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June 2, 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 Replies to the Exceptions to the Recommended Decision of Administrative Law Judge Jeffrey A. Watson and Administrative Law Judge Emily I. DeVoe** dated May 15, 2026 (the "Reply Exceptions").

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



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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 **Pennsylvania-American Water Company’s Replies to the 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: June 2, 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)
	:	

**REPLIES OF
PENNSYLVANIA-AMERICAN WATER COMPANY
TO EXCEPTIONS**

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

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I. INTRODUCTION

On May 26, 2026, Pennsylvania-American Water Company (“PAWC” or the “Company”) filed with the Pennsylvania Public Utility Commission (the “Commission” or “PUC”) Exceptions (“Exc.”) to the Recommended Decision (“RD”) of Administrative Law Judges (“ALJs”) Jeffrey A. Watson and Emily I. DeVoe issued on May 15, 2026. PAWC hereby replies to Exceptions filed by the Commission’s Bureau of Investigation and Enforcement (“I&E”), the Office of Consumer Advocate (the “OCA”), and the Office of Small Business Advocate (“OSBA”).¹

II. REPLIES TO EXCEPTIONS

A. The Commission Should Reject the OCA’s Cost of Common Equity Recommendation of 8.7% (OCA Exc. 2)

In its Exceptions, the OCA asserts that the ALJs erred in recommending the adoption of I&E’s proposed return on equity (“ROE”) of 9.7% instead of the OCA’s proposed ROE of 8.7%. The OCA argues generally that PAWC “failed to show that circumstances have changed in the last two years that would merit a higher ROE,” that I&E used “unsustainably high growth rates,” and the ALJs’ recommended ROE is “excessive.” For the reasons set forth below and in PAWC’s Exceptions, the OCA’s Exception No. 2 should be denied and a higher ROE should be authorized.

1. The OCA Ignores Changed Economic Conditions That Support a Higher ROE

The OCA asserts that the RD “failed to cite to any evidence that circumstances have significantly changed for PAWC that would merit the granting of a 25 basis point addition to their authorized ROE in comparison to PAWC’s previous base rate case” and that “interest rates have been reduced by nearly 100 basis points since PAWC’s last base rate, which should have a

¹ The Company’s decision to not reply to an Exception does not indicate PAWC’s acceptance of any opposing position. The Company relies upon the positions set forth in its Main Brief and Reply Brief, and urges the Commission to carefully review its briefs in this proceeding for additional background information and analysis.

decreasing effect in relation to PAWC's ROE."² These positions mischaracterize the record, including the ALJs' specific reference in the RD to PAWC's argument that "it must continue to raise capital for the FPFTY in a period marked by high interest rates and high inflation, now compounded by the Iran conflict."³

PAWC witness Ann Bulkley presented un rebutted evidence that long-term interest rates have increased since the Federal Reserve reduced the federal funds rate in September 2024.⁴ Ms. Bulkley also demonstrated that while the yield on the 10-year treasury bond declined prior to the time of the federal funds rate cut in 2025, as of December 31, 2025, the 10-year Treasury bond yield was 4.18%, which is consistent with levels seen several months prior to the reductions in the federal funds rate.⁵ Furthermore, the Blue Chip Financial Forecasts relied upon by I&E witness Patel projected that the 10-year treasury bond would remain at 4.10% through the first quarter of 2027 and increase to 4.20% thereafter, before any consideration of the escalation of fuel prices and other inflationary pressures in the wake of the Iran conflict.⁶

Since the Iran conflict began on February 28, 2026, "interest rates have increased due to increased inflationary concerns and energy price increases" and "[e]conomists and market analysts have adjusted forecasts with several revising projections to reflect the absence of any fed rate cuts in 2026."⁷ OCA's cost of equity witness David Garrett did not address any of these market conditions in his testimony, and the OCA's Exception continues to ignore this un rebutted evidence.

² OCA Exc., p. 12.

³ RD, p. 268 (citing PAWC testimony, including generally PAWC St. 13-RJ).

⁴ PAWC St. 13, pp. 17-18.

⁵ PAWC St. 13-R, pp. 14-15.

⁶ PAWC St. 13-RJ, p. 3.

⁷ *Id.*, p. 2.

