640058 (Opinion and Order entered Oct. 4, 2018)24, 25

Pa. P.U.C v. PPL Gas Utils. Corp.,
Docket No. R-00061398 (Order entered Feb. 8, 2007)24

Petition of Pa.-Am. Water Co. for Approval of an Arrearage Management Plan;
Docket No. P-2021-3028195 (Recommended Decision issued Oct. 13, 2022).....8, 30

STATUTES & REGULATIONS

66 Pa.C.S. §§ 101 et seq.20

66 Pa. C.S § 1307(e)28

66 Pa.C.S. § 1327(a)20, 21, 22

66 Pa. C.S § 1329.....26, 27

66 Pa. C.S § 1330.....27

66 Pa. C.S § 1501.....34

OTHER AUTHORITIES

Illinois-Am. Water Co. Proposed Rate Increases for Water and Sewer Service,
I.C.C. Docket No. 22-0210, (Order entered Dec. 15, 2022).....10

In re Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.,
Fla. P.S.C. Docket No. 20180006-WS (Order No. PSC-2018-0327-PAA-WS entered June 26, 2018)10

Petition of Aquarion Water Co. of Massachusetts, Inc., pursuant to G.L. c. 164, § 94, and G.L. c. 165, § 2, for Approval of a General Rate Increase as set forth in M.D.P.U. No. 3.,
Mass. D.P.U. Docket No. 17-90 (Order entered Oct. 31, 2018).....10

I. INTRODUCTION

On November 14, 2025, Pennsylvania-American Water Company (“PAWC” or the “Company”) initiated this rate case 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 Pennsylvania Public Utility Commission (“Commission” or “PUC”) approval of an increase in its total annual operating revenues to become effective January 13, 2026. The requested increase equaled \$168.7 million or approximately 14.6% above the level of pro forma revenues for the fully projected future test year (“FPFTY”) ending June 30, 2027.¹ As a result of various updates made by PAWC throughout the case, its revenue increase request was reduced to \$159,597,595, or 13.7%, as set forth in PAWC Exhibit 3-A Revised.²

On December 4, 2025, the PUC instituted an investigation of PAWC’s existing and proposed rates and the Company’s proposed tariffs were suspended by operation of law until August 13, 2026. This matter was subsequently assigned to Administrative Law Judges (“ALJs”) Jeffrey A. Watson and Emily I. DeVoe for purposes of conducting hearings and issuing a recommended decision.³

On May 15, 2026, the ALJs issued their Recommended Decision (“RD”), recommending that the Commission summarily deny any increase in base rates or, in the alternative, proposing that the PUC approve additional annual operating revenues totaling approximately \$51.5 million for PAWC’s water operations and \$31.2 million for its wastewater operations. The ALJs’ primary

¹ PAWC St. 2, p. 3.

² On March 13, 2026, the Company submitted updated pages to Exhibit 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 Exhibit 3-A Revised are described in the supplemental testimony of Linda Schlessman.

³ A detailed history of this proceeding is set forth in the Company’s Main Brief dated April 6, 2026 (“PAWC Main Br.”). PAWC also filed a Reply Brief (“PAWC Reply Br.”) on April 15, 2026, and the Commission is urged to review both briefs in its consideration of these Exceptions.

recommendation to deny *any* rate relief to PAWC is contrary to the PUC’s obligations to weigh the record evidence presented in this case and provide the Company with the opportunity to earn a fair rate of return and recover its prudently incurred expenses to meet its service obligations, as well as the ALJs’ own conclusion that “the record evidence in this matter supports rate increases, albeit not to the level initially requested by PAWC”⁴

In reaching their alternative recommendation, the ALJs clearly spent a great deal of effort sifting through a voluminous record and, for the most part, provide the PUC with a well-reasoned and thorough analysis of many issues addressed in this case. In doing so, the ALJs considered and properly rejected many of the more extreme and indeed, unsupported, positions advanced by the opposing parties. As such, the following Exceptions are narrowly limited to the following areas: (1) the ALJs’ primary recommendation to deny any rate increase without weighing the record evidence presented in this case; (2) the determination of an appropriate common equity return rate and capital structure; (3) rate recognition of the acquisition adjustments associated with the utility assets acquired from Farmington Township (“Farmington”) and Manwalamink Water Company and Manwalamink Sewer Company (together, “Manwalamink”); (4) unreasonable adjustments to PAWC’s claimed performance compensation and wastewater disposal expenses; (5) PAWC’s proposed Customer Assistance Program (“CAP”) Rider; (6) a subset of the RD’s directives for PAWC’s cost-of-service studies (“COSSs”) presented in future base rate cases; (7) unnecessary modifications to PAWC’s H2O Help to Others (“H2O”) Program and rejection of its proposed Renter Assistance Pilot Program (“RAPP”); (8) unwarranted auditing requirements for call handling performance and a comprehensive root cause analysis of customer complaints conducted by an independent third party; (9) a single wastewater rate structure issue pertaining to the deduct

⁴ RD, p. 426.

adjustment; (10) recommended rate increases for Scranton customers in violation of PAWC's commitments under the Commission-approved purchase agreement; and (11) clarification of three wastewater rate design issues.

II. EXCEPTIONS

A. **Exception No. 1: The RD Errs in Concluding That the Record Evidence Supports Complete Denial of Any Rate Relief to PAWC (RD, pp. 1, 425-27, 498)**

As documented in the American Society of Civil Engineers Report Card for Pennsylvania's Infrastructure, aging water and wastewater systems across the Commonwealth are in dire need of upgrades.⁵ The main reason PAWC is seeking to increase rates is the substantial capital investment the Company is making – and will continue to make – to address infrastructure concerns and provide essential water and wastewater service to 810,000 customers in Pennsylvania. These investments include the repair and replacement of facilities that were installed many decades and in some cases over 100 years ago, as well as the elimination of lead service lines and the removal of chemicals and emerging contaminants like per- and polyfluoroalkyl substances (“PFAS”) from drinking water.⁶ The Company has already spent approximately \$50 million on PFAS treatment projects and expects to spend more than \$320 million by 2030 to comply with applicable PFAS limits.⁷ All parties opposing the proposed rate increase agree that the Company's plan to invest over \$1 billion in its water and wastewater is prudent and reasonable.⁸

The ALJs' recommendation for outright denial of any rate increase for PAWC based on their conclusion that the Company's rates are not affordable is not supported by any analysis of record evidence, including the extensive data submitted in PAWC's initial filing and testimony

⁵ See PAWC St. 4, pp. 4-7.

⁶ See, e.g., PAWC St. 3, p. 16; PAWC St. 4, pp. 5-6.

⁷ PAWC St. 3, p. 16.

⁸ PAWC Main Br., pp. 7-8, 11.

presented by 16 Company witnesses in this case demonstrating that its proposed rates are just and reasonable. In fact, as noted above, the ALJs themselves found that the record evidence supports a rate increase.⁹ Absent rate relief, PAWC’s water and wastewater operations are projected to produce an overall return on invested capital of 6.29% for the FPFTY.¹⁰ The indicated return on common equity under present rates is anticipated to be only 7.63% as of June 30, 2027, which is far less than required to provide PAWC with a reasonable opportunity to attract capital for the investments that PAWC makes every day to meet or exceed environmental and public health standards, address aging infrastructure, and enhance the reliability and resiliency of its systems.¹¹ That return on equity (“ROE”) is over 200 basis points below the 9.70% ROE recommended by I&E and adopted by the ALJs in their alternative analysis. The PUC recently rejected a similar recommendation to totally deny rate relief to Columbia Gas of Pennsylvania, Inc. (“Columbia Gas”) without properly weighing the record evidence regarding revenue requirement,¹² and the Commission should do the same in this case.

The Commission was clear in *Columbia Gas 2025* that, while the Commission is not bound by a prescribed ratemaking formula, there are ratemaking norms, or traditional ratemaking methodologies, that have been consistently used by parties to rate cases to determine the appropriate level of a utility’s requested revenue increase in accordance with all applicable legal and constitutional standards.¹³ While the Commission has concluded that those “ratemaking norms permit the consideration and weighing of important factors such as quality of service, gradualism, and rate affordability,”¹⁴ constitutional standards require that a rate of return “should

⁹ RD, p. 426.

¹⁰ PAWC St. 2, p. 5.

¹¹ *Id.*

¹² See *Pa. P.U.C. v. Columbia Gas of Pa., Inc.*, Docket No. R-2025-3053499 (Opinion and Order entered Dec. 9, 2025) (“*Columbia Gas 2025*”), p. 34.

¹³ *Id.*, p. 33.

¹⁴ *Id.*

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.”¹⁵

While the Company agrees with the ALJs and other parties that affordability is an important issue, the concerns identified in the RD regarding PAWC’s affordability analysis have been fully addressed by record evidence in this case. For example, in the RD, the ALJs agree with the Office of Consumer Advocate’s (“OCA’s”) view that PAWC’s assumed consumption of 40 gallons per household member per day is too low.¹⁶ The Company’s 40-gallon threshold was derived from an analysis of the Company’s residential usage on an *individual customer level* and is further calibrated to non-seasonal consumption patterns for residential customers.¹⁷ The OCA, on the other hand, relied upon *national average use* studies which are, by definition, not tailored to PAWC residential customer usage and also do not account for any individualized household characteristics.¹⁸ Further, the ALJs repeat claims that PAWC’s analysis is “substantially flawed . . . especially for larger families and those with the lowest income levels”¹⁹ and “simply averages [households] all together and deems them all to have affordable bills ‘on average.’”²⁰ In reality, as shown in the Community-Level Analysis in PAWC Exhibits DFA-1 and DFA-2, the Company analyzed affordability of service at proposed rates in this case for individual groups of

¹⁵ *Bluefield Waterworks and Imp. Co. v. P.S.C. of W. Va.*, 262 U.S. 679, 693 (1923) (“*Bluefield*”); accord *Fed. Power Comm’n v. Hope Nat. Gas Co.*, 320 U.S. 591, 603 (1944) (“*Hope*”) (“By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to ensure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital.”); see also *Columbia Gas 2025*, p. 39 (“We find that the ALJs’ recommendation to completely deny Columbia’s rate increase is inconsistent with the Commission’s obligations to weigh the record evidence and to provide Columbia with a fair rate of return.”)

