BUTLER | SNOW

November 14, 2024

VIA ELECTRONIC FILING

Jerry Kettles, Director
Economic Analysis
c/o Ectory Lawless, Docket Room Manager
Tennessee Public Utility Commission
502 Deaderick Street, 4th Floor
Nashville, TN 37243
TPUC.DocketRoom@tn.gov

Electronically Filed in TPUC Docket Room on November 14, 2024, 2024 at 1:48 p.m.

RE: ***Petition of Tennessee-American Water Company to Modify Tariff, Change and Increase Charges, Fees, and Rates, and for Approval of a General Rate Increase,*** **TPUC Docket No. 24-00032**

Dear Mr. Kettles:

Attached for filing please find *Tennessee-American Water Company's Response to Second Staff Data Requests* in the above-captioned matter.

Please note that the Excel Attachment to Response No. 1 and the Attachments to Response No. 6 contain **CONFIDENTIAL INFORMATION** and are being submitted **UNDER SEAL** as **CONFIDENTIAL and PROPRIETARY**.

As required, one (1) hard copy of this filing will be mailed to your office. Should you have any questions concerning this filing, or require additional information, please do not hesitate to contact me.

Very truly yours,

BUTLER SNOW LLP

Melvin J. Malone

Attachments
cc: Bob Lane, TAWC
Shilina Brown, Consumer Advocate Division
Victoria Glover, Consumer Advocate Division
Phillip Noblett, City of Chattanooga
Frederick Hitchcock, City of Chattanooga
Scott Tift, UWUA

The Pinnacle at Symphony Place
150 3rd Avenue South, Suite 1600
Nashville, TN 37201

MELVIN J. MALONE
615.651.6705
melvin.malone@butlersnow.com

T 615.651.6700
F 615.651.6701
www.butlersnow.com

BUTLER SNOW LLP

TENNESSEE AMERICAN WATER COMPANY
TENNESSEE PUBLIC UTILITY COMMISSION
DOCKET NO. 24-00032
SECOND DISCOVERY REQUEST OF THE TPUC STAFF

Responsible Witness: Ann Bulkley

Question 1:

Provide the document identified as “S&P Capital IQ Pro” on page 21, footnote 28 in the Rebuttal Testimony of Anne Bulkley. To the extent the footnote refers to a data extract from a financial data service, provide all information sufficient to calculate the statistics provided in Figure 4 of Ms. Bulkley’s Rebuttal Testimony. All information extracted in the preparation of Figure 4 should be provided. At a minimum, the name of the utility, industry, equity return, and date of rate order should be provided. Additionally, information describing the type of rate proceeding, e.g. general rate case, base rate case, annual review, and should be provided. Also, if available, information on the capital structure and overall rate of return from the associated rate order should be provided.

Response:

Please see Attachment 1 CONFIDENTIAL in Excel format only for the information relied on in the preparation of Figure 4 of Ms. Bulkley’s Rebuttal Testimony.

TENNESSEE AMERICAN WATER COMPANY
TENNESSEE PUBLIC UTILITY COMMISSION
DOCKET NO. 24-00032
SECOND DISCOVERY REQUEST OF THE TPUC STAFF

Responsible Witness: Robert Lane

Question 2:

Provide all SEC 10-Q filings for American Water Works Company released in calendar year 2024.

Response:

American Water Works Company has released 3 SEC 10-Q filings in calendar year 2024. They are attached as:

TAW_R_TPUCDR_002_111424 ATTACHMENT 1
TAW_R_TPUCDR_002_111424 ATTACHMENT 2
TAW_R_TPUCDR_002_111424 ATTACHMENT 3

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2024

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 001-34028

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**51-0063696**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 Water Street, Camden, NJ 08102-1658
(Address of principal executive offices) (Zip Code)

(856) 955-4001
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock, par value $0.01 per share	**AWK**	**New York Stock Exchange**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.). ☐ Yes ☒ No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Shares Outstanding as of April 22, 2024
Common Stock, par value $0.01 per share	**194,822,567**

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* * *

Throughout this Quarterly Report on Form 10-Q ("Form 10-Q"), unless the context otherwise requires, references to the "Company" and "American Water" mean American Water Works Company, Inc. and all of its subsidiaries, taken together as a whole. References to the "parent company" mean American Water Works Company, Inc., without its subsidiaries.

The Company maintains a website at https://amwater.com, an Investor Relations website at https://ir.amwater.com, and a Diversity and Inclusion website at https://diversityataw.com. Information contained on the Company's websites, including its Sustainability Report, its Inclusion, Diversity and Equity Report, and other reports or documents, shall not be deemed incorporated into, or to be a part of, this report, and any website references included herein are not intended to be made through active hyperlinks.