2. The OCA's Proposed 8.70% ROE Is Not Reasonable

As PAWC explained in its Main and Reply Briefs, the 8.70% ROE proposed by the OCA was entirely unreasonable and was therefore properly rejected by the ALJs. Aside from using a proxy group that included companies engaged in a merger that both I&E witness D.C. Patel and PAWC witness Bulkley excluded, OCA's recommended 8.70% ROE was well below any other recently authorized ROE in Pennsylvania and remained the same as OCA proposed in PAWC's last rate proceeding despite the fact that the interest rates underlying OCA witness Garrett's analyses demonstrate that the cost of equity should be higher.⁸

In its Exception, OCA's only specific criticism of I&E's 9.7% ROE calculation is that I&E witness Patel used "unsustainably high growth rates" that would "eventually surpass total U.S. GDP, which is impossible."⁹ But as PAWC witness Bulkley explained, Mr. Garrett's use of dividend per share growth rates instead of earnings per share ("EPS") growth rates used in the average of the results of other models to arrive at his 8.70% ROE was problematic. Earnings are the fundamental determinant of a company's ability to pay dividends, and over the long term, dividend growth can only be sustained by earnings growth, so EPS growth rates should be relied on in the DCF analysis and the Commission has agreed.¹⁰ Ms. Bulkley also provided material demonstrating why it was not unreasonable to assume that utilities earnings growth could exceed GDP growth where utilities were more productive than the U.S. economy.¹¹

The only DCF scenario presented by OCA witness Garrett that relies on growth rates that do not exceed GDP is Mr. Garrett's scenario that ignores all market measures of growth for the water utilities and relies on an estimate of GDP growth in perpetuity. This analysis results in a

⁸ PAWC Main Br., pp. 63-65; Reply Br., pp. 37-39; PAWC St. 13-RJ, pp. 11-12.

⁹ OCA Exc. p. 13.

¹⁰ PAWC St. 13-R, pp. 46-49; *see also* I&E St. 2-SR, pp. 44-45.

¹¹ *See* PAWC St. 13-R, pp. 55-57.

cost of equity estimate of 6.8 percent (Exhibit DJG-6), which is well below any authorized ROE for a water or natural gas utility since at least 1980 and serves to reduce the overall average of the results of his methodologies.¹² Notably, the Commission previously rejected the OCA's arguments about unsustainably high growth rates in PAWC's last rate case, and OCA provides no new evidence to support a different result.¹³

3. PAWC's Performance Since Its Last Rate Case Supports a Higher ROE

The OCA repeatedly asserts that PAWC failed to show that anything has changed since PAWC's last rate case when a ROE of 9.45% was approved by the Commission.¹⁴ As with its disregard of current market conditions as well as prior Commission rulings rejecting its positions on proper ROE calculations, OCA ignores the record evidence of PAWC's significant changes from the last rate case in its Exception.

In PAWC's last rate case, the Commission reduced PAWC's ROE by 15 basis points because of the "substantial negative input from the public regarding PAWC's quality-of-service, particularly in the northeastern Pennsylvania region of the Company's service territory."¹⁵ The facts in this case are very different. After that case, the Commission conducted an investigation of PAWC's service quality in its northeast territory and found no systemic issues and further concluded that PAWC is utilizing the necessary tools to manage quality-of-service issues and remediate those issues.¹⁶ In this case, few service quality issues were raised at PAWC's northeastern public input hearing and there was significantly more positive public input hearing testimony across the Commonwealth describing PAWC's operational excellence, strong local

¹² PAWC St. 13-R, p. 56.

¹³ *Pa. P.U.C. v. Pa.-American Water Co.*, Docket Nos. R-2023-3043189 and R-2023-3043190 (Opinion and Order entered July 22, 2024) ("*PAWC 2024*"), p. 171.

¹⁴ OCA Exc., p. 13.

¹⁵ *PAWC 2024*, pp. 185-186.

¹⁶ PAWC St. 3-R, p. 21.

community involvement, and commitment to water quality.¹⁷ Therefore, the only basis for the downward adjustment to the ROE in the last rate case no longer exists.

Also in the 2023 rate case, the Commission cited several issues raised by the OCA and I&E, including customer complaint levels, verified infraction levels, arrearage levels, customer surveys, and management audit results, as reasons why no upward adjustment to PAWC's ROE based on management performance was appropriate.¹⁸ The record in this case demonstrates PAWC's clear improvement in these areas since 2023. First, PAWC's customer complaints have decreased significantly from 2023 to 2025.¹⁹ Second, PAWC's verified infractions have decreased significantly from 2023 to 2025.²⁰ Third, PAWC addressed each of its 2022 management audit findings, adopting in full or in part all of the Bureau of Audits' recommendations.²¹ In other words, several of the reasons the Commission opted not to approve an upward adjustment to the ROE in the 2023 rate case are no longer relevant.

Accordingly, no reasonable basis exists to reduce PAWC's ROE from 9.7% to 9.45%. In fact, the evidentiary record supports an upward adjustment to the ROE recommended by the ALJs. PAWC has worked tirelessly to help troubled systems, to provide water service to Pennsylvania residents who have not had access to safe drinking water for over 20 years, and to save customers money by finding low-interest funding sources for its necessary infrastructure projects that result in over \$100 million in savings for its customers, all while also addressing customer affordability through proposed rate design and customer assistance programs.²² As set forth in PAWC's Exceptions, I&E's recommended ROE of 9.70% suffered from several flaws, including I&E

¹⁷ *Id.* at pp. 44-47 (“138 participants provided testimony supporting PAWC and its rate increase, and 101 participants provided testimony opposing PAWC and its rate increase.”).