¹⁶ RD, p. 426.

¹⁷ PAWC Main Br., p. 94; PAWC St. 9-R, pp. 3-6.

¹⁸ PAWC Main Br., p. 94; PAWC St. 9-R, pp. 4-5.

¹⁹ RD, p. 424 (discussing CAUSE-PA’s position).

²⁰ *Id.*, pp. 421-22 (discussing OCA’s position).

customers using the most recent currently available household information on income, size, and ownership status from the U.S. Census Bureau. The analysis was done community by community at the zip code level, displaying different family sizes and incomes, and showed the potential mitigating effects of the Bill Discount Program.²¹ Notably, the Company's community and enterprise-level analysis was reviewed in detail by the Commission in PAWC's last rate case, and the Commission found that analysis persuasive.²²

In sum, PAWC's affordability analyses incorporate tailored usage, income and family size information derived from the Company's analysis of individual customer consumption and the most recent Census Bureau information, and PAWC is undertaking extensive efforts to enroll customers in its low-income programs. The PUC should again recognize the Company's

²¹ See PAWC Exs. DFA-1 and DFA-2; PAWC St. 9, pp. 14-22.

²² *Pa. P.U.C. v. Pa.-Am. Water Co.*, Docket Nos. R-2023-3043189 and R-2023-3043190 (Opinion and Order entered July 22, 2024) ("*PAWC 2024*"), pp. 326-28 (finding PAWC testimony regarding the Enterprise-Level Analysis and Community-Level Analysis persuasive and rejecting OCA exceptions). The Company notes that Appendix C of the RD, which was not included in the record in this proceeding, contains a summary of public input testimony which the ALJs state they prepared using an artificial intelligence program provided by the Commission. RD, p. 68 n.318. Citing Appendix C, the ALJs appear to have relied on this limited testimony to further conclude that there was a "resounding chorus of customers who are struggling" among PAWC's 637,356 residential customers. RD, p. 426. The ALJs also state that "approximately 75 individuals and 15 public officials testified at the public input hearings about their concerns regarding the affordability of water and/or wastewater service by PAWC," citing the appendices of OCA witness Barbara R. Alexander in which she prepared a different summary of public input hearing testimony. PAWC disagrees with these characterizations for several reasons. First, as detailed in the record evidence provided by Company witness Jim Runzer (PAWC St. 3-R, pp. 44-47), PAWC estimates that almost 60% of public input hearing participants (138 of 239 participants) expressed support for PAWC and its rate increase while a little over 40% opposed the rate increase (101 of 239 participants). Not all opposition was based on affordability concerns. Second, Ms. Alexander's individual witness summaries identify participants under a combined heading of "Affordability / Consumers' Conservation Efforts to Save Money on Bills / Reject Rate Increase / Frequency of Rate Increases." See RD, p. 52, 68; OCA St. 5 App. A, pp. 1-9 and App. A Supp., pp. 1-4 (grouping customer concerns of together.) Not every entry identifies an affordability concern.

As the Commission recognized in *PAWC 2024*, "[t]he testimony from the public input hearings presented an overarching theme which described residential ratepayers who live on fixed incomes or minimum wages and cannot afford the proposed increase. However, we must also recognize that even the most efficient least-cost water service may not be affordable to many people on fixed or low-incomes. This is why we regard low-income customer assistance programs as vital and agree with the ALJs that low-income customers should avail themselves of such programs." *PAWC 2024*, p. 327. The Company is committed to maintaining affordability of water and wastewater services and addressing customer affordability challenges throughout its service territory through its customer assistance programs, including the BDP. PAWC St. 2, pp. 9-14; PAWC St. 2-R, pp. 4-5.

affordability studies as providing a reasonable framework for evaluating the scope and depth of affordability issues for residential households.

B. Exception No. 2: The RD Errs by Recommending a 9.70% Return on Equity and a Hypothetical Capital Structure (RD, pp. 227-46, 248-69)

The RD recommends a ROE of 9.70% without any recognition of PAWC's management performance, as well as a hypothetical capital structure for PAWC's water operations. In reaching this recommendation, the ALJs largely rely on the testimony of the Commission's Bureau of Investigation and Enforcement ("I&E") witness D.C. Patel, who uses a limited proxy group of just four water utilities along with a Capital Asset Pricing Model ("CAPM") calculation that is substantially different from his calculations in prior PAWC rate cases. Mr. Patel's ROE calculations also fail to account for evolving market conditions, including the Iran conflict and associated changes in inflationary pressures and interest rate expectations.

In deciding to accept I&E's testimony, the ALJs entirely fail to discuss or address significant testimony by PAWC cost of equity witness Ann Bulkley. As described below, Ms. Bulkley provided detailed financial metrics demonstrating the comparability of water utilities and the selected gas utilities included in her proxy group to address ongoing utility consolidation in the water industry. She also examined how I&E witness Patel continues to change his CAPM calculations in PAWC's rate cases with the general effect of reducing his CAPM results. Furthermore, throughout this proceeding and unlike both I&E and OCA, Ms. Bulkley updated her analysis with current economic data through January 31, 2026, and additional information on the effects of the Iran conflict.²³ With respect to capital structure, the evidence provided by I&E does not support an equity capital structure of 55% for PAWC's water operations under the

²³ PAWC St. 13-RJ, p. 2.

Commission's long-established standards providing for the use of a utility's actual capital structure.

Despite what PAWC believes are clear errors in I&E's analysis adopted by the ALJs, the Company recognizes that the PUC may not accept PAWC's recommended cost of equity of 10.95% established by Ms. Bulkley. Instead, in order to address the full record and the critical errors identified by Ms. Bulkley, PAWC proposes that the Commission adopt the alternative cost of equity of 10.56% in Ms. Bulkley's rebuttal testimony, which is the ROE calculation of I&E witness Patel with adjustments detailed by Ms. Bulkley using a proxy group of both water and gas utilities consistent with the approach of other public utility commissions. Furthermore, as discussed below, the Commission should reject the hypothetical capital structure proposed by I&E for the Company's water operations and approve PAWC's actual capital structure of 56.13%.

1. The Commission Should Not Rely on a Proxy Group of Only Four Utilities

There is no dispute in this proceeding that the number of water utilities suitable for inclusion in a proxy group for purposes of determining a water utility's cost of equity has declined over time. In PAWC's last rate case, the Commission relied on a proxy group of just five water utilities.²⁴ In this proceeding, the ALJs recommend a proxy group of only four water utilities as proposed by I&E. Because un rebutted evidence in this proceeding demonstrated that investors see similar risks in water and gas companies, the Commission should reject the ALJs' recommendation and join other public utility commissions that use utilities with similar risks to water and wastewater utilities to establish a proper cost of equity for PAWC.

The Commission has explained the importance of a proper proxy group:

A proxy group is generally preferred over the use of data from any one company because it has the effect of smoothing out potential

²⁴ PAWC 2024, pp. 145, 149, 153.

anomalies associated with a similar company and, therefore, is a more reliable measure. A proxy group also satisfies the long-established principle of utility regulation that seeks to provide the utility with the opportunity to earn a return equal to that of enterprises of similar risk.²⁵

In selecting her proxy group, Ms. Bulkley applied specific criteria to a group of U.S. utilities to identify utilities that have similar risk.²⁶ Due to the ongoing consolidation in the water utility industry, the Value Line research service commonly relied upon by investors identifies only six companies in the United States as water utilities.²⁷ Ms. Bulkley excluded Essential Utilities, Inc. (“Essential”) because of its announced merger with American Water Works Company, Inc. (“American Water”). She excluded American Water for the same reason, in addition to circularity associated with American Water as PAWC’s parent.²⁸ Excluding entities involved in mergers is a “standard screening criterion that has been relied upon by nearly all cost of capital experts due to the fact that a merger can influence the assumptions used in cost of equity models.”²⁹

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:³⁰

Company	Ticker
American States Water Company	AWR
Atmos Energy Corporation	ATO
California Water Service Group	CWT
Southwest Gas Corporation	SWX
Middlesex Water Company	MSEX
NiSource Inc.	NI
Northwest Natural Gas Company	NWN
ONE Gas, Inc.	OGS

²⁵*Pa. P.U.C. v. Columbia Water Co.*, Docket No. R-2023-3040258 (Opinion and Order entered Jan 18, 2024) (“*Columbia Water 2024*”), p. 69.

²⁶ RD, p. 230.

²⁷ PAWC St. 13, pp. 23-24.

²⁸ RD, p. 230; PAWC St. 13, p. 22.

²⁹ PAWC St. 13-RJ, pp. 12-13.

³⁰ PAWC St. 13, pp. 28-29.

