PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, PA 17120

Pennsylvania Public Utility Commission et al.	**Public Meeting of July 16, 2026**
v.	**3057983-OSA**
	Docket Nos. R-2025-3057983, *et al.*

Pennsylvania-American Water Company

STATEMENT OF VICE CHAIR KIMBERLY M. BARROW

Before the Pennsylvania Public Utility Commission (Commission) for consideration and disposition are the Exceptions of Pennsylvania-American Water Company (PAWC or the Company), the Bureau of Investigation and Enforcement (I&E), the Office of Consumer Advocate (OCA), the Office of Small Business Advocate (OSBA), and Cleveland-Cliffs Steel, filed on May 26, 2026, to the Recommended Decision (R.D.) of Administrative Law Judges (ALJs) Emily I. DeVoe and Jeffrey A. Watson, issued on May 15, 2026.[1] This matter concerns PAWC's consolidated water and wastewater base rate increase filing proceedings.

PAWC proposed base rate changes that would have increased its total annual operating revenues by approximately $159,597,595 or by 13.7%, over total operating revenues at present rates, based on a fully projected future test year (FPFTY) ending June 30, 2027.[2] The proposed revenue increase for PAWC's water customers comprised $143,430,454 or 15.0% over water revenues at present rates and $16,167,140 or 7.7% over wastewater revenues at present rates.[3]

First, I would like to thank ALJs Watson and DeVoe for their work in managing and generating the record in this proceeding. I also commend the robust participation of ratepayers, the statutory advocates, and several other stakeholders in this proceeding. My appreciation also goes to staff in the Commission's Office of Special Assistants for their diligence in working on this fully litigated case.

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[1] The Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) and Victory Brewing Company each submitted a letter individually on May 26, 2026, indicating that they would not be filing Exceptions.

[2] PAWC M.B., Appendix A, Table Act 11. In its initial filing, PAWC proposed base rate changes that would have increased its total annual operating revenues by $168,716,450, or 14.6%, over total operating revenues at present rates. *See* PAWC Exh. 3-A.

[3] The $16,167,140 wastewater increase represents an increase of $7,016,727 to PAWC's Wastewater Sanitary Sewer System (SSS) General operations (Wastewater SSS); an increase of $3,527,533 to PAWC's Combined Sewer System (CSS) Wastewater operations (CSS Wastewater); an increase of $5,067,072 to the Company's Butler Area Sewer Authority (BASA) Wastewater operations; and an increase of $555,808 to the Company's Elizabeth Borough Municipal Authority (Elizabeth or EBMA) CSS Wastewater Operations. *See* PAWC M.B., Appendix A, Table Act 11. The separate revenue requirements for BASA and Elizabeth are the result of the Commission's directive in the Company's most recent base rate case in *Pa. PUC v. Pennsylvania-American Water Company*, Docket Nos. R-2023-3043189 and R-2023-3043190 (Opinion and Order entered July 22, 2024) (*PAWC 2024*). In *PAWC 2024*, the Commission instructed PAWC to prepare a separate cost of service study (COSS) for each new system acquisition made under Section 1329 of the Code, 66 Pa.C.S. § 1329, in PAWC's first base rate case where those systems are included in the Company's revenue requirement. *See PAWC 2024* at 217-18.

At the risk of being accused of waxing poetic, I want to note that as we look into the future we must look back and recall how the role of the regulator is best defined in the rate case context. An effective regulator is one that leads versus presides. In so doing, we must act with purpose, guided by basic tenets of ratemaking, but never forgetting that it is the impact of the rates we set, not the underlying theories that matter.[4] This rings especially true now, as we navigate how to weather the substantial affordability storm facing nearly every consumer and crushing our low income neighbors. So, it is my responsibility as a regulator to search out excessive ROEs that distort utility incentives and result in what we called "gold-plating" in the cases of old. Excessive returns combined with overbuilding rate base directly raises customer bills in a seemingly unending cycle. That frankly is unsustainable from a consumer perspective and unacceptable to me as a regulator. I refuse to be captured in the cycle of what the utility wants versus what the public interest requires.[5] The public interest scales are no longer balanced between utility financial health and what consumers pay.