FORWARD-LOOKING STATEMENTS

Statements included in Part I, Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations and in other sections of this Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995. In some cases, these forward-looking statements can be identified by words with prospective meanings such as "intend," "plan," "estimate," "believe," "anticipate," "expect," "predict," "project," "propose," "assume," "forecast," "likely," "uncertain," "outlook," "future," "pending," "goal," "objective," "potential," "continue," "seek to," "may," "can," "should," "will" and "could" or the negative of such terms or other variations or similar expressions. Forward-looking statements may relate to, among other things: the Company's future financial performance, liquidity and cash flows; the timing and amount of rate and revenue adjustments, including through general rate case filings, filings for infrastructure surcharges and other governmental agency authorizations and proceedings, and filings to address regulatory lag; the Company's ability to execute its current and long-term business, operational, capital expenditures and growth plans and strategies; the timing and outcome of pending or future acquisition activity, and the ability to achieve organic customer growth; the ability of the Company's California subsidiary to obtain adequate alternative water supplies in lieu of diversions from the Carmel River; the amount, allocation and timing of projected capital expenditures and related funding requirements; the Company's ability to repay or refinance debt; the future impacts of increased or increasing financing costs, inflation and interest rates; the Company's ability to finance current and projected operations, capital expenditure needs and growth initiatives by accessing the debt and equity capital markets and sources of short-term liquidity; the outcome and impact on the Company of governmental and regulatory investigations and proceedings and related potential fines, penalties and other sanctions; the ability to meet or exceed the Company's stated environmental and sustainability goals, including its greenhouse gas ("GHG") emission reduction, water delivery efficiency and water system resiliency goals; the ability to complete, and the timing and efficacy of, the design, development, implementation and improvement of technology and other strategic initiatives; the Company's ability to comply with new and changing environmental regulations; the ability to capitalize on existing or future utility privatization opportunities; trends in the water and wastewater industries in which the Company operates, including macro trends with respect to the Company's efforts related to customer, technology and work execution; regulatory, legislative, tax policy or legal developments; and impacts that future significant tax legislation may have on the Company and on its business, results of operations, cash flows and liquidity.

Forward-looking statements are predictions based on the Company's current expectations and assumptions regarding future events. They are not guarantees or assurances of any outcomes, financial results, levels of activity, performance or achievements, and readers are cautioned not to place undue reliance upon them. These forward-looking statements are subject to a number of estimates, assumptions, known and unknown risks, uncertainties and other factors. The Company's actual results may vary materially from those discussed in the forward-looking statements included herein as a result of the following important factors:

- the decisions of governmental and regulatory bodies, including decisions to raise or lower customer rates;
- the timeliness and outcome of regulatory commissions' and other authorities' actions concerning rates, capital structure, authorized return on equity, capital investment, system acquisitions and dispositions, taxes, permitting, water supply and management, and other decisions;
- changes in customer demand for, and patterns of use of, water and energy, such as may result from conservation efforts, or otherwise;
- limitations on the availability of the Company's water supplies or sources of water, or restrictions on its use thereof, resulting from allocation rights, governmental or regulatory requirements and restrictions, drought, overuse or other factors;
- a loss of one or more large industrial or commercial customers due to adverse economic conditions or other factors;
- present and future proposed changes in laws, governmental regulations and policies, including with respect to the environment (such as, for example, potential improvements to existing Federal regulations with respect to lead and copper service lines and galvanized steel pipe), health and safety, data and consumer privacy, security and protection, water quality and water quality accountability, contaminants of emerging concern (including without limitation per- and polyfluoroalkyl substances ("PFAS")), public utility and tax regulations and policies, and impacts resulting from U.S., state and local elections and changes in federal, state and local executive administrations;
- the Company's ability to collect, distribute, use, secure and store consumer data in compliance with current or future governmental laws, regulations and policies with respect to data and consumer privacy, security and protection;
- weather conditions and events, climate variability patterns, and natural disasters, including drought or abnormally high rainfall, prolonged and abnormal ice or freezing conditions, strong winds, coastal and intercoastal flooding, pandemics (including COVID-19) and epidemics, earthquakes, landslides, hurricanes, tornadoes, wildfires, electrical storms, sinkholes and solar flares;
- the outcome of litigation and similar governmental and regulatory proceedings, investigations or actions;