¹⁸ *PAWC 2023*, pp. 187-188.

¹⁹ PAWC St. 15-R, pp. 26-27.

²⁰ *Id.*

²¹ PAWC St. 2-R, p. 26.

²² PAWC Main Br., pp. 66-69; PAWC St. 1, pp. 9-19.

witness Patel’s inconsistent Capital Asset Pricing Model analyses, and understated the proper ROE for PAWC in current market conditions consistent with PAWC’s superior management performance.²³ When I&E witness Patel’s 9.70% is properly adjusted – well above the unreasonable and unsupported 8.70% recommended by the OCA – the evidence demonstrates that an ROE of 10.53% or, if the Commission approves a four-utility water-only proxy group, an ROE of 10.26%, is fully justified and OCA Exception No. 2 should be denied.²⁴

B. The RD Correctly Rejected Proposed Adjustments to PAWC’s Revenue Requirements

1. Depreciation (OCA Exc. 1)

The OCA proposed a \$60 million adjustment to depreciation expense,²⁵ based upon its proposal to change from the long-standing, PUC-approved Equal Life Group (“ELG”) procedure to the Average Life Group²⁶ (“ALG”) procedure. The RD properly rejected the adjustment because the record demonstrates that PAWC’s continued use of the ELG procedure is the most precise and equitable approach and results in lower cost to customers over time.

PAWC has utilized the ELG procedure for over 40 years in base rate proceedings, service life study filings, and annual depreciation report filings with the PUC. The Commission most recently accepted the Company’s depreciation claims based on the ELG procedure in PAWC’s 2023 base rate proceeding²⁷ and very recently affirmed Columbia Gas’s continued use of the ELG procedure after considering essentially the same arguments that the OCA has raised in this

²³ PAWC Exc., pp. 13-18.

²⁴ *Id.*, p. 18.

²⁵ OCA witness Garrett originally proposed a \$49.9 million adjustment. *See* OCA St. 2, pp. 46-56. In OCA St. 2SR, however, Mr. Garrett indicated the proposed adjustment was approximately \$60 million but did not specifically support the modified recommendation. *See* PAWC Hearing Ex. 2, p. 1.

²⁶ The ALG procedure is sometimes referred to as the Average Service Life, or ASL, procedure.

²⁷ *PAWC 2024*, pp. 43-44, 55-56, 116-17 (PAWC’s claims were accepted subject to some acquisition-related adjustments).

proceeding.²⁸ In its Exceptions, the OCA contends that the well-established ELG procedure is “inequitable” and that its continued use by PAWC results in “excessive” levels of depreciation expense and “unjust and unreasonable rates.”²⁹ The OCA further argues that the ALJs applied the wrong legal standard when assessing PAWC’s depreciation expense and disregarded an “overwhelming number of cases from other jurisdictions.”³⁰

In reality, the RD properly recognized the substantial record evidence provided by the Company both to support the continued use of the ELG procedure and to explain the risks associated with a switch to the ALG procedure. First, PAWC witness John J. Spanos explained the difference between the ELG and ALG methodologies.³¹ For the ELG procedure, a group of property (e.g., a vintage within a property account) is subdivided into groups having equal service lives, and depreciation is calculated for each equal life group. In contrast, the ALG procedure depreciates every asset within an account over the average life of the entire account. Using equal life groups, rather than an average life, as the basis for depreciation provides a more precise calculation that better matches recovery with consumption of assets by depreciating assets that have shorter lives than the average over their shorter lives (and the longer-lived assets over their longer lives) as opposed to depreciating all assets over the average life for the group.³²

Second, PAWC squarely addressed the OCA’s fairness and equity concerns by explaining that current customers benefit from the continued use of ELG because rate base is lower now compared to what rate base would have been under an ALG framework over the past 40 years.

²⁸ *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*”), pp. 106-11.

²⁹ OCA Exc., pp. 2-11.

³⁰ *Id.*, pp. 7-11.

³¹ Mr. Garrett also presented an example to compare the ELG and ALG procedures in his surrebuttal testimony (pp. 14-15). However, that example contained errors and misstatements. PAWC Hearing Ex. 2, pp. 2-3.

³² PAWC St. 11-R, pp. 4-5; *see also* RD, p. 222.

