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VIA eFILING

May 26, 2026

Matthew L. Homsher, Secretary
Pa. Public Utility Commission
400 North Street
Harrisburg, PA 17120

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

Dear Secretary Homsher:

Attached please find the Exceptions of Cleveland-Cliffs Steel for filing in the above-captioned proceedings.

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

Respectfully submitted,

/s/ Kurt J. Boehm
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cc: Hon. Jeffrey A. Watson @ jeffwatson@pa.gov
Hon. Emily I. DeVoe @ edvoe@pa.gov
Cert. of Service

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

EXCEPTIONS OF
CLEVELAND-CLIFFS STEEL

I. INTRODUCTION

Cleveland-Cliffs Steel ("Cleveland-Cliffs") submits these Exceptions to the Administrative Law Judges' ("ALJs") Recommended Decision filed on May 15, 2026, in the above-captioned proceeding. Cleveland-Cliffs' Exceptions address the issues of Cost-of-Service and Industrial Rate Design and follows the Common Outline agreed to by the parties.

II. ARGUMENT

XII. <u>RATE STRUCTURE</u>

A. <u>Cost-of-Service Studies</u>

1. Water Operations

a) <u>Cleveland-Cliffs' Position</u>: The Recommended Decision's Adoption of the OCA's CCOSS Methodology Departs From Commission Precedent and Ratemaking Principles of Gradualism and Should Be Modified to Ensure Measured Implementation and Avoid Disproportionate Class Impacts.

The Administrative Law Judges' recommendation to adopt the Office of Consumer Advocate's ("OCA") proposed Class Cost of Service Study ("CCOSS") methodology represents a significant departure from the Commission's longstanding approach to cost allocation, without adequate support in the record or consideration of the resulting rate impacts and the need for gradual implementation.

Historically, the Commission has accepted PAWC's use of maximum day and maximum hour demand factors in allocating costs among customer classes. That approach has been consistently applied in prior proceedings and reflects the Commission's recognition that cost-of-service methodologies fall within a range of reasonable judgment. Importantly, PAWC's CCOSS methodology, including its use of system-wide demand factors, was not only historically accepted but was also supported in this proceeding by multiple parties.[1] Cleveland-Cliffs specifically supported PAWC's cost allocation approach as reasonable, consistent with prior Commission precedent, and appropriately reflective of system design requirements.[2]

By contrast, the OCA is the only party that proposed abandoning PAWC's established CCOSS methodology in favor of materially reduced demand factors derived from a narrower historical window. Cleveland-Cliffs submits that this approach improperly emphasizes recent usage trends while undervaluing the operational requirement that PAWC's system must be designed to reliably meet peak demands that occur intermittently.[3] As PAWC witness Herbert and Cleveland-Cliffs witness Richard Baudino explained in testimony, water utility systems must be capable of meeting peak conditions when they arise, and it is not reasonable to base design or cost allocation assumptions on a limited subset of more recent historical data where longer-term experience shows higher peak conditions.[4]

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[1] Direct Testimony of Gregory R. Herbert at 10-11.
[2] Rebuttal Testimony of Richard Baudino at 2-3.
[3] Rebuttal Testimony of Richard Baudino at 2-3.
[4] Direct Testimony of Gregory R. Herbert at 11-12, and Rebuttal Testimony of Richard Baudino at 4.

The Recommended Decision further departs from ratemaking principles of stability and continuity by adopting the OCA's methodology in full within a single proceeding, notwithstanding the Commission's historical acceptance of PAWC's approach in prior rate cases. Importantly, the ALJs repeatedly acknowledge the principle of gradualism throughout the Recommended Decision.[5] However, the Recommended Decision ultimately adopts the OCA's CCOSS methodology without any transition mechanism or mitigation of resulting class impacts. This inconsistency is particularly significant given that the record does not provide a fully updated tariff implementation showing the actual resulting class rates.