It is with these principles in mind that I propose the following additional adjustments to PAWC's rate request.

Annual Depreciation Expense

In the instant filing, PAWC's annual depreciation expense claim is based upon its use of the straight-line average remaining life method using the equal life group (ELG) depreciation method.[6] Under this approach, accumulated depreciation functions as a deduction from utility plant in service in calculating rate base; therefore, the higher the accumulated depreciation reserve, the lower the resulting rate base and return on rate base.[7]

The OCA rejects PAWC's use of the ELG procedure but instead proposed that the Company's depreciation reserve be calculated using the average life group/average service life (ALG/ASL) procedure.[8] According to the OCA, this would reduce PAWC's annual depreciation accrual by approximately $49.9 million in the FPFTY, from PAWC's claimed $263,028,483 to $213,130,885.[9] The OCA further argued that PAWC's ELG approach accelerates cost recovery,

[4] *See Federal Power Comm. v. Hope Natural Gas,* 320 U.S. 591, 605 (1944) (It is not the theory but the impact of the rate order that counts and "[r]ates which enable a company to operate successfully, to maintain its financial integrity, to attract capital, and to compensate its investors for the risk assumed certainly cannot be condemned as invalid, even though they might produce only a meager return ….on the so called 'fair value' rate base"); *Bluefield Water Works and Improvement Co. v. Public Service Comm'n of West Virginia*, 262 U.S. 679 (1923)(return should be reasonably sufficient to assure confidence in the financial soundness of the utility; a rate of return may be too high or too low by changes affecting opportunities for investment, the money market and business conditions generally); *Duquesne Light v. Barasch*, 488 U.S. 299 (1989)(reaffirming the teachings of *Hope Natural Gas*).

[5] Scott Hempling, "Effective Regulatory Procedures: Purposes, Practices and Paths" (2016).

[6] PAWC is claiming $227,388,538, $28,338,641, $11,360,328, $21,615,574, and $1,035,785 of annual depreciation expense for the FPFTY for its Water, Wastewater SSS, BASA, CSS Wastewater, and EBMA operations, respectively. *See* PAWC Exh. 3-A Revised, as updated on March 13, 2026, at 1R2, 75R2, 135R2, 180R2, and 231R2.

[7] PAWC St. 5 at 21-22; *see also* PAWC St. 11.

[8] While the ELG procedure calculates depreciation for each equal life group, the ASL or ALG procedure depreciates every asset within an account over the average life of the entire account. PAWC St. 11-R at 4-5.

[9] According to the OCA, PAWC's proposed depreciation rates produced a total annual depreciation accrual of approximately $263 million based on plant balances at June 30, 2027, and that adoption of the ALG/ASL procedure would reduce the annual depreciation accrual by approximately $50.1 million in 2025, $50.2 million in 2026, and $49.9 million in 2027. OCA M.B. at 32-33.

causes current customers to pay more than they otherwise would, and produces an excessive annual depreciation expense.[10]

In their recommendation, the ALJs rejected the OCA's proposed reduction to PAWC's depreciation expense, thereby allowing PAWC to continue using its long-standing ELG depreciation approach. The ALJs acknowledged that the OCA's proposal to replace PAWC's ELG approach with the ALG/ASL procedure would have reduced PAWC's claimed annual depreciation expense by approximately $49.9 million for the FPFTY. However, the ALJs concluded that the OCA did not provide a sufficient basis, whether based on equity, accuracy, precedent, or statutory authority, to compel PAWC to abandon its use of the ELG procedure.[11] I disagree. I believe it is time to evaluate areas in the ratemaking process that help to address current affordability issues for our ratepayers and the ALG/ASL approach proposed by the OCA in this proceeding presents an opportunity to do so.