The alleged benefit of lower short-term rates³³ proffered by the OCA is the result of the change in procedure, not from the ALG procedure itself. Importantly, while the OCA repeatedly urges the PUC to accept the OCA's proposed adjustment as a means to reduce the proposed rate increase in this case, the OCA is turning a blind eye to the long-term cost implications of switching to the ALG procedure. As determined by the PUC in *Columbia Gas 2025*, acknowledged by the ALJs in this proceeding, and explained by PAWC witness Spanos: ALG depreciation rates will ultimately result in a higher rate base and higher overall cost for customers.³⁴ In the PUC's own words:

Upon review, we find that the alleged benefit of the ASL procedure proposed by the OCA's witness, Mr. Garrett, of lower depreciation expense and a short-term reduction in rates for current customers, is not a result of the procedure itself, but is a result of the proposed change in procedure. As argued by the Company's witness, Mr. Spanos, over time, the depreciation rates generated by the ASL procedure will result in a higher rate base and a higher overall cost to customers in comparison to the continued use of the ELG procedure . . . [a] switch to the ASL procedure would increase rate base in comparison to the continued use of the ELG procedure (by lowering accumulated depreciation), leading to higher rates in the long run. Therefore, adoption of the ASL procedure would serve as an intergenerational subsidy to current customers at the expense of other generations of customers.³⁵

The OCA attempts to direct attention away from this inconvenient truth about ALG by arguing that PAWC has failed to cite any "statute, law or regulation that requires the continued use of ELG" and that the RD "misconstrues the issue" of long-term costs and "applies the wrong legal standard" when assessing PAWC's depreciation claim.³⁶ The OCA is presenting a strawman

³³ As explained in PAWC's Main Br. (p. 40), Mr. Garrett's proposed ALG rates for the future test year and fully projected future test year ("FPFTY") are incorrect because he is using depreciation reserve balances that are based on projected ELG accruals. *See also* PAWC St. 11-R, pp. 22-26; PAWC Hearing Ex. 2, pp. 5-6.

³⁴ *Columbia Gas 2025*, pp. 108-109; RD, pp. 221-22; PAWC St. 11-R, pp. 14-22; PAWC Ex. JJS-1R.

³⁵ *Columbia Gas 2025*, pp. 108-09.

³⁶ RD, pp. 9-10.

argument. PAWC never disputed that the PUC has the authority to adopt properly supported changes to procedures used to determine depreciation expense and accrued depreciation. However, the record demonstrates that such a change is not warranted here.

The ALJs carefully reviewed the record evidence presented by both PAWC and the OCA and found that PAWC provided substantial evidence to support the appropriateness of continuing its long-standing use of the ELG procedure and also documented the long-term higher costs associated with the ALG procedure.

Finally, the RD did not improperly disregard utility cases from other jurisdictions. PAWC witness Spanos explained that the utility commission orders cited by Mr. Garrett from other states present circumstances that are not applicable to PAWC and can involve other depreciation-related policies that differ from those established in Pennsylvania.³⁷ Notably, in *Columbia Gas 2025*, the PUC found that: “other jurisdictions’ differing use of the ALG procedure, as noted by the OCA, is not relevant since these jurisdictions use other depreciation parameters (e.g., whole-life vs. remaining-life, net salvage treatment).”

In sum, for the reasons explained above and in PAWC’s Main Br. (pp. 36-41) and Reply Br. (pp. 23-27), OCA Exception No. 1 should be denied.

2. Labor-Related Expense (I&E Exc. 1-4; OSBA Exc. 1)

The Company’s labor-related expense allowance for the FPFTY ending June 30, 2027³⁸ was developed based on PAWC’s projected complement of 1,278 equivalent employees.³⁹ As discussed in the RD (p. 128), the Company accepted I&E witness Vanessa Okum’s proposed

³⁷ PAWC St. 11-R. pp. 26-28; PAWC Hearing Ex. 2, pp. 4-5.

³⁸ PAWC’s labor-related expense claim reflects: (1) salaries and wages (including performance compensation); (2) group insurance; (3) other benefits (401k, Defined Contribution Plan and Employee Stock Purchase Plan); and (4) payroll taxes. PAWC St. 6, pp. 4-6.

³⁹ *Id.*, pp. 5-8. *See also* PAWC St. 3, p. 59.

1.25% vacancy rate and updated its labor-related expense claim accordingly. While Ms. Okum agreed that capitalized labor should not be adjusted for a vacancy rate,⁴⁰ I&E proposed to reduce labor-related expense by the same amount that Ms. Okum originally deducted from PAWC's claimed rate base.⁴¹ The OSBA, in turn, recommended that the Commission disallow \$8.7 million that its witness Jason Hails asserts exceeds the inflation-adjusted employee-related expense for the FPFTY.⁴² Both I&E and the OSBA except to the ALJs' recommendation that the PUC approve PAWC's final labor-related expense claim, including associated payroll taxes, totaling \$107,221,845.