As the Recommended Decision itself acknowledges at page 2, final customer bill impacts cannot be determined until PAWC incorporates the adopted cost allocation and rate design adjustments into its tariff filings pursuant to 52 Pa. Code § 5.592(a).[6] Nevertheless, the record evidence that is available demonstrates that the OCA's methodology produces materially disproportionate impacts. As reflected in OCA witness Jerome Mierzwa's Direct Testimony,[7] under the OCA's proposed revenue requirement scenario, Industrial customers would experience increases significantly above the system average. Based on the OCA's proposed overall increase of 14.1%, Industrial customers would receive an increase of approximately 24.1%. Even when that result is proportionally scaled to the ALJs' recommended overall increase of 5.4%, Industrial customers would still face an increase of

[5] Recommended Decision at 321, 339, and 348.
[6] "To determine customer bill impacts, PAWC must incorporate each revenue requirement, cost allocation, and rate design adjustment into its cost allocation and rate design models, then file its proposed rates, proof of revenues, and supporting calculations with the Commission pursuant to 52 Pa. Code § 5.592(a)." See Recommended Decision at 2.
[7] Direct Testimony of Jerome Mierzwa at 13.

roughly 9.2%, or about 1.7 times the system-average increase, recognizing that this is necessarily an approximation.

In practical terms, the Commission cannot assess the ultimate rate impact on Industrial customers arising from the ALJs' adoption of the OCA's CCOSS methodology and associated rate design until PAWC re-files its tariff reflecting those determinations. This uncertainty limits the Commission's ability to apply targeted mitigation at this stage and heightens the risk that a significant structural shift in cost allocation could flow through into rates without adequate transition measures. That concern is particularly acute where the record indicates a potentially substantial one-time shift in revenue responsibility among customer classes, which may warrant phased implementation or other mitigation to avoid rate shock and ensure equitable treatment.

Accordingly, although the precise magnitude of the impact cannot yet be determined, the available evidence supports concern that the ALJs' adoption of the OCA's CCOSS approach could produce disproportionately large and unreasonable rate impacts on customer groups harmed by the departure from the previously approved methodology, absent appropriate safeguards. Approval of such a sweeping methodological change without full visibility into the resulting tariffed rates is therefore premature. Moreover, even if the Commission concludes that movement toward the OCA's approach is warranted, Cleveland-Cliffs submits that any transition should be implemented gradually over more than one rate proceeding to preserve rate stability and avoid abrupt reallocation of revenue responsibility.

At a minimum, if the Commission elects to adopt any portion of the OCA's proposed CCOSS methodology, Cleveland-Cliffs urges the Commission to incorporate a reasonable, compromise-based safeguard that reflects principles of gradualism and rate mitigation.

Specifically, under any revised allocation approach, no customer class should experience an increase greater than 125% of the system average increase in this proceeding.

This limitation represents a balanced and measured middle ground. It allows the Commission to move incrementally toward any refined or revised cost allocation framework while ensuring that the resulting impacts remain bounded and predictable. By preventing disproportionate rate impacts on any single class, the 125% cap functions as a prudent constraint that preserves stability while still permitting adoption of the OCA's methodology.

A phased and moderated approach is particularly appropriate in this context because the full effects of the Recommended Decision cannot be precisely determined until revised tariff rates are actually filed and reviewed. Accordingly, Cleveland-Cliffs submits that the Commission should not fully adopt the ALJs' recommendation to implement the OCA's CCOSS methodology in this proceeding without limitation. In the alternative, any changes should be implemented in a gradual, controlled manner consistent with long-standing ratemaking principles and the need to avoid rate shock.

Respectfully submitted,

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May 26, 2026

COUNSEL FOR CLEVELAND-CLIFFS STEEL

CERTIFICATE OF SERVICE

I hereby certify that I have served a true copy of the Exceptions of Cleveland-Cliffs Steel upon the parties listed below in accordance with the requirements of 52 Pa. Code §1.54 (relating to service by a party) via electronic mail on this 26th day of May, 2026.

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