The ALG/ASL method of depreciation slows depreciation while taking nothing from PAWC other than time, but it gives ratepayers time to absorb the rate impact of capital expenditures.

Section 1329 Acquisition – Butler Area Sewer Authority (BASA)

PAWC's rate increase proposal would have increased its total annual operating revenues for its wastewater operations by approximately $16,167,140 (7.7%) over wastewater revenues at present rates. As indicated earlier, this amount represents an increase of, *inter alia*, $5,067,072 to PAWC's BASA Wastewater operations.[12] This proposed increase in total annual operating revenues for the Company's wastewater operations represents the amount after the Company allocated a portion of its revenues from its wastewater operations to its combined water and wastewater customer base, as permitted under Act 11 of 2012 (Act 11). Prior to applying the Act 11 shift, the Company's claimed revenues for its BASA Wastewater operations was $35,347,112.[13]

Here, the core dispute was between PAWC's preference for flexibility and continued movement toward single-tariff pricing, and the OCA's and the OSBA's requests for more detailed future COSS reporting to preserve transparency, avoid cross subsidies, and better assess future Act 11 reallocations and wastewater class cost responsibility. The ALJs recommended adopting the OCA's position that PAWC continue preparing separate COSSs for Section 1329 acquisitions, [14] rejecting PAWC's request to move away from that requirement in favor of a broader single-tariff-pricing approach.[15]

In calculating the allowed revenue increase for PAWC's BASA operations prior to the application of the Act 11 shift, I propose to allow only half of this calculated increase. I understand that no Party in this proceeding proposed such an adjustment in calculating their

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[10] OCA M.B. at 32-33, 46-47.

[11] R.D. at 205-06, 213-14, 219-223.

[12] *See* PAWC M.B., Appendix A, Table Act 11.

[13] PAWC M.B., Appendix A, Table Act 11.

[14] As previously noted, PAWC submitted separate COSSs for its BASA and EBMA operations to comply with the Commission's directive in *PAWC 2024*, that the Company prepare separate COSSs for new Section 1329 acquisitions in the first base rate case where those systems are included in the Company's revenue requirement. *See PAWC 2024* at 217-18.

[15] R.D. at 302-307.

proposed increases for the Company's BASA operations. Nonetheless, in the *PAWC-BASA Acquisition*,[16] I voted to deny the acquisition, expressing my concern with the substantial rate increase that would result from approving the exorbitant purchase price.[17] Accordingly, adjusting the Commission's base calculation of PAWC's BASA revenue increase is required prior to applying the Act 11 shift. I further endorse the ALJs' recommendation to apply this Act 11 revenue allocation by utilizing the OSBA's proposed Act 11 revenue allocation amounts and scale-back method.[18]

Return on Equity

PAWC proposed an ROE of 10.95%, consistent with the upper end of the ROE range identified by its witness. Specifically, PAWC based its ROE request on its Discounted Cash Flow (DCF) and Capital Asset Pricing Model (CAPM) results and in consideration of the Company's business, financial and regulatory risks, and its purported superior management performance, [19] and in recognition of its work providing solutions for troubled wastewater systems in the Commonwealth.[20]

I&E, on the other hand, proposed a 9.70% ROE by averaging two CAPM analyses to produce a Composite CAPM ROE of 9.31%.[21] I&E then averaged the results of its DCF and the Composite CAPM to calculate its recommended ROE of 9.70%.[22]

The OCA recommended an 8.70% ROE based on the results of its DCF ROE range (6.8% to 9.3%) and its CAPM ROE (8.7%).[23]

In their Recommended Decision, the ALJs adopted I&E's methodology for determining PAWC's ROE and recommended an ROE of 9.70%.[24] I support an ROE of 9.50%[25] in light of: (1) PAWC's minimal regulatory lag,[26]and its associated reduced business risk, given its frequent

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[16] *Application of Pennsylvania-American Water Company for approval to acquire the wastewater collection and treatment system owned by the Butler Area Sewer Authority,* Docket No. A-2022-3037047 (Opinion and Order entered November 16, 2023) (*PAWC-BASA Acquisition*).