Other states (including Florida, Illinois, and Massachusetts) include electric and gas utilities in proxy groups in water utility rate proceedings due to the small number of suitable water utilities and the similar nature of natural gas utilities and water utilities is well understood by those commissions.³¹ Ms. Bulkley applied screening criteria to select gas utilities with comparable risks to PAWC.³²

OCA witness David Garrett used the same water utilities selected by Ms. Bulkley and I&E witness Patel but also included American Water and Essential “to increase the sample size” despite both American Water and Essential being involved in a merger.³³ I&E witness Patel proposed a four-utility proxy group, eliminating both American Water and Essential in light of the announced merger.³⁴ I&E provided its own perspective that gas and water utilities face different operational, safety and weather-related risks, and gas customers can shop for supply where there are “generally no alternatives” for water customers.³⁵ In addition, as further grounds for not using gas utilities in a proxy group with water utilities, I&E witness Patel cited *Columbia Gas 2025* where the PUC concluded 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 profiles.”³⁶ In the RD, the ALJs acknowledge PAWC’s undisputed

³¹ PAWC St. 13, p. 24-26 (citing *Petition of Aquarion Water Co. of Massachusetts, Inc., pursuant to G.L. c. 164, § 94, and G.L. c. 165, § 2, for Approval of a General Rate Increase as set forth in M.D.P.U. No. 3.*, Mass. D.P.U. Docket No. 17-90 (Order entered Oct. 31, 2018), pp. 286-87; *In re Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*, Fla. P.S.C. Docket No. 20180006-WS (Order No. PSC-2018-0327-PAA-WS entered June 26, 2018), p. 7; *Illinois-Am. Water Co. Proposed Rate Increases for Water and Sewer Service*, I.C.C. Docket No. 22-0210 (Order entered Dec. 15, 2022), p. 102).

³² *Id.*, p. 21.

³³ RD, p. 231.

³⁴ I&E St. 2, p. 13-14.

³⁵ I&E St. 2, pp. 14-17.

³⁶ *Columbia Gas 2025*, pp. 204-05.

testimony on volatility associated with a small proxy group,³⁷ but largely adopted I&E’s rationales for its four water utility proxy group and agreed with both the OCA and I&E that the proxy group should be restricted to water utilities consistent with the PUC’s decision in *PAWC 2024*.³⁸

In making this recommendation, however, the ALJs – like I&E and the OCA – entirely failed to address the specific evidence that *investors* see similar risks in water and gas companies, which must be considered in assessing the standard of “corresponding risks and uncertainties” under *Bluefield* and *Hope*.³⁹ Investors are certainly aware of the operational differences between water and gas utilities when making investments, however, Ms. Bulkley demonstrated that those operational differences are not perceived to be differences in the overall risk profile of gas and water utilities, which is fundamental to the estimation of the investor-required return:

- The betas of the water and natural gas distribution companies, which reflect systemic risk of a stock, are generally comparable.⁴⁰
- The Value Line timeliness rankings of the water and natural gas utilities, which are the forecasted relative market performance over the next 12 months, are comparable for water and gas utilities.⁴¹
- Similarly, Value Line’s safety ranking, which considers the financial strength and volatility of a stock, were also comparable.⁴²

³⁷ RD, p. 231.

³⁸ RD, pp. 238-240.

³⁹ See *Bluefield, supra*, at 690-93 (1923); *Hope, supra*, at 603; PAWC St. 13-R, p. 20 and PAWC St. 13-RJ, pp. 4-5 (discussing lack of response in testimony of I&E witness Patel).

⁴⁰ PAWC St. 13, pp. 26-27; PAWC St. 13-R, pp. 21-22.

⁴¹ *Id.*

⁴² *Id.*

In her rebuttal testimony, Ms. Bulkley presented this data in tabular format based on updated economic data, as shown below, and further described the details of the safety and timeliness rankings.⁴³

Comparison of Risk Measures for Water and Natural Gas Utilities

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

In addition, Ms. Bulkley provided the opinions of industry participants in two transactions, both of whom support the viewpoint that the risk profiles and business models of the natural gas distribution and water utility sectors are similar. In 2017, Northwest Natural Gas Company acquired Salmon Valley Water Company and Falls Water Company, two water utilities operating in the Pacific Northwest, and one of the reasons cited for the merger was the similarity in operating characteristics and risk profiles of the natural gas and water utilities.⁴⁴ Similarly, in 2020, Essential completed the acquisition of PNG Companies, LLC, a natural gas utility operating in Pennsylvania, West Virginia, and Kentucky. In discussing the acquisition, Essential’s Chairman and Chief Executive Officer Chris Franklin noted that “both gas and water utilities are underground utilities, and that the systems share a common burden of being old and in need of replacement.”⁴⁵ Moreover, Ms. Bulkley addressed the assertion of I&E witness Patel regarding the ability of gas customers to shop for gas supply in comparison and differences in risk for water utilities:

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

⁴³ PAWC St. 13-R, p. 22.

⁴⁴ PAWC St. 13, p. 24.

⁴⁵ *Id.*, pp. 24-25.

A. No. It is generally the case that natural gas distribution companies recover the cost of supply through purchased gas adjustment clauses that are intended to “pass through” the actual cost of supply without any incremental return. Therefore, the fact that the supply source of natural gas that will be distributed by the natural gas utility can be selected by customers is not relevant for the long-term earnings of the Company. The earnings generated by natural gas distribution companies are based on the ability to earn the authorized return on the rate base. Therefore, customer choice with respect to suppliers does not increase the risk of natural gas distribution companies.⁴⁶

Again, neither I&E witness Patel, OCA witness Garrett, nor the ALJs addressed this testimony or provided any market data or viewpoints that the operational differences in the gas and water utilities are perceived by investors as differences in the risk of the business that should be reflected in the ROE. And while the ALJs appeared to place substantial weight on the Commission’s conclusion in *Columbia Gas 2025* that non-gas utilities and non-utility companies do not have the same risk and financial profiles as gas utilities for proxy group purposes and the PUC’s decision in PAWC’s 2024 rate case,⁴⁷ neither decision involved the challenge of using a proxy group of only four companies or analyzed unrebutted financial metrics that demonstrated the comparability of water and gas utilities.

In sum, the PUC should address the continuing shrinking proxy group of water companies eligible for use in cost of equity calculations by adopting the same approach of other public utility commissions that include other types of utilities that meet appropriate screening criteria in a proxy group used to determine the cost of equity for water utilities.

2. The Commission Should Approve a Higher ROE than I&E’s 9.70% Recommendation

Relying upon the flawed proxy group discussed in Section II.B.1 above, I&E witness Patel recommends an ROE of 9.7% based on the average of his constant growth Discounted Cash Flow

⁴⁶ PAWC St. 13-R, pp. 23-24.

⁴⁷ RD, pp. 238-40.

("DCF") analysis (10.09%) and a "composite" average of 9.31% based on his "traditional" CAPM (9.96%) and his "Kroll CAPM" (8.66%).⁴⁸ The ALJs accepted this recommendation without modification.⁴⁹ A higher ROE is reasonable and appropriate for the following reasons: (a) flaws in Mr. Patel's analysis; (b) recent current events impacting economic conditions; and (c) PAWC's exceptional management performance highlighted in the record, in particular, its acquisitions, receiverships, and unparalleled efforts to support Pennsylvania residents in areas with no current access to water service (Dimock, Pennsylvania), and its significant savings to customers as a result of its pursuit of PENNVEST funding.⁵⁰

As a threshold matter, the evidence shows that Mr. Patel's review of capital market conditions was incomplete and inconsistent with current market conditions. Mr. Patel made no mention in his testimony of current world events that have resulted in significant increases in energy prices worldwide that will likely affect inflation in the current and near term, nor does he mention the effects of these conditions on interest rates.⁵¹ In contrast, Ms. Bulkley presented detailed testimony regarding current market conditions, including the possibility of increased inflation from the shock of higher fuel prices as a result of the Iran conflict.⁵² Aside from noting testimony of PAWC witness Bulkley regarding PAWC's need to raise capital in "a period marked by high interest rates and high inflation, now compounded by the Iran conflict,"⁵³ the ALJs made

⁴⁸ I&E St. 2-SR, pp. 26-27.

⁴⁹ RD, p. 269.

⁵⁰ PAWC addressed the assertions of the OCA and I&E regarding its superior management performance extensively in its Main and Reply Briefs. See PAWC Main Br., pp. 65-71 & PAWC Reply Br., pp. 39-43. The RD concluded that PAWC should not receive a management performance adjustment because of its troubled system work, which is directly contrary to the Commission's Policy Statement at 52 Pa. Code § 69.711(a). PAWC's significant improvement to Rock Spring's operations is an excellent example of why the Commission adopted this Policy Statement. PAWC's ability to recover receivership costs as part of base rates does not change the fact that receiverships and acquisitions of troubled systems is challenging work that provides no financial benefit to the Company. A slight upwards adjustment to ROE is reasonable under such circumstances.

⁵¹ PAWC St. 13-RJ, pp. 2, 12.

⁵² *Id.*; see also PAWC St. 13-R, pp. 12-16.

⁵³ RD, p. 268.

no findings relating to the capital market conditions affecting PAWC's cost of equity or establishing that PAWC witness Bulkley's conclusions based on current market conditions were erroneous.

With respect to I&E witness Patel's DCF calculations, Mr. Patel chose to use a spot stock price instead of a 30-day average, which both Ms. Bulkley and OCA witness Garrett used, and provided only one scenario based on average earnings per share ("EPS") growth rates.⁵⁴ As Ms. Bulkley explained, it was not appropriate to rely upon a spot stock price that can be biased significantly by the volatility that exists in the market on any given day, and investors will consider the full range of consensus EPS growth rates for each company in the proxy group – low, average, and high.⁵⁵ Adjusting Mr. Patel's results with current market data, and reflecting Ms. Bulkley's proxy group with a 30-day average stock price and the full range of growth assumptions that investors would use from the same sources Mr. Patel relies upon, produces a range of results of 9.90% to 11.43%, with an average cost of equity estimate of 10.72%.⁵⁶ But even if Mr. Patel's four water utility proxy group is used, the DCF result is 10.59%, well above his DCF calculation of 10.09%.⁵⁷ The ALJs did not address these issues with Mr. Patel's calculations identified by PAWC witness Bulkley, but simply noted that I&E witness Patel "disagrees" with PAWC's calculation of the DCF.⁵⁸

While Mr. Patel now agrees that the CAPM methodology should be used in addition to the DCF and gives his DCF and CAPM results equal weight,⁵⁹ he has continued to change the way he calculates his CAPM results in PAWC proceedings with the effect of reducing his

⁵⁴ PAWC St. 13-R, pp. 25-28.