In its Exceptions (pp. 2-5), I&E contends that the expense portion of PAWC's labor claim must be reduced by the amount originally allocated to capitalized labor to fully reflect the vacancy rate adjustment. As the ALJs found, I&E's position is incorrect because Ms. Okum proposes to remove dollars that are not reflected in PAWC's claimed operation and maintenance ("O&M") expense.⁴³

The OSBA continues to press for an \$8.7 million reduction to PAWC's labor-related expense claim to "moderate" the Company's revenue requirement, and argues that the ALJs did not afford enough weight to Mr. Hails' analysis of inflation-adjusted employee-related expense for the FPFTY presented in OSBA Exhibit JH-1.⁴⁴ Contrary to the OSBA's contention, PAWC's claim is fully substantiated by undisputed evidence of the staffing level needed to provide safe and reliable service during the FPFTY and merit increases that exceed the Consumer Price Index used by Mr. Hails.⁴⁵ The ALJs clearly set forth the OSBA's position at pages 122 to 127 of the RD and

⁴⁰ I&E St. 1-SR, p. 18.

⁴¹ *See id.*, pp. 18-19.

⁴² *See* OSBA St. 2, pp. 3-5, 17-18; OSBA Ex. JH-1.

⁴³ RD, pp. 127-36; *see also* PAWC Main Br., pp. 20-21; PAWC Reply Br., p. 11.

⁴⁴ *See* OSBA Exc., pp. 1-3.

⁴⁵ *See* PAWC St. 3, p. 59; PAWC St. 6-R, pp. 4-5.

were not persuaded by Mr. Hails' testimony. For all of the foregoing reasons, I&E Exception Nos. 1 to 4 and OSBA Exception No. 1 should be denied.

3. American Water Works Service Company ("Service Company") Expense (OSBA Exc. 2)

The Service Company provides a wide range of essential support services to PAWC and other American Water Works Company, Inc. ("American Water") utility subsidiaries on a shared basis.⁴⁶ The numerous advantages that accrue to PAWC and its customers from Service Company support functions are well known to the Commission. By centralizing and coordinating the resources of the entire American Water enterprise, the Service Company provides highly specialized expertise in water and wastewater utility operations, while capturing economies of scale that minimize costs.⁴⁷ If PAWC did not obtain services from the Service Company and had to replicate them with comparable personnel on its own payroll, the costs for the same functions would be much higher.⁴⁸ PAWC pays only the actual allocated costs incurred by the Service Company, with no element of profit to American Water.⁴⁹

The Company's Service Company expense claim was challenged only by the OSBA, whose witness proposed a \$27.3 million adjustment based on his opinion that any increases in PAWC's O&M expense per customer, including Service Company charges, should not exceed inflation.⁵⁰ The ALJs properly rejected the OSBA's proposed adjustment that would reduce PAWC's claim to a level even lower than its actual historic test year expense, \$50.6 million, which is comparable to the Company's actual Service Company expense in 2020.⁵¹

⁴⁶ See PAWC St. 6, pp. 13-17; PAWC St. 6-R, pp. 11-17; PAWC St. 3-R, pp. 13-20.

⁴⁷ See PAWC St. 3-R, pp. 14-17; PAWC St. 6-R, pp. 11-17.

⁴⁸ See PAWC St. 3-R, pp. 13, 18-20; PAWC St. 15-R, p. 6.

⁴⁹ PAWC St. 6, p. 14; PAWC St. 6-R, p. 8.

⁵⁰ OSBA St. 2, pp. 14-16.

⁵¹ PAWC St. 6-R, p. 19.

The OSBA takes exception to the ALJs' recommendation and contends that the RD's acceptance of PAWC's extensive testimony regarding the prudence of its claimed costs in the functional areas Mr. Hails proposes to drastically cut expenses improperly shifts the burden of proof. Contrary to the OSBA's contention, Pennsylvania law is clear that a utility is entitled to recover all of its "reasonably incurred expenses."⁵² Such expenses cannot be disallowed, as the OSBA urges the Commission to do in this case, absent a finding, based upon record evidence, that the utility's management abused its discretion in incurring such expenses.⁵³ As such, there is an affirmative burden on opposing parties to present evidence of imprudence and the utility is not required to "prove the negative."⁵⁴

The OSBA also argues that the ALJs' recommendation is inconsistent with their acknowledgment of "deficiencies" in the evidence presented by the Company on Service Company charges, including prior studies performed by Baryenbruch and Company ("Baryenbruch").⁵⁵ However, the OSBA's focus on the Baryenbruch studies is merely an attempt to detract attention from totally unrebutted evidence that the Service Company provides access to professionals with expertise in various specialized areas while delivering cost savings through centralized services that would be far more expensive for PAWC to obtain on a stand-alone basis.⁵⁶ As discussed in the RD (pp. 156-57), Mr. Hails applied arbitrary reductions of 22.5%, 50%, or 80% to each of the Service Company functions, including those without an equivalent function at PAWC, that he

⁵² *UGI Corp. v. Pa. P.U.C.*, 410 A.2d 923, 932 (Pa. Commw. Ct. 1980).

⁵³ *Nat'l Fuel Gas Distribution Corp. v. Pa. P.U.C.*, 464 A.2d 546, 559 (Pa. Commw. Ct. 1983) ("As general matter, utility management is in hands of the utility and the Public Utility Commission may not interfere with lawful management decisions, including decisions related to necessity and propriety of operating expenses, unless, on basis of record evidence, it finds abuse of utility's managerial discretion.").