[17] In the *PAWC-BASA Acquisition,* the Commission approved a purchase price of $228 million for the BASA system to be included in PAWC's rate base even though the book value of the system was only $91 million.

[18] *See* R.D. at 322; OSBA Exh. JK-14 SR.

[19] PAWC R.B. at 43.

[20] PAWC M.B. at 53-56.

[21] (9.96% + 8.66%) ÷ 2 = 9.31%.

[22] (10.09% DCF + 9.31% Composite CAPM) ÷ 2 = 9.70%. I&E M.B. at 69-70.

[23] OCA M.B. at 51-52.

[24] R.D. at 269.

[25] Adopting the 9.70% ROE recommended by the ALJs, coupled with a review of the record evidence including the OCA's DFC and CAPM ranges, and exercising discretion in setting just and reasonable rates, I believe it is prudent to make a downward adjustment of 0.20% (*i.e.*, 20 basis points). *See, generally, Popowsky v. Pa. PUC, 683 A.2d 958, 961 (Pa. Cmwlth. 1996).* As such, a 9.50% ROE, which is 5 basis points higher than the 9.45% authorized by the Commission in *PAWC 2024,* is appropriate. [9.70% - 0.20% = 9.50%]. *See PAWC 2024* at 194-95.

[26] The Commission has acknowledged that "[w]hen determining the cost of capital, the [Commission] must 'give consideration to the utilities financial structure, credit standing, dividends, interests, risks, **regulatory lag**, wasting assets and any peculiar features of the utility involved.'" *Pa. PUC et al. v. Columbia Gas of Pa.*, Docket Nos. R-2020-3018835, *et al.* (Order entered February 19, 2021) (*Columbia Gas 2021)* at 49 (citing *West Penn Power v. Pa. PUC*, 607 A.2d 1132, 1135 (Pa. Cmwlth. 1992) (*West Penn*)) (emphasis added); *see also, Pa. PUC v. Columbia Gas*

filing of base rate cases as discussed in more detail below; (2) affordability issues faced by PAWC's customers; and (3) the water service quality issues present in the Company's service territory. The effect of an ROE higher than 9.50% would result in unjust and unreasonable rates.

PAWC is seeking its fourth increase to its base rates in the past six years. I agree that this significantly reduces PAWC's regulatory lag and reduces the Company's business risk. I also agree that PAWC's use of the FPFTY enables the Company to recover, *inter alia,* forecasted expenses and capital expenditure costs further lessening business risk. The Company's utilization of the distribution system improvement charge (DSIC) for capital expenditure recovery between rate cases is also worthy of consideration when discussing reduction of the Company's regulatory lag and business risk.[27]

Based on all of the above, I believe an overall rate increase of $11,636,001 is appropriate. After allocating a portion of the Company's wastewater revenue increase to its water operations, as provided for under Act 11 and utilizing the OSBA's proposed Act 11 revenue allocation amounts and scale-back method, this is comprised of an increase of $9,121,075 to PAWC's water operations and $2,514,926 to its wastewater operations.[28]

It is important to note that the basis of the additional adjustments here centers on affordability. I acknowledge PAWC's representation that the instant base rate case was primarily driven by capital investments required to maintain and improve the Company's infrastructure. PAWC has stated that it plans to invest over $1 billion in its infrastructure before the end of the FPFTY to address its aging infrastructure, including the elimination of lead service lines and removal of emerging contaminants such as per- and polyfluoroalkyl substances or PFAS, also known as forever chemicals from drinking water.[29]