⁵⁵ *Id.*, p. 26.

⁵⁶ *Id.*, p. 28.

⁵⁷ PAWC Ex. 13-RJ, Sch. 2.

⁵⁸ RD, p. 254.

⁵⁹ *Id.*, pp. 250-51.

recommendations. Ms. Bulkley’s testimony established that if Mr. Patel used the same methodology he used in PAWC’s 2020 and 2022 proceedings, his CAPM results would have been 12.39%, and his 2024 methodology would lead to a CAPM of 9.97%, all above his current calculation of 9.31%; notably, even a simple average of his three methodologies used in the last three PAWC rate cases leads to a CAPM of 10.35%.⁶⁰ While Mr. Patel asserted that his CAPM methodology has changed “as financial conditions have changed and Commission positions have guided I&E in updating its methodology over the years,” he did not identify what “financial conditions” required him to repeatedly change his CAPM methodology, nor what “Commission position” has led him to change his CAPM methodology yet again for this proceeding.⁶¹ In its Reply Brief, I&E again failed to provide any explanation for Mr. Patel’s changing methods for calculating CAPM, asserting only that “[p]ublic utility ratemaking is an ever-changing area,” the Commission has recently relied on averaging of DCF and CAPM results, and I&E is “simply adapting” to these changes.⁶² As with the criticisms of Mr. Patel’s DCF results, the ALJs did not address Mr. Patel’s inconsistent CAPM calculations.

Moreover, Ms. Bulkley presented testimony that Mr. Patel’s current CAPM calculations were flawed, which the ALJs also did not address. As noted above, Mr. Patel’s new methodology – his third methodology change in recent PAWC proceedings – results in a decrease in the CAPM of 243 basis points from the methodology Mr. Patel believed was appropriate in 2020 and 2022 even though the risk-free rate (measured by the 10-year Treasury bond yield) is nearly 100 basis points higher and the betas remain the same.⁶³ While Ms. Bulkley recognized that the Commission has approved the use of the Treasury 10-year bond yield used by Mr. Patel for the CAPM risk-free

⁶⁰ PAWC St. 13-R, p. 7, 32, 38.

⁶¹ PAWC St. 13-RJ, pp. 6-7.

⁶² I&E Reply Br., p. 44.

⁶³ PAWC St. 13-R, pp. 31-32.

rate in his traditional CAPM scenario despite the mismatch with the life of many utility assets,⁶⁴ Ms. Bulkley explained that Mr. Patel's use of the historical market risk premium to estimate a forward-looking cost of equity was also improper as the use of assumptions from different time periods fails to account for an inverse relationship that exists between the risk-free rate and the equity risk premium.⁶⁵ As described by Ms. Bulkley, the market risk premium is derived as the difference between the market return and the risk free rate and the relationship between the two values must be maintained. Mr. Patel uses the historical average market return in his CAPM scenarios to estimate the market risk premium. The historical average return on government bonds was 4.84% over the same period that Mr. Patel used to estimate his market risk premium and the historical average market return was 12.35%, resulting in a market risk premium of 7.56%. However, Mr. Patel used a risk-free rate of 4.12%, which is lower than the historical average yield on bonds. Therefore, since there is an inverse relationship between interest rates and the market risk premium, a lower risk-free rate would correspond to a higher market risk premium. Using a market risk premium below the historical average results in an understatement of the cost of equity.⁶⁶

Mr. Patel's new second scenario, in which he relies on the yield on the 20-year Treasury bond and the Kroll premium, suffers from other flaws. First, there is no way to discern how the equity risk premium is established by Kroll.⁶⁷ Second, the documentation provided by Mr. Patel from Kroll indicates that Kroll would typically consider the effect of current market conditions, but the report that Mr. Patel relied upon only considered economic conditions through September

⁶⁴ *Id.*, p. 33.

⁶⁵ *Id.*, pp. 34-37.

⁶⁶ *Id.*, pp. 35-36.

⁶⁷ PAWC St. 13-RJ, p. 7.

2025.⁶⁸ Mr. Patel's additional citation to Kroll's January 30, 2026 update reaffirming its September 2025 conclusion did not address the problem; as Ms. Bulkley explained, there remains no way to discern what analytics Kroll is using to estimate the equity risk premium, which in any event should not be relied upon if it continues to estimate less uncertain macroeconomic conditions.⁶⁹

When the issues with Mr. Patel's cost of equity analyses are reasonably adjusted in accordance with Ms. Bulkley's testimony,⁷⁰ the averaged DCF and CAPM results increased significantly. Specifically, the average adjusted DCF produces results of 10.06% (water only) to 10.72% (combined water and gas) and adjusted CAPM results of 10.47% (water only) to 10.35% (combined water and gas), resulting in averages of 10.26% (water only) to 10.53% (combined water and gas).⁷¹ The Commission should therefore approve an ROE of 10.53% or, if the Commission approves a four-utility proxy group, an ROE of 10.26%.

A higher ROE award is reasonable for policy reasons as well. PAWC did not advocate for a specific numerical management performance adjustment to the ROE in this case; instead, PAWC argued a higher range ROE is appropriate based on its significant support for troubled systems and its creation of approximately \$100 million in savings for customers by applying for and obtaining extensive PENNVEST funding.⁷² Commission policy recognizes that an upwards adjustment to ROE is appropriate to recognize the challenging work associated with acquiring troubled systems.⁷³ Accordingly, the Commission should authorize a higher ROE based on PAWC's significant improvements to the systems of East Dunkard Water Authority, Winola Water

⁶⁸ *Id.*, pp. 7-8.

⁶⁹ *Id.*

⁷⁰ PAWC St. 13-R, pp. 28-40.

⁷¹ *Id.*, p. 40.

⁷² PAWC St. 1, pp. 18-19.

⁷³ 52 Pa. Code § 69.711(a).

Company, and Rock Spring Water Company. The RD also failed to acknowledge the significance of PAWC's (entirely voluntary) multiyear effort to work with the Office of the Attorney General to plan, propose, and construct a drinking water system that will be completed this summer for the Dimock community providing public water service to people who have not had safe and reliable drinking water for approximately 20 years.⁷⁴ PAWC's efforts in this area were extraordinary and warrant the Commission using its discretion to authorize a higher ROE.

3. The Commission Should Approve PAWC's Actual Capital Structure

In this proceeding, there is no dispute regarding the actual capital structure of PAWC's water and wastewater operations. As the ALJs set forth in their factual findings, "Pennsylvania-American's actual capital structure for water operations includes 43.68% Long-Term Debt and 56.31% Common Equity" and "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."⁷⁵

The only party to object to the use of the Company's capital structure was I&E, which accepted the Company's actual capital structure for wastewater operations but proposed a hypothetical capital structure of 55% for water operations based on a reduction in equity for water operations of 1.31%. I&E argued that PAWC's 56.31% equity capitalization for water operations fell "outside the range" of the equity capitalization of I&E's limited four-company proxy group, which had a five-year maximum equity capitalization of 55.61% and a five-year average of 51.72%.⁷⁶ But put another way, the most recent year of capitalization shown in I&E's analysis demonstrates that the equity capitalization for I&E's four company proxy group was a range of

⁷⁴ PAWC St. 1, pp. 16-17.

⁷⁵ RD, p. 46.

⁷⁶ See RD, p. 242; I&E Ex. 2, Sch. 2.

44.47% and 59.42% in 2024.⁷⁷ Therefore, using the most current data available, the Company's actual equity capitalization is within the range established by I&E's very limited proxy group.

The ALJs nevertheless agreed with I&E's contention that PAWC's capital structure was "well above the high end of I&E's proxy group's equity ratios." Despite noting that PAWC's "high actual equity ratio" is "an important way to help save ratepayers money by showing more investment occurring in the utility itself," the ALJs concluded that I&E's proposal for 55% common equity for PAWC's water operations "makes sense for both the utility and ratepayers."

The Commission should reject the ALJs' recommended capital structure of PAWC's water operations and adopt PAWC's actual capital structure. Just months ago, the Commission "[found] it appropriate to reinforce our finding, which we have outlined in several recent base rate proceedings before this Commission, that 'the use of an actual capital structure represents the Company's decision, in which it has full discretion, on how to capitalize its rate base. This actual capitalization forms the basis upon which the Company attracts capital.'"⁷⁸

As set forth above in Section II.B.1, reliance on I&E's four-utility proxy group is unwarranted, and relying upon that proxy group to conclude that PAWC's actual equity capital structure is "atypical" and "unreasonable" because it exceeds the maximum five-year equity capital ratio of that proxy group by only 0.7% (while remaining within the range of the equity capitalization in the most recent year of this five-year period, when three of the four companies had meaningful increases in their equity capitalization)⁷⁹ compounds the flaws inherent in the use of such a small proxy group. Furthermore, the ALJs' recommendation appears to rest on I&E's general calculation of purported ratepayer savings from a hypothetical capital structure of 50%

⁷⁷ RD, p. 242.

⁷⁸ *Columbia Gas 2025*, pp. 210-11.

⁷⁹ See I&E Ex. 2, Sch. 2.

equity/50% debt that I&E offered “for illustrative purposes.”⁸⁰ In fact, I&E made no calculation of any ratepayer “savings” based on its recommended capital structure of 55% equity.⁸¹ As such, any contention that there would be “considerable savings” realized by reducing PAWC’s equity capital ratio from 56.13% to 55% is unsupported by the record in this proceeding.