⁵⁴ *See Pa. P.U.C. v. Pa. Power Co.*, Docket No. R-870732, 1988 Pa. PUC LEXIS 407, at *13 (May 3, 1988) ("Imprudence cannot be sustained by substituting one's judgement for that of another.").

⁵⁵ *See OSBA Exc.*, pp. 3-5.

⁵⁶ *See PAWC St. 6-R*, pp. 17-19.

speculates could be delivered with fewer resources.⁵⁷ He did not analyze the functional work activities, labor hours, or rates required to deliver each type of service to a standalone water and wastewater utility.⁵⁸ In short, the OSBA's Exceptions repeat the arguments considered and rejected by the ALJs, and the Commission should approve PAWC's claim for Service Company charges of \$77,936,149 that is supported by substantial evidence.

4. Call Center Expense (OCA Exc. 6)

Call center expense is necessarily incurred to serve customers, and if PAWC did not utilize third-party call handling agencies, the Company would incur additional expense for staffing increases to handle the call volumes previously answered by the contractors.⁵⁹ The RD (p. 192) correctly rejected the OCA's recommendation that an expense PAWC necessarily incurs to serve customers should be excluded for ratemaking purposes.

The OCA excepts to that decision and claims that the PUC should adopt Ms. Alexander's proposed 10% reduction to PAWC's claimed third-party call center expense to "penalize" the Company for purported oversight failures to address third-party call handling performance levels.⁶⁰ However, as discussed in Section II.C. below, OCA witness Barbara R. Alexander's criticisms of the Company's customer service performance are based on her opinion that customers calling PAWC are waiting too long to speak to an agent. Allegations of "subpar" performance of two collections agencies does not provide a valid reason to reduce third-party call center expense as the OCA suggests in its Exception No. 6.

⁵⁷ *See id.*

⁵⁸ *Id.*

⁵⁹ PAWC St. 2-R, pp. 20-21.

⁶⁰ OCA Exc., pp. 22-25.

C. The ALJs Properly Rejected the OCA’s Proposed Customer Service Performance Standards (OCA Exc. 5)

The Customer Service Organization (“CSO”), which is operated by Service Company employees, supports the customer service needs of PAWC and the other American Water utility subsidiaries, including customer call handling.⁶¹ The CSO consistently seeks ways to improve the customer experience and maintain high levels of customer satisfaction.⁶² In addition, the CSO continually refines the myWater portal to help PAWC customers efficiently manage their account online and endeavors to expand adoption of paperless billing to increase customer engagement and, ultimately, satisfaction.⁶³

The ALJs recommend that the Commission impose annual audit and reporting requirements for CSO and third-party call handling performance proposed by OCA witness Alexander to provide “quality” customer service. For the reasons set forth in its Exceptions (pp. 34-36), the Company 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 PAWC call handling.

The OCA also excepts to the ALJs’ findings, arguing that the PUC should impose performance standards (80% of PAWC customer calls to be answered within 60 seconds and an 8% call abandonment rate) to incentivize the Company to improve “subpar” customer service.⁶⁴ There are at least two problems with this statement.

First, the OCA’s evaluation of PAWC’s customer service narrowly focuses on and misapplies two call handling metrics. The OCA’s Exceptions (p. 22) reference Ms. Alexander’s

⁶¹ PAWC St. 15-R, pp. 3-6.

⁶² *Id.*, pp. 7-9.

⁶³ *Id.*

⁶⁴ *See* OCA Exc., pp. 21-22, 24-25.

testimony (OCA Statement No. 5, pp. 10-11) observing that wait times and call abandonment rates in 2024 and 2025 for two collections agencies that represent a small portion of overall call volume do not meet the Company's internal service level goals. However, as explained by PAWC witness Matthew W. Prine, in 2025, overall CSO performance, including calls handled by third-party contractors, met or exceeded the performance goals recommended by the OCA.⁶⁵ The OCA also ignores all other drivers of overall customer satisfaction, including first contact resolution.⁶⁶

Second, the OCA mischaracterizes the Company's call center performance as "deteriorating over time."⁶⁷ The record evidence shows exactly the opposite. As Mr. Prine testified, the CSO's hiring and recruitment efforts over the past several years have reduced wait times and the call abandonment rate for customers that do not utilize the courtesy call back feature.⁶⁸ In fact, Table 1 in Mr. Prine's rebuttal testimony demonstrates the positive trend toward meeting the Company's performance objectives of answering 80% of calls within 60 seconds (increasing from 43% in 2021 to 81% in 2025) and achieving a call abandonment rate of less than 8%, which dropped from 24% in 2021 to 4.4% in 2025.⁶⁹ In short, the evidence in this case confirms that PAWC is furnishing safe, efficient, adequate and reasonable service as required by Section 1501 of the Code. Accordingly, the Commission should reject OCA Exception Nos. 5 and 6.