Nevertheless, the record is also clear that currently, PAWC's combined water and wastewater rates are the highest in Pennsylvania.[30] Specifically, from 2020 through 2024, over the course of four general rate proceedings, PAWC's residential rates in its Rate Zone 1 have increased by nearly 35%.[31] In fact, the OCA and CAUSE-PA each contend that *current* PAWC's rates are unaffordable and should be decreased.[32] CAUSE-PA argued that if PAWC's current rate increase is approved, the average residential water bill will be 65% higher than in 2020 and the average residential wastewater bill will be 81% higher.[33] CAUSE-PA further averred that income growth for PAWC's customers is far outpaced by the Company's rate increases, leaving households across PAWC's territory "struggling to keep up."[34]

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of Pennsylvania, Inc., Docket No. R-2025-3053499 (Opinion and Order entered December 9, 2025) (*Columbia Gas 2025*) *Columbia Gas 2025* at 34; R.D. at 228, n.758.

[27] I&E St. 2 at 51-53; I&E St. 2-SR at 30-31.

[28] $9,121,075 + $2,514,926 = $11,636,001. An overall rate increase of $11,636,001 based on the proposed additional adjustments will produce a total revenue requirement of $1,173,771,870 for the Company in the FPFTY. *See* Tables 1 and 2, attached to this Statement. Additionally, as shown in Table 2, after applying the Act 11 shift utilizing the OSBA's proposed Act 11 revenue allocation amounts and scale-back method, this will result in a revenue *decrease* for PAWC's Wastewater SSS and CSS Wastewater operations.

[29] PAWC Exc. at 3.

[30] CAUSE-PA St. 1 at 19.

[31] OCA St. 4 at 15-16.

[32] OCA St. 1 at 6; CAUSE-PA M.B. at 16 (citing OCA St. 1 at 6).

[33] CAUSE-PA M.B. at 12 (citing CAUSE-PA St. 1 at 35).

[34] CAUSE-PA M.B. at 12-13 (citing OCA St. 4 at 17, 19).

The ALJs provided a thorough and thoughtful discussion and findings regarding affordability, customer service, and customer assistance programs. The ALJs discussed the 75 individuals and 15 public officials who provided testimony at the public input hearings regarding affordability and the serious impacts increased water and wastewater rates have on customers. The fact that PAWC's rates have substantially increased by nearly 35% from 2020 through 2024, over the course of four general rate cases, cannot be overstated. The effect of these rate increases is what matters. Further, the record shows that current inflation impacts including increases in fuel prices and war in Iran have caused ratepayers to pay more for gasoline, diesel, and heating oils.[35] Ratemaking can not be done with blinders on to broader economic inputs such as wage growth, inflation, or the cost of capital.

The ALJs highlighted the various methods many customers are using to reduce water usage, including short showers, purchasing bottled water, not using in-home washing machines and dishwashers, refraining from watering lawns and washing cars. Some customers even testified to reducing the amount of times they flush toilets. This backdrop formed the basis to support the ALJs' various determinations to improve the performance of PAWC's low-income programs; to modify the Arrearage Management Program; to require screening, outreach, and enrollment procedures for the H2O program; and to require a root cause analysis of customer disputes and informal and formal complaints. With this rate case, I hope PAWC has received the very clear message to do better.

I also want to commend the Parties for their creative thinking in trying to address affordability. Specifically, CAUSE-PA proposed the creation of both a Water Conservation and Line Repair and Replacement Assistance program, and a Universal Service Plan. I believe these proposals could be great tools to help low-income customers and would provide a single, unified document allowing the Commission, customers, or other stakeholders to review the benefits and requirements of PAWC's assistance programming. While I acknowledge that PAWC is not required to offer these proposals by statute or regulation, I do not believe this lack of legal requirement prevents them from being implemented in the future.

Finally, PAWC proposed a Renter Assistance Pilot Program to assist low-income residents who live in master-metered buildings that are ineligible for customer assistance programs. While I agree with the ALJs determination to reject the proposal for various legal reasons, I encourage PAWC to continue thinking of new ways to help low-income customers.

July 16, 2026
Date

Kimberly M. Barrow, Vice Chair

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[35] *See* R.D. at 266 (citing Tr. at 1829-30, 1831).