C. Exception No. 3: The RD Errs by Disallowing PAWC’s Revenue Requirement Claims Related to the Farmington and Manwalamink Acquisition Adjustments (RD, pp. 81-87)

With very little analysis,⁸² the ALJs recommend denial of PAWC’s request to include in rate base the approximate \$2.1 million acquisition adjustments it recorded upon acquisition of the Farmington water assets and the Manwalamink water and wastewater assets and concomitant adjustments to PAWC’s claimed amortization expense for those acquisition adjustments.⁸³ In support of this recommendation, the ALJs find that PAWC failed to satisfy two of the elements set forth in 66 Pa.C.S. § 1327(a),⁸⁴ namely, Criteria Nos. 3 and 6.⁸⁵ That conclusion is contrary to the record evidence and should be rejected.

Adequacy and Reasonableness of Service and Facilities (Criterion No. 3)

The ALJs seem to acknowledge that the prior owners were operating the Manwalamink systems in violation of Pennsylvania Department of Environmental Protection (“DEP”) regulations at the time of PAWC’s acquisition.⁸⁶ The ALJs conclude, however, that PAWC failed to satisfy Criterion No. 3 because the prior owners of Manwalamink were motivated to sell the

⁸⁰ I&E Main Br., pp. 63-64.

⁸¹ Compare RD, p. 245 (“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”), and I&E Reply Br., pp 42-43 (providing a hypothetical 50% equity/50% debt capital structure calculation without any data on savings from its hypothetical equity structure of 55%).

⁸² The ALJs simply stated “[f]or all the reasons addressed by OCA above, we agree with OCA.” RD, p. 86.

⁸³ See *id.*, pp. 86-87, 187-88.

⁸⁴ Hereafter all references to a “Section” are to the Pennsylvania Public Utility Code (“Code”), 66 Pa.C.S. §§ 101 et seq., unless indicated otherwise.

⁸⁵ See RD, pp. 83-86.

⁸⁶ See *id.*, pp. 83-84.

system because of their age.⁸⁷ The seller's motivation for selling the systems is irrelevant for determining whether a system is providing reasonable and adequate service.

The ALJs' finding that the prior owners had improved the Manwalamink systems prior to the sale is contrary to PAWC witness Don Wieczenski's testimony in this case highlighting the pervasive violations of DEP's regulatory requirements pertaining to drinking water. In fact, Manwalamink was not testing its water to determine whether it was safe for customers to consume and was not informing its customers about its violations of DEP requirements. At the time of the sale, the systems' performance remained unacceptable, even if it may not have been as bad as before, and Manwalamink was fortunate its violations did not cause a public health crisis.⁸⁸

Like the Manwalamink systems, the Farmington water system had a pattern of failing to comply with Safe Drinking Water Act regulations requiring water testing and public notifications.⁸⁹ Unlike the Manwalamink Systems, however, the performance of the Farmington Water System did not improve over time, with 41 notices of violation between 2018 and 2023.⁹⁰ In addition, the RD's discussion of this issue does not capture the full extent of Farmington's inability to furnish and maintain adequate, safe, and reasonable service and facilities at the time of the acquisition. Among other things, (1) the system had non-revenue water of more than 30% but Farmington did not contemplate or budget for improvements to address this significant water loss, and (2) the system only had one part-time operator working pursuant to a temporary contract.⁹¹

In short, there is more than sufficient evidence for the Commission to find that Farmington and Manwalamink were operating their systems in violation of DEP regulations (Section

⁸⁷ *Id.*, p. 83.

⁸⁸ *See* PAWC Main Br., pp. 14-15.

⁸⁹ *Id.*, pp. 13-14.

⁹⁰ *See* PAWC St. 7-R, pp. 3-4; PAWC Ex. DW-1R.

⁹¹ *See* PAWC St. 7-R pp. 4-7; PAWC Ex. DW-1R.

1327(a)(3)(i)) and that Farmington lacked the managerial and/or technical ability to operate its water system (Section 1327(a)(3)(ii)).

Reasonableness of Purchase Price (Criterion No. 6)

Section 1327(a)(6) provides that an acquiring public utility must show that the “actual purchase price is reasonable.” Relying extensively on the testimony of OCA witness Lafayette K. Morgan, Jr., the ALJs conclude that PAWC failed to satisfy this criteria with respect to the Manwalamink acquisition because (1) PAWC paid “an unnecessary acquisition premium” and (2) the purchase price was derived from a pre-existing agreement negotiated by NextEra Water Pennsylvania, LLC (“NEWPA”) and adopted by PAWC.⁹² Neither of Mr. Morgan’s arguments accepted by the ALJs is correct.

First, the evidence fully supports the reasonableness of PAWC’s purchase price for the Manwalamink systems. As explained in PAWC’s Main Brief,⁹³ the premium above book value paid by PAWC for Manwalamink’s assets was reasonable because, as the Commission determined during the acquisition proceeding, three knowledgeable buyers offered essentially the same price to purchase the system.⁹⁴ Additionally, the purchase price represented a per customer investment of only \$1,577, which is far less than PAWC’s net utility plant in service per water (\$7,345) and wastewater (\$12,271) customer and the average purchase price per customer for all 12 non-fair market value acquisitions that PAWC made since 2019.⁹⁵

Furthermore, the Commission explicitly rejected the OCA’s argument that the purchase price was not the product of an arm’s-length negotiation in the Manwalamink acquisition

⁹² See RD, pp. 15, 84, 86.

⁹³ See PAWC Main Br., pp. 15-17.

⁹⁴ *Joint Application of Pa.-Am. Water Co., Manwalamink Water Co. and Manwalamink Sewer Co.*, Docket Nos. A-2023-3044418 et al. (Opinion and Order entered Mar. 27, 2025) (“*Manwalamink 2025*”), p. 44.

⁹⁵ See PAWC Main Br., pp. 16-17; PAWC St. 7-R, p. 10.

proceeding, stating “[a]ny suggestion that PAWC did not negotiate the purchase price is unsupported by the record.”⁹⁶ Before Manwalamink accepted NEWPA’s offer, PAWC had offered the same amount for the Manwalamink systems.⁹⁷ This evidence supports a finding that PAWC negotiated the purchase price for the Manwalamink systems.

For all of the above reasons, the Commission should conclude that the Company met the criteria for rate base inclusion of the Farmington and Manwalamink acquisition adjustments and approve PAWC’s separate amortization claim to allow the Company a return of and on its investments in those systems over 10 years.

D. Exception No. 4: The RD Improperly Reduces PAWC’s Claimed Performance Compensation Expense Supported by a Detailed Third-Party Compensation Study That Is Wholly Ignored by the ALJs (RD, pp. 136-149)

The ALJs recommend that the Commission disallow 50% of the Company’s claim related to cash awards paid out under the Annual Performance Plan (“APP”) and 70% of the Company’s claim related to stock-based compensation under the Long-Term Performance Plan (“LTPP”).⁹⁸ The ALJs’ recommendation does not comport with either relevant Commission precedent or the record evidence and should be rejected. Notably, the RD is devoid of *any* reference to the testimony of PAWC witness Robert V. Mustich (PAWC St. 16-R and 16-RJ) who sponsored a Willis Towers Watson market study of PAWC’s compensation program design (Confidential PAWC Exhibit RVM-1) and concludes that PAWC’s overall compensation program, and the APP and LTPP design specifically, are reasonable, comparable to, and competitive with plan designs of other similarly sized utilities.⁹⁹ Nor do the ALJs explain why the Commission should now reject

⁹⁶ *Joint Application of Pa.-Am. Water Co., Manwalamink Water Co. and Manwalamink Sewer Co.*, Docket Nos. A-2023-3044418 et al. (Opinion and Order entered Mar. 27, 2025), quoted in PAWC St. 7-R, pp. 8-9.

⁹⁷ See PAWC Reply Br., pp. 7-8.

⁹⁸ See RD, p. 148.

⁹⁹ See, e.g., PAWC St. 16-R, pp. 3-7.

performance plans that are fundamentally the same as the plans that the Commission approved in PAWC’s last two fully litigated rate cases.¹⁰⁰

The PUC has regularly determined that a utility’s performance compensation costs are properly included in operating expenses for ratemaking purposes where the compensation program as a whole includes both financial and operating performance goals that benefit customers.¹⁰¹ In all of those prior decisions, the Commission declined to parse the degree of customer benefit that a performance compensation plan produces, weigh those benefits against alleged “shareholder” benefits, and permit recovery of some – but not all – of the utility’s costs, as the ALJs recommend the PUC do in this case. The Commission’s decision in *Columbia Gas 2025* does not overturn this long-standing precedent because the adjustment to Columbia Gas’s performance compensation in that case was based on the absence of sufficient evidence supporting the utility’s overall performance compensation.¹⁰²

In this case, the ALJs attempt to sidestep Commission precedent by claiming that “PAWC did not demonstrate by credible record evidence how [performance compensation] financial metrics are reasonable or that they benefit ratepayers and, as a result, these expenses should not be

¹⁰⁰ See PAWC St. 3-R, p. 7; PAWC 2024, p. 88-89; *Pa. P.U.C. v. Pa.-Am. Water Co.*, Docket Nos. R-2020-3019369 and R-2020-3019371 (Opinion and Order entered Feb. 25, 2021) (“PAWC 2021”), p. 53. The Company further notes that the Public Service Commission of West Virginia recently permitted affiliate West Virginia American Water to fully recover its LTPP costs despite challenges by other parties to the portion of the LTPP that is tied to financial metrics. See Case Nos. 25-0426-W-42T, 25-0428-S-42T (Order entered Feb. 27, 2026), pp. 41-43; see also Case Nos. 21-0369-W-42T, 21-0370-S-42T (Order entered Feb. 24, 2022) (“We will allow the total LTPP in revenue requirements. . . . We are persuaded by the argument of WVAWC that all of the shareholders participating in the program are employees and that all expenditures ultimately and indirectly benefit shareholders. It is not reasonable to pick one expense and arbitrarily eliminate it or reduce it by 50% because it indirectly benefits shareholders.”), p. 40.