⁶⁵ PAWC St. 15-R, pp. 10-11.

⁶⁶ *Id.*, p. 10.

⁶⁷ OCA Exc., p. 22.

⁶⁸ PAWC St. 15-R, pp. 11-13.

⁶⁹ *Id.*, pp. 11-12.

D. The Commission Should Deny the OCA’s Recommendations Related to PAWC’s Billing Arrangement with American Water Resources (“AWR”) (OCA Exc. 7, 8)

For over two decades, AWR has offered optional products and services, such as water line and sewer line protection plans, to PAWC customers. AWR’s protection plans are not utility services subject to PUC jurisdiction, and the Commission and PAWC have no authority over AWR’s pricing and marketing practices.⁷⁰ In this case, the OCA raised several concerns related to PAWC’s billing arrangement with AWR that is largely a reprise of Ms. Alexander’s testimony in the Company’s 2023 rate case where the Commission rejected the OCA’s request for an investigation of PAWC’s relationship with AWR.⁷¹

In the RD (pp. 482-88), the ALJs analyzed and rejected each of the OCA’s allegations about PAWC’s billing arrangement with AWR that were refuted by PAWC witness Prine in his rebuttal testimony.⁷² The OCA takes exception to those findings and rehashes the same arguments that the ALJs found unconvincing. Because those arguments were discussed in PAWC’s Main Brief (pp. 101-07), these Reply Exceptions only address the OCA’s major misstatements.

PAWC’s Billing Arrangement with AWR Is Not Discriminatory. The OCA’s Exceptions (pp. 25-27) repeat Ms. Alexander’s claim that PAWC’s exclusive billing relationship with AWR discriminates against other providers of non-basic services. The OCA would have the Commission believe that other companies want to include their non-basic products and services on PAWC’s bills. That is not the case. No other entity is seeking access to PAWC’s bills.⁷³

⁷⁰ See *PPL Elec. Utils. Corp. v. Pa. P.U.C.*, 912 A.2d 386, 408 (Pa. Commw. Ct. 2006) (holding that an unregulated energy consulting service offered by an unregulated affiliate of PPL is not a regulated public utility service and that competition among unregulated services is not an objective of the regulatory scheme of the Public Utility Code); *Pa. P.U.C. v. Columbia Gas of Pa., Inc.*, Docket No. R-2018-2647577, 2018 WL 6590854, at *28-*33 (Pa. P.U.C. Dec. 6, 2018) (“Columbia Gas Order”) (holding that the Commission only has the authority to evaluate whether a utility’s jurisdictional services, such as a utility’s billing of warranty products and services, are consistent with the Code).

⁷¹ *PAWC 2024*, pp. 379-85.

⁷² *PAWC St. 15-R*, pp. 15-20.

⁷³ *Id.*, p. 19.

Therefore, the ALJs correctly concluded, as the Commission did in *PAWC 2024* (p. 385), that the Company is not providing any preference or advantage to AWR that runs afoul of the Public Utility Code.

Changes to the Presentation of AWR Charges on the PAWC Customer Bill Are Unwarranted. PAWC includes the charges provided by AWR on its bills as a separate line item and no customers' service is terminated for non-payment of AWR charges.⁷⁴ If a customer no longer wants to pay for AWR's products and services, the customer can stop paying for them with no negative repercussions on their water or wastewater service.⁷⁵ Therefore, as the Commission concluded in *PAWC 2024* (p. 385), PAWC is following the Commission's regulations related to billing of non-basic charges. Nonetheless, the OCA claims that changes to the presentation of AWR charges on the PAWC customer bill are needed to provide complete information to customers to differentiate AWR charges from charges for utility service. However, as shown on the sample bill provided in OCA Exhibit BA-3, the "Account Summary" that appears directly below the total amount due on the first page of PAWC's customer bill itemizes the balance for "Service Related Charges" and "Protection Programs."⁷⁶ Accordingly, the ALJs properly determined that customers can clearly understand what they are paying to AWR and PAWC without separating the charges into different sections of the bill.

E. The Commission Should Adopt the Combined Wastewater and Water Revenue Requirement Recommended by the ALJs (OCA Exc. 3)

The OCA excepts to the subsidy amounts the ALJs recommended allocating (RD, pp. 321-22) to the Company's Combined Sewer System ("CSS") and Elizabeth Borough Municipal

⁷⁴ *Id.*, pp. 19-20.

⁷⁵ *Id.*

⁷⁶ PAWC Hearing Ex. 3, pp. 3-4.