- the risks associated with the Company's aging infrastructure, and its ability to appropriately improve the resiliency of or maintain, update, redesign and/or replace, current or future infrastructure and systems, including its technology and other assets, and manage the expansion of its businesses;
- exposure or infiltration of the Company's technology and critical infrastructure systems, including the disclosure of sensitive, personal or confidential information contained therein, through physical or cyber attacks or other means, and impacts from required or voluntary public and other disclosures related thereto;
- the Company's ability to obtain permits and other approvals for projects and construction, update, redesign and/or replacement of various water and wastewater facilities;
- changes in the Company's capital requirements;
- the Company's ability to control operating expenses and to achieve operating efficiencies, and the Company's ability to create, maintain and promote initiatives and programs that support the affordability of the Company's regulated utility services;
- the intentional or unintentional actions of a third party, including contamination of the Company's water supplies or the water provided to its customers;
- the Company's ability to obtain and have delivered adequate and cost-effective supplies of pipe, equipment (including personal protective equipment), chemicals, power and other fuel, water and other raw materials, and to address or mitigate supply chain constraints that may result in delays or shortages in, as well as increased costs of, supplies, products and materials that are critical to or used in the Company's business operations;
- the Company's ability to successfully meet its operational growth projections, either individually or in the aggregate, and capitalize on growth opportunities, including, among other things, with respect to:
    - acquiring, closing and successfully integrating regulated operations, including without limitation the Company's ability to (i) obtain required regulatory approvals for such acquisitions, (ii) prevail in litigation or other challenges related to such acquisitions, and (iii) recover in rates the fair value of assets of the acquired regulated operations;
    - the Company's Military Services Group ("MSG") entering into new military installation contracts, price redeterminations, and other agreements and contracts with the U.S. government; and
    - realizing anticipated benefits and synergies from new acquisitions;
- risks and uncertainties following the completion of the sale of the Company's Homeowner Services Group ("HOS"), including:
    - the Company's ability to receive amounts due, payable and owing to the Company under the amended secured seller note when due; and
    - the ability of the Company to redeploy successfully and timely the net proceeds of this transaction into the Company's Regulated Businesses;
- risks and uncertainties associated with contracting with the U.S. government, including ongoing compliance with applicable government procurement and security regulations;
- cost overruns relating to improvements in or the expansion of the Company's operations;
- the Company's ability to successfully develop and implement new technologies and to protect related intellectual property;
- the Company's ability to maintain safe work sites;
- the Company's exposure to liabilities related to environmental laws and regulations, including those enacted or adopted and under consideration, and the substances related thereto, including without limitation lead and galvanized steel, PFAS and other contaminants of emerging concern, and similar matters resulting from, among other things, water and wastewater service provided to customers;
- the ability of energy providers, state governments and other third parties to achieve or fulfill their GHG emission reduction goals, including without limitation through stated renewable portfolio standards and carbon transition plans;
- changes in general economic, political, business and financial market conditions;
- access to sufficient debt and/or equity capital on satisfactory terms and as needed to support operations and capital expenditures;
- fluctuations in inflation or interest rates, and the Company's ability to address or mitigate the impacts thereof;
- the ability to comply with affirmative or negative covenants in the current or future indebtedness of the Company or any of its subsidiaries, or the issuance of new or modified credit ratings or outlooks by credit rating agencies with respect to the Company or any of its subsidiaries (or any current or future indebtedness thereof), which could increase financing costs or funding requirements and affect the Company's or its subsidiaries' ability to issue, repay or redeem debt, pay dividends or make distributions;

- fluctuations in the value of, or assumptions and estimates related to, its benefit plan assets and liabilities, including with respect to its pension and other post-retirement benefit plans, that could increase expenses and plan funding requirements;
- changes in federal or state general, income and other tax laws, including (i) future significant tax legislation or regulations (including without limitation impacts related to the Corporate Alternative Minimum Tax), and (ii) the availability of, or the Company's compliance with, the terms of applicable tax credits and tax abatement programs;
- migration of customers into or out of the Company's service territories and changes in water and energy consumption resulting therefrom;
- the use by municipalities of the power of eminent domain or other authority to condemn the systems of one or more of the Company's utility subsidiaries, including without limitation litigation and other proceedings with respect to the water system assets of the Company's California subsidiary ("Cal Am") located in Monterey, California (the "Monterey system assets"), or the assertion by private landowners of similar rights against such utility subsidiaries;
- any difficulty or inability to obtain insurance for the Company, its inability to obtain insurance at acceptable rates and on acceptable terms and conditions, or its inability to obtain reimbursement under existing or future insurance programs and coverages for any losses sustained;
- the incurrence of impairment charges, changes in fair value and other adjustments related to the Company's goodwill or the value of its other assets;
- labor actions, including work stoppages and strikes;
- the Company's ability to retain and attract highly qualified and skilled employees and/or diverse talent;
- civil disturbances or unrest, or terrorist threats or acts, or public apprehension about future disturbances, unrest, or terrorist threats or acts; and
- the impact of new, and changes to existing, accounting standards.