¹⁰¹ See, e.g., PAWC 2024, p. 88-89; PAWC 2021, p. 53; (*Pa. P.U.C. v. Aqua Pa., Inc.*, Docket Nos. R-2021-3027385 and R-2021-3027386 (Opinion and Order entered May 16, 2022), pp. 100-01; *Pa. P.U.C. v. UGI Utils., Inc. – Elec. Div.*, Docket No. R-2017-2640058 (Opinion and Order entered Oct. 4, 2018) (“UGI 2018”), pp. 73-74; *Pa. P.U.C. v. PPL Elec. Utils. Corp.*, Docket No. R-2012-2290597 (Opinion and Order entered Dec. 28, 2012) (“PPL 2012”), p. 26; *Pa. P.U.C. v. Aqua Pa., Inc.*, Docket No. R-00072711 (Order entered July 31, 2008), pp. 20-21; *Pa. P.U.C. v. PPL Gas Utils. Corp.*, Docket No. R-00061398 (Order entered Feb. 8, 2007), p. 40.

¹⁰² *Columbia Gas 2025*, p. 125-127.

funded by ratepayers.”¹⁰³ The ALJs’ finding is contrary to the record evidence and further reflects a failure by the ALJs to acknowledge, let alone address, the testimony and analysis of PAWC witness Mustich. As discussed in PAWC’s Main Brief,¹⁰⁴ PAWC presented record evidence demonstrating both that (1) the challenged portion of PAWC’s performance compensation is an integral part of the total market-based compensation package paid to employees that is necessary to compete for and retain qualified employees so that customers continue to receive safe and reliable service; and (2) satisfying key financial objectives provides substantial benefits to customers, not just to shareholders of American Water.¹⁰⁵ While the ALJs further contend that PAWC relies upon “generalized claims of customer benefits” to support the Company’s performance compensation,¹⁰⁶ PAWC testimony addressed how financial objectives incentivize employees to do everything they can to reduce costs and improve customer service, help ensure the financial health of the business through careful cost controls, and promote employee longevity, which enables PAWC to pursue the long-term best interests of customers.¹⁰⁷

In conclusion, PAWC presented a detailed third-party analysis demonstrating that its overall employee compensation, including performance compensation, is reasonable – the same evidence the PUC found to be determinative in *PPL 2012*, *UGI 2018*, *PAWC 2021*, and *PAWC 2024*. The Company further presented evidence of how financial objectives benefit customers and the continued provision of safe, reliable service. Accordingly, the Commission should approve PAWC’s claimed performance compensation expense.

¹⁰³ RD, p. 143.

¹⁰⁴ See PAWC Main Br., pp. 22-24.

¹⁰⁵ See PAWC St. 3, pp. 59-62; PAWC St. 3-R, pp. 2-13; PAWC St. 16-R, pp. 6-7; PAWC St. 16-RJ, pp. 2-4.

¹⁰⁶ RD, p. 147.

¹⁰⁷ See, e.g., PAWC St. 3, pp. 59-62; PAWC St. 3-R, pp. 2-13.

E. Exception No. 5: The RD Improperly Adjusts the Company’s Claimed Waste Disposal Expense Using a Three-Year Average of Actual Expense Instead of the Change in Expense (RD, pp. 163-68)

The RD recommends adopting I&E’s proposed adjustments that would reduce PAWC’s overall claimed operating expenses by about \$2.85 million using a three-year historic average of actual waste disposal expense recorded on the Company’s books instead of the average percentage change (13.76%) in expense over the same period.¹⁰⁸ As PAWC pointed out in its Main Brief,¹⁰⁹ I&E’s adjustment understates the Company’s current level of waste disposal expense, which has been increasing.¹¹⁰ The rationale underlying the ALJs’ recommendation, namely, that PAWC did not establish an upward annual trajectory in waste disposal expense is contrary to detailed and unrefuted actual future test year data through December 2025, which shows a 24.48% increase in waste disposal costs in 2025 compared to 2024.¹¹¹ Therefore, the PUC should approve PAWC’s claimed waste disposal expense of \$10,237,653.

F. Exception No. 6: The RD Errs by Ordering PAWC to Continue to Prepare a Separate Cost of Service Study for Each System Acquired Under Section 1329 of the Public Utility Code and Included in Its Revenue Requirement in This Rate Case (RD, pp. 302-07)

PAWC excepts to the RD’s recommendation that the Company maintain separate COSSs for systems acquired under Section 1329 included in its revenue requirement in this case (i.e., the Butler Area Sewer Authority and Elizabeth Borough Municipal Authority (“EBMA”) wastewater systems).¹¹² Maintaining COSSs for those systems acquired under Section 1329 for all future rate cases is unnecessary based on PAWC’s movement toward single tariff pricing and ultimately

¹⁰⁸ RD, pp. 166-68.

¹⁰⁹ See PAWC Main Br., pp. 44-45.

¹¹⁰ PAWC St. 6-R pp. 21-22.

¹¹¹ PAWC St. 6-RJ, p. 3.

¹¹² See RD, p. 307. Even if the PUC accepts the recommendation to continue separate COSSs for Section 1329 acquisitions, the Commission should clarify that combined sewer systems (“CSSs”) whether or not acquired under Section 1329, including the EBMA wastewater system, should be included in the separate COSS for PAWC’s CSS operations, consistent with *PAWC 2024* (p. 217).

increases costs by requiring additional studies through rates.¹¹³ The PUC should reject this recommendation and continue its approach of moving toward single tariff pricing for all PAWC systems, including those acquired under Section 1329.¹¹⁴

G. Exception No. 7: The RD Errs by Rejecting the Company’s Proposed CAP Rider (RD, pp. 407-18)

The ALJs recommend rejecting PAWC’s proposed CAP Rider despite a statutory basis for the rider under Section 1330 of the Public Utility Code¹¹⁵ and the record evidence documenting significant and ongoing volatility in the Company’s CAP costs.¹¹⁶ If enrollment in PAWC’s H2O Program continues to rise, the Company will face a significant revenue shortfall in the near term.¹¹⁷ The ALJs’ recommendations with respect to the CAP Rider and PAWC’s H2O Program would expand PAWC’s obligations while denying cost recovery, which could lead to an even greater deficit in Company revenues than the \$10 million revenue shortfall forecasted at the time of hearings and on a shorter timeline.¹¹⁸ A revenue shortfall of that magnitude would be unsustainable without recovery through the CAP Rider or an increase in base rates.

The CAP Rider will benefit PAWC and customers. If enrollment volatility continues to result in lower enrollment, which occurred in 2025 after recertification requirements were implemented and is a very real possibility considering the Company’s recertification requirements for bill discount program (“BDP”) and arrearage management program (“AMP”) participants,¹¹⁹

¹¹³ PAWC St. 2, p. 9.

¹¹⁴ PAWC Main Br., p. 76; PAWC Reply Br., p. 45.

¹¹⁵ 66 Pa. C.S § 1330.

¹¹⁶ PAWC St. 2, pp. 32-35; Tr. 1812-13. *See also* PAWC Main Br., pp. 88-91; PAWC Reply Br., p. 50.

¹¹⁷ Tr. 1816. *See* PAWC Main Br., p. 89, PAWC Reply Br., p. 51. If current enrollment trends in PAWC’s low-income customer programs continue, the Company will experience a \$10 million shortfall in revenues in the two years after new rates are in effect.

¹¹⁸ *See* RD, pp. 434-43. *See also* Exception Nos. 8 and 9.

¹¹⁹ *See* PAWC St. 2, pp. 31-33; *Petition of Pa.-Am. Water Co. for Approval of an Arrearage Management Plan*, Docket No. P-2021-3028195 (Recommended Decision issued Oct. 13, 2022 adopted without modification by Order entered Dec. 7, 2023), p. 13. Zero-income customers will be recertified every six months, variable-income customers will be recertified every two years, and fixed-income customers will be recertified every three years.

PAWC will recover no more than its actual CAP costs. If PAWC successfully increases enrollment, consistent with the goals of the Company, the Commission, the OCA, the Coalition for Affordable Utility Service and Energy Efficiency in Pennsylvania (“CAUSE-PA”), and other stakeholders, the Company will be able to recover its actual CAP costs without experiencing a revenue shortfall that would drive the need for a general base rate case filing. The CAP Rider is purely symmetrical.¹²⁰ In addition, contrary to the unsupported speculation of the OCA, the CAP Rider will not result in double recovery of costs and the CAP Rider reflects the Company’s actual total cost of service.¹²¹ The CAP Rider is specifically designed to work in tandem with the Company’s base rates so that CAP costs are recovered or credited to customers, consistent with PAWC’s actual costs, ensuring the CAP Rider reflects the Company’s actual total cost of service.¹²² Consistent with Section 1307(e), PAWC would make an annual reconciliation filing for the Commission to review and confirm the accuracy of PAWC’s CAP rider recovery.¹²³

Nevertheless, if the PUC agrees with the ALJs’ recommendation to deny the CAP Rider, the Commission should take into account the \$10 million shortfall identified by Dr. Chard in testimony when setting base rates.¹²⁴ In *Columbia Gas 2025*, the Commission permitted the recovery of approximately \$220,000 of low-income-related labor expense through base rates when the Commission denied recovery of such expense through Columbia Gas’s Universal Services Fund rider.¹²⁵ A similar result is warranted here to ensure that the Company does not experience a shortfall in revenues as a result of increasing enrollment in its customer assistance programs that would undoubtedly drive the need for future rate relief.