Authority (“EBMA”) customers pursuant to 66 Pa. C.S. § 1311(c), commonly known as Act 11.⁷⁷ The OCA argues that (i) the cost of service for CSS customers under PAWC’s rate proposal does not necessitate relief under Act 11 and no subsidy should be given to CSS customers, and (ii) the ALJs should not have recommended a reduction to PAWC’s original proposed subsidy amount to EBMA customers.⁷⁸

PAWC does not take Exception to the RD’s adjustments to its recommended Act 11 allocation as it will help mitigate the increase to PAWC’s wastewater customers with only a modest effect on water customers’ bills.⁷⁹ PAWC agrees with the RD that revenue allocation must take into account ratemaking policy and gradualism.⁸⁰ The ALJs considered the Company’s proposed Act 11 allocation and the positions advanced by other parties.⁸¹ The ALJs’ recommendation is appropriate and promotes gradualism, avoiding rate escalation that may otherwise be experienced absent reallocation, ensures approximate parity to residential bills for water service and wastewater service at average usage levels, and promotes affordability of wastewater.

F. The ALJs Properly Rejected the OCA’s Proposal to Reduce Existing Customer Charges for Wastewater Rate Zones 1d and 1f (OCA Exc. 4)

The OCA excepts the ALJs’ recommendation to direct PAWC to maintain its existing wastewater customer charges (RD p. 381), and requests that the Commission reduce the Customer Charge in SSS Rate Zones 1d and 1f to \$15.⁸² However, OCA’s Exceptions repeat the same arguments advanced in the OCA’s Main Brief and Reply Brief, which were fully addressed by

⁷⁷ OCA Exc., pp. 13-17.

⁷⁸ *Id.*

⁷⁹ See PAWC Main Br., pp. 76-78; PAWC Reply Br., p. 45.

⁸⁰ RD, p. 321.

⁸¹ *Id.*, pp. 307-22.

⁸² OCA Exc., p. 21.

PAWC⁸³ and considered and rejected in the RD.⁸⁴ The Commission should therefore approve the ALJs' recommendations regarding PAWC's customer charges.

G. The RD Correctly Rejected the OCA's Proposal to Allow Customers to Self-Attest as to Their Eligibility for PAWC's Low-Income Customer Assistance Programs (OCA Exc. 9)

The ALJs declined to adopt OCA's proposal that PAWC accept a customer's self-attestation as a means to confirm the customer's low-income status and determine the customer's eligibility for customer assistance programs like the Bill Discount Program ("BDP") and Arrearage Management Program ("AMP").⁸⁵ In its Exceptions, the OCA argues that its proposal is a solution to affordability concerns and further claims that self-attestation is consistent with the Public Utility Code requirement (66 Pa. C.S. §1303) to "compute bills under the rate most advantageous to the patron."⁸⁶

The OCA fails to mention that the PUC has specifically directed PAWC to incorporate income verification as part of the Company's customer assistance programs.⁸⁷ In rejecting a settlement to establish the AMP without income verification, the Commission concluded as follows:

Given the absence of any income verification, we cannot conclude that the Settlement is in the public interest. The Settlement does not balance the needs and interests of all customers that will be impacted by the AMP, namely those customers paying for the program.⁸⁸

⁸³ See PAWC Main Br., p. 78; PAWC Reply Br., pp. 45-46.

⁸⁴ RD, p. 381.

⁸⁵ RD, p. 452.

⁸⁶ OCA Exc., pp. 29-30. OCA also cites to 52 Pa. Code § 62.2 which does not apply to water and wastewater utilities and, in any event, does not require a utility to permit self-attestation by customers.

⁸⁷ See *Petition of Pa.-Am. Water Co. for Approval of an Arrearage Management Plan*, Docket No. P-2021-3028195 (Order entered Dec. 28, 2022), pp. 26-29 (finding AMP settlement must be modified to require income verification for customers seeking to enroll); *Petition of Pa.-Am. Water Co. for Approval of an Arrearage Management Plan*, Docket No. P-2021-3028195 (Order entered Dec. 7, 2023) (approving updated AMP settlement that included income verification).

⁸⁸ See *Petition of Pa.-Am. Water Co. for Approval of an Arrearage Management Plan*, Docket No. P-2021-3028195 (Order entered Dec. 28, 2022), p. 27.

The RD (p. 452) appropriately found that verifying program eligibility via income documentation ensures that program participation is limited to those customers who are truly eligible. As PAWC explained in testimony, the Company accepts a range of documentation from customers, including proof of receipt of public benefits, to determine a customer's low-income status and program eligibility.⁸⁹ Income verification is consistent with 66 Pa. C.S. § 1303 because the process ensures that only qualifying customers receive the rates and discounts designed for low-income customers. Finally, and relevant to concerns about affordability, income verification protects the residential customers who pay for the AMP and BDP. For all these reasons, OCA Exception No. 9 should be denied.

⁸⁹ PAWC St. 15-R, p. 21.

III. CONCLUSION

For the reasons set forth above, the Commission should reject the Exceptions filed by I&E, the OCA and the OSBA and, instead, grant the Company's Exceptions and adopt the Recommended Decision with the modifications described therein.

Respectfully submitted,



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