¹²⁰ PAWC St. 2, p. 31.

¹²¹ See PAWC Main Br., p. 90; PAWC Reply Br., p. 52.

¹²² PAWC St. 2-R, p. 15; Tr. 1813.

¹²³ PAWC St. 2, p. 32.

¹²⁴ Tr. 1816.

¹²⁵ *Columbia Gas 2025*, p. 167.

H. Exception No. 8: The RD Errs by Recommending Changes to PAWC's Arrearage Management Program (RD, pp. 434-43)

The ALJs recommend several changes to the Company's AMP proposed by the OCA and CAUSE-PA, including that the AMP should be modified to (1) allow customers to earn a monthly arrearage forgiveness credit for each complete payment the customer makes, regardless of timeliness, (2) provide retroactive credits once a household pays its in-program balance in full, (3) expand the current \$25 monthly credit for a timely payment or for a cured missed or late payment (without recommending an amount), and (4) 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.¹²⁶ The ALJs further recommend that the Commission direct PAWC to implement the recommended changes to its AMP within 90 days from the effective date of rates in this proceeding.¹²⁷ The Company excepts to these recommended changes.

The ALJs found that enrollment levels of AMP participants are too low and the AMP has not provided sufficient relief.¹²⁸ However, the AMP was only launched in late 2024. Enrollment has not yet reached parity with the Company's BDP. The Company has a framework in place to increase enrollment, including automatic enrollment for customers newly enrolling in the Company's BDP program and a streamlined enrollment process for customers enrolled in the BDP but not the AMP.¹²⁹ Further, as the Company explained, the AMP must be evaluated in the context of PAWC's larger complement of low-income programs.¹³⁰ These programs, collectively, provide substantial and flexible assistance to customers and compare favorably to other utilities'

¹²⁶ RD, pp. 441-42.

¹²⁷ *Id.*, p. 442.

¹²⁸ *Id.*, pp. 441-42.

¹²⁹ PAWC St. 2-R, pp. 6-10. *See also* PAWC Main Br., pp. 99-100; PAWC Reply Br., pp. 58-60.

¹³⁰ *See* PAWC Main Br., pp. 101-02.

offerings.¹³¹ The current credit amount and structure is also reasonable as explained in the Company's briefs,¹³² and the AMP has been intentionally designed to encourage timely payments, which the Company believes is essential to promoting long-term payment discipline and reducing future arrearages.¹³³ The record in this proceeding does not support replacing the previously approved AMP structure,¹³⁴ especially when these changes could increase enrollment volatility and the Company's overall CAP costs.¹³⁵ For example, as currently structured, PAWC's AMP customers experience an average arrearage forgiveness period of three to four years.¹³⁶ By modifying the AMP credit to equal 1/24 of a customer's balance so that customers receive total arrearage forgiveness in two years, PAWC's AMP costs would inevitably increase. If the Commission approves the ALJs' recommended modifications to the AMP, there will be an even greater need for the CAP Rider or an increase in base rates.

To the extent the Commission approves one of or more of these AMP changes, a 90-day implementation timeframe to overhaul the AMP framework is unworkable. PAWC has IT system constraints that impact how the AMP was structured.¹³⁷ The AMP Settlement provided 12 months for PAWC to adopt the AMP as originally structured.¹³⁸ PAWC would need a similar timeframe to adopt the IT changes necessary to implement the significant changes to the AMP in the RD (e.g., changing the forgiveness credit calculation and providing for retroactive credits).

¹³¹ PAWC St. 2-R, p. 8. For example, customers enrolled in the AMP can also apply for a hardship grant if they fall behind on AMP payments.

¹³² See PAWC Main Br., pp. 100-01; PAWC Reply Br., pp. 59-60.

¹³³ PAWC St. 2-R, p. 7. See also PAWC Main Br., p. 100; PAWC Reply Br., p. 60.

¹³⁴ The current AMP structure, including 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 that settlement.

¹³⁵ See Exception Nos. 7 and 9.

¹³⁶ PAWC St. 2-R, p. 8.

¹³⁷ *Id.*, p. 9.

¹³⁸ *Petition of Pa.-Am. Water Co. for Approval of an Arrearage Management Plan*, *supra*, p. 14.

I. Exception No. 9: The RD Improperly Adopts Unreasonable Screening, Outreach, and Enrollment Procedures for the H2O Program Proposed by the OCA and CAUSE-PA (RD, pp. 443-53)

The RD adopts several screening, outreach, and enrollment recommendations proposed by the OCA and CAUSE-PA, including that (1) PAWC 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; (2) PAWC automatically enroll in the AMP all new BDP participants who have arrears without an additional application and without additional steps; (3) PAWC screen customers for eligibility at the time of move in, and on a periodic basis thereafter, during non-emergency calls; and (4) PAWC adopt a procedure, developed in collaboration with its low-income advisory group, to develop outreach and education.¹³⁹

While the ALJs emphasized the importance of identifying low-income customers and enrolling such customers in appropriate assistance programs, they did not address the record evidence demonstrating that these outreach, screening and enrollment recommendations are either unnecessary or unreasonable. First, new measures that may increase CAP enrollment put PAWC at risk of a significant undercollection of CAP costs because PAWC's actual CAP costs would far exceed what is reflected in approved base rates.¹⁴⁰ As discussed in Section II.G above, PAWC is anticipating a substantial shortfall in revenues if there is BDP enrollment consistent with the established annual enrollment target of 2.5%. In *Columbia Gas 2025*, the PUC approved identical expansive screening requirements that the ALJs recommended in this proceeding.¹⁴¹ The critical difference is Columbia Gas receives full and timely cost recovery of most of its CAP costs via its Rider USP while PAWC currently is only permitted to recover these costs in base rates.¹⁴² If the

¹³⁹ See RD, pp. 452-53.

¹⁴⁰ PAWC Main Br., pp. 106-107.

¹⁴¹ *Columbia Gas 2025*, p. 351.

¹⁴² See *id.*

new screening requirements result in a dramatic increase in CAP enrollment, Columbia would not be forced to file another base rate case to recover these costs; Columbia would flow these costs through its Rider USP instead. The Company should therefore not be required to implement any additional measures intended to increase CAP enrollment unless the PUC approves the CAP Rider to ensure PAWC is permitted to recover its costs.

Finally, PAWC notes that several of the RD's recommendations are unnecessary in light of current practices. For example, PAWC has already adopted certain BDP enrollment and outreach goals and holds quarterly meetings with its customer assistance advisory group ("CAAG") in an effort to continue to enhance low-income assistance programs and related outreach.¹⁴³ Further, customers that enroll in the BDP with eligible arrears will already 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.¹⁴⁴ For all these reasons, the Commission should reject the ALJs' recommendations concerning customer screening, outreach and enrollment.

J. Exception No. 10: The RD Errs by Recommending Rejection of PAWC's Proposed RAPP (RD, pp. 462-67)

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's proposed RAPP 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.¹⁴⁵ RAPP costs would be recovered through PAWC's proposed CAP Rider and, as a pilot, the RAPP would be time limited

¹⁴³ PAWC St. 2-R, p. 13.

¹⁴⁴ *Id.*, pp. 6, 9-10.

¹⁴⁵ PAWC St. 2, pp. 15-18; PAWC St. 2-R, pp. 10-12.

(to be implemented for a minimum of two years), budget limited (subject to a \$1 million annual cap on RAPP stipends) and location limited (administered in locations in two different regions with high renter populations: Scranton and Butler).¹⁴⁶

CAUSE-PA and the OCA raised concerns about the RAPP, which were echoed by the ALJs, including benefits going to non-residential customers or non-customers, the limited geographic areas to be served by the RAPP, and a need for additional implementation planning.¹⁴⁷ The ALJs further contend that approving the pilot could be “discriminatory” or would result in “a substantial change in regulatory policy.”¹⁴⁸ Such concerns reflect either a misunderstanding of RAPP operation or an overstatement of the implications of a time and budget-limited pilot. In its Main Brief, PAWC explained that the RAPP would provide payments directly to the low-income participants, not multi-family housing owners, and that the Company was willing to work with CAAG to further develop the program.¹⁴⁹ In addition, as a proposed pilot with a limited budget, PAWC explained that it selected Scranton and Butler because (1) they are locations with high renter populations; and (2) they are located within different regions of PAWC’s service territory.¹⁵⁰ PAWC continues to believe that the Commission should approve the RAPP to test an innovative strategy to address affordability for eligible low-income households.

K. Exception No. 11: The RD Errs in Recommending Additional Auditing of Call Handling Based on the OCA’s Mischaracterization of the Company’s Customer Service Performance (RD, pp. 190, 470-78)

In the RD, the ALJs conclude that PAWC should improve its call center policies to provide “quality” customer service given the frequency of its rate cases.¹⁵¹ Based on that view, the ALJs

¹⁴⁶ PAWC St. 2, pp. 16-18.

¹⁴⁷ RD, pp. 464-66.

¹⁴⁸ *Id.*, p. 466.

¹⁴⁹ PAWC Main Br., p. 111. *See also* PAWC St. 2-R, pp. 10-12.

¹⁵⁰ PAWC Main Br, p. 110; PAWC St. 2, pp. 16-18.

¹⁵¹ *See* RD, pp. 477-78.

recommend that the Commission impose annual audit and reporting requirements for Customer Service Organization (“CSO”) and third-party call handling performance, including compliance with Pennsylvania regulations.¹⁵² That recommendation rests largely on OCA witness Barbara R. Alexander’s opinion that customers calling PAWC are waiting too long to speak to an agent. PAWC submits that the OCA’s opinion on call handling does not constitute substantial evidence of inadequate customer service as the RD suggests, or warrant additional oversight of CSO call handling.

First, as discussed in PAWC’s Main and Reply Briefs,¹⁵³ the key error in the OCA’s evaluation of PAWC’s customer service is Ms. Alexander’s exclusive reliance on and misapplication of two call handling metrics. The OCA ignores all other drivers of overall customer satisfaction, including first contact resolution. The OCA’s assessment of call handling performance adopted by the ALJs is misleading because Ms. Alexander selectively chooses data for two collections agencies that handle a small portion of the CSO’s overall call volume and highlights the testimony of a single customer at the public input hearings about call wait times. However, in 2025, overall CSO service levels, including calls handled by third-party contractors, met or exceeded PAWC’s performance objectives of answering 80% of calls within 60 seconds and maintaining a call abandonment rate of 8% or less.¹⁵⁴ In short, undisputed record evidence confirms that PAWC provides adequate, efficient, safe, and reasonable service in accordance with Section 1501 of the Code.

Moreover, the additional managerial oversight recommended by the ALJs is unwarranted because the performance levels of the CSO and third-party call handling agencies are already

¹⁵² *Id.*

¹⁵³ *See* PAWC Main Br., pp. 113-17; PAWC Reply Br., pp. 67-69.

¹⁵⁴ *See* PAWC St. 15-R, pp. 11-13.

monitored on a *daily* basis.¹⁵⁵ Staffing levels of third-party call handling agencies are based on the performance of individual agents against known performance indicators set forth in the service agreements with those contractors.¹⁵⁶

Finally, Ms. Alexander's concerns shared by the ALJs about oversight of call handling compliance with Pennsylvania regulations are unfounded. The CSO conducts extensive training of its agents in Pennsylvania rules and regulations before they are permitted to handle calls from PAWC customers.¹⁵⁷ The OCA did not present any evidence that agents who completed the training are not following Pennsylvania regulations when handling PAWC calls. As the ALJs note in the RD, the CSO has an internal quality assurance 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.¹⁵⁸ As PAWC witness Matthew W. Prine testified, 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.¹⁵⁹ Additional auditing and reporting requirements for call handling performance are unnecessary and the Commission should reject the ALJs' recommendation.

L. Exception No. 12: The RD Improperly Adopts an Unnecessary Root Cause Analysis Requirement Proposed by the OCA (RD, pp. 478-88)

The Commission should not require PAWC to undertake the comprehensive root cause analysis of customer complaints including identification of trends and corrective actions recommended by OCA witness Alexander as the ALJs recommend in the RD.¹⁶⁰ The root cause analysis proposed by Ms. Alexander is unwarranted in light of the Company's robust complaint

¹⁵⁵ See PAWC Main Br., pp. 115-16.

¹⁵⁶ *Id.*

¹⁵⁷ *Id.*

¹⁵⁸ See *id.*, pp. 116-17.

¹⁵⁹ PAWC Hearing Ex. No. 3, p. 2.

¹⁶⁰ See RD, p. 481.

analysis process.¹⁶¹ As the ALJs acknowledge in the RD, PAWC already conducts a root cause analysis for every customer complaint it receives, generates reports regarding root cause trends, and regularly discusses its findings with the appropriate business units within the CSO.¹⁶² The RD cites some service quality issues raised at the public input hearings identified by OCA witness Alexander as support for a “broader” root cause analysis.¹⁶³ However, the ALJs totally ignore the responsive testimony of PAWC witnesses Jim Runzer and Anthony M. Nokovich, including the individual Company outreach to the customers identified in Appendix A to Ms. Alexander’s direct and supplemental direct testimony.¹⁶⁴ The ALJs further fail to recognize that PAWC’s number of infractions (i.e., verified complaints) and complaints have dropped significantly since 2023, further rendering a new root cause analysis process unnecessary.¹⁶⁵

M. Exception No. 13: The RD Errs in Recommending Denial of the Company’s Deduct Adjustment Proposal for Wastewater Customers (RD, pp. 382-97)

In the RD, the ALJs conclude that the Company failed to meet its burden of proof in establishing that the deduct adjustment proposal is fair, just and reasonable.¹⁶⁶ The ALJs’ conclusion is based on the OCA’s opinion that PAWC’s proposed deduct adjustment is similar to the Company’s winter averaging proposal, which the Commission rejected in PAWC’s 2024 base rate case proceeding,¹⁶⁷ and CAUSE-PA’s opinion that PAWC’s methodology incorrectly assumes that all additional water usage in the summer months is due to outdoor use.¹⁶⁸ In reaching this

¹⁶¹ See PAWC Main Br., pp. 117-18.

¹⁶² See RD, p. 478. See also PAWC Hearing Ex. 3, p. 3.

¹⁶³ See RD, pp. 478-80.

¹⁶⁴ See PAWC Main Br., pp. 117-18.

¹⁶⁵ PAWC St. 15-R, pp. 26-27.

¹⁶⁶ RD, p. 397.

¹⁶⁷ *Id.*

¹⁶⁸ *Id.*

determination, the ALJs fail to address the record evidence that the Company's proposal is statistically supported¹⁶⁹ and distinguishable from the Company's proposal in the prior case.¹⁷⁰

The Company included its deduct adjustment methodology to more closely align wastewater bills in the summertime with cost-causation rate design principles. While the OCA and CAUSE-PA opine that the proposed deduct adjustment will negatively impact low-income customers while benefiting higher-income customers,¹⁷¹ the Company continues to maintain that its proposal represents a reasonable and appropriate approach to billing for wastewater services that mimics a deduct meter (without incurring the costs associated with installing deduct meters) and is intended to benefit all customers.

N. Exception No. 14: The RD Errs in Recommending Exclusive Use of Direct-Cost Analysis (RD, p. 293-298, 301)

The Company excepts to the RD's recommendation to maintain Wastewater Rate Zone 1 and Rate Zone 2 customer charges based exclusively on PAWC's direct cost analysis rather than fully allocated customer cost analyses for two reasons.¹⁷² First, the ALJs fail to consider the revenue impact of proposal to move away from SSS Rate Zone 1 service charges per EDU. In addition, PAWC's proposed service charges per customer align rates with cost causation recovering the fixed costs required to provide service (i.e., metering, billing, customer service, and system readiness) regardless of the volume of water a customer uses.¹⁷³

O. Exception No. 15: The RD Errs in Recommending Increases for Wastewater Rate Zone 2a (Scranton) (RD, p. 382)

The Company excepts to the RD's recommendation to adopt the Office of Small Business Advocate's ("OSBA's") proposed rate increases for Wastewater Rate Zone 2a, notwithstanding

¹⁶⁹ PAWC Reply Br., pp. 47-48.

¹⁷⁰ PAWC St. 10, pp. 28-29.

¹⁷¹ RD, p. 390.

¹⁷² *See id.*, p. 301.

¹⁷³ PAWC Main Br., pp. 78 & 80-81.

PAWC's pre-existing commitment not to increase the rates for former Scranton customers above certain levels.¹⁷⁴ Under the PUC-approved terms of PAWC's agreement to purchase the Scranton combined sewer system, which was acquired in 2016, the Company agreed not to propose a rate increase that would be equal to an amount greater than a 1.9% Compounded Annual Growth Rate ("CAGR") increase in annual revenues over a 10-year period relative to the starting amount of annual revenues.¹⁷⁵ As Dr. Chard testified, the pro forma revenues at present rates exceed the level of increase PAWC is permitted to propose under the CAGR provision during the 10 years following closing of the acquisition.¹⁷⁶ Consistent with the purchase agreement, the Commission should approve PAWC's proposal not to change Rate Zone 2a Scranton rates except for the roll-in of the Distribution System Improvement Charge.

P. Exception No. 16: The Commission Should Clarify How OSBA's Recommended Wastewater Rate Design for the Company's Sanitary Sewer Operations Will Be Implemented in the Final Order (RD, pp. 354-64, 381-82)

The RD recommends that the Commission adopt OSBA's proposed wastewater rate design.¹⁷⁷ PAWC submits that the Commission should clarify two issues related to the recommended rate design for the Company's sanitary sewer system ("SSS") customers. First, the Company proposed to modify its wastewater tariff in this case by moving all metered customers from a monthly service charge per equivalent dwelling unit ("EDU") to a monthly service charge per customer for the following SSS rates: Rate Zone 1, Rate Zone 1c, Rate Zone 1d, and Rate Zone 1f.¹⁷⁸ The OSBA supported that tariff change,¹⁷⁹ even though its rate design for SSS customers still has SSS Rate Zone 1 and 1c customers paying fixed charges per EDU, and the ALJs did not

¹⁷⁴ See RD, p. 382.

¹⁷⁵ PAWC St. 2, p. 20; PAWC St. 10-R, pp. 48-49.

¹⁷⁶ PAWC St. 2, p. 20.

¹⁷⁷ RD, pp. 381-382.

¹⁷⁸ See PAWC St. 10, pp. 21-22.

¹⁷⁹ See PAWC St. 10-R, pp. 41-42; OSBA St. 1-SR, p. 10.

address this issue in the RD. Therefore, PAWC requests that the Commission clarify in the Final Order in this case that the Company's proposed tariff changes to move away from charging services charges per EDU for SSS Rate Zones 1 and 1c are approved.

The Commission should also specifically identify the wastewater customer charges by SSS rate zone in the Final Order. The Company believes that this clarification is needed because the OSBA's rate design proposal includes targeted increases and decreases to SSS wastewater rates,¹⁸⁰ but the RD recommends that the Commission direct PAWC to "maintain" its existing wastewater customer charges.¹⁸¹

III. CONCLUSION

For the reasons set forth above, the Commission should grant the Company's Exceptions and adopt the Recommended Decision with the modifications described herein.

Respectfully submitted,



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¹⁸⁰ RD, pp. 354-64.

¹⁸¹ *Id.*, p. 381.