These forward-looking statements are qualified by, and should be read together with, the risks and uncertainties set forth above, and the risk factors and other statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 (the "Form 10-K") and in this Form 10-Q, and readers should refer to such risks, uncertainties and risk factors in evaluating such forward-looking statements. Any forward-looking statements the Company makes shall speak only as of the date this Form 10-Q was filed with the U.S. Securities and Exchange Commission ("SEC"). Except as required by the federal securities laws, the Company does not have any obligation, and it specifically disclaims any undertaking or intention, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or otherwise. New factors emerge from time to time, and it is not possible for the Company to predict all such factors. Furthermore, it may not be possible to assess the impact of any such factor on the Company's businesses, either viewed independently or together, or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. The foregoing factors should not be construed as exhaustive.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Balance Sheets (Unaudited)
(In millions, except share and per share data)

	March 31, 2024	December 31, 2023
ASSETS		
Property, plant and equipment	$ 32,780	$ 32,189
Accumulated depreciation	(6,757)	(6,751)
Property, plant and equipment, net	26,023	25,438
Current assets:		
Cash and cash equivalents	584	330
Restricted funds	42	34
Accounts receivable, net of allowance for uncollectible accounts of $49 and $51, respectively	323	339
Income tax receivable	26	86
Unbilled revenues	316	302
Materials and supplies	115	112
Other	181	186
Total current assets	1,587	1,389
Regulatory and other long-term assets:		
Regulatory assets	1,117	1,106
Secured seller promissory note from the sale of the Homeowner Services Group	795	720
Operating lease right-of-use assets	90	86
Goodwill	1,143	1,143
Other	331	416
Total regulatory and other long-term assets	3,476	3,471
Total assets	$ 31,086	$ 30,298

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Balance Sheets (Unaudited)
(In millions, except share and per share data)

	March 31, 2024	December 31, 2023
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock ($0.01 par value; 500,000,000 shares authorized; 200,273,523 and 200,144,968 shares issued, respectively)	$ 2	$ 2
Paid-in-capital	8,561	8,550
Retained earnings	1,844	1,659
Accumulated other comprehensive loss	(8)	(26)
Treasury stock, at cost (5,451,187 and 5,414,867 shares, respectively)	(392)	(388)
Total common shareholders' equity	10,007	9,797
Long-term debt	12,566	11,715
Redeemable preferred stock at redemption value	3	3
Total long-term debt	12,569	11,718
Total capitalization	22,576	21,515
Current liabilities:		
Short-term debt	—	179
Current portion of long-term debt	557	475
Accounts payable	231	294
Accrued liabilities	636	791
Accrued taxes	89	67
Accrued interest	131	93
Other	213	252
Total current liabilities	1,857	2,151
Regulatory and other long-term liabilities:		
Advances for construction	367	352
Deferred income taxes and investment tax credits	2,742	2,717
Regulatory liabilities	1,460	1,481
Operating lease liabilities	78	73
Accrued pension expense	256	262
Other	195	196
Total regulatory and other long-term liabilities	5,098	5,081
Contributions in aid of construction	1,555	1,551
Commitments and contingencies (See Note 11)		
Total capitalization and liabilities	$ 31,086	$ 30,298

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Operations (Unaudited)
(In millions, except per share data)

	For the Three Months Ended March 31,	
	2024	2023
Operating revenues	$ 1,011	$ 938
Operating expenses:		
Operation and maintenance	416	393
Depreciation and amortization	188	172
General taxes	81	78
Total operating expenses, net	685	643
Operating income	326	295
Other (expense) income:		
Interest expense	(124)	(115)
Interest income	24	14
Non-operating benefit costs, net	9	9
Other, net	7	11
Total other (expense) income	(84)	(81)
Income before income taxes	242	214
Provision for income taxes	57	44
Net income attributable to common shareholders	$ 185	$ 170
Basic earnings per share:		
Net income attributable to common shareholders	$ 0.95	$ 0.91
Diluted earnings per share:		
Net income attributable to common shareholders	$ 0.95	$ 0.91
Weighted-average common shares outstanding:		
Basic	195	186
Diluted	195	186

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Comprehensive Income (Unaudited)
(In millions)

	For the Three Months Ended March 31,	
	2024	2023
Net income attributable to common shareholders	$ 185	$ 170
Other comprehensive income, net of tax:		
Unrealized gain (loss) on cash flow hedges, net of tax of $3 and $0 for the three months ended March 31, 2024 and 2023, respectively	19	(2)
Unrealized (loss) gain on available-for-sale fixed-income securities, net of tax of $1 and $0 for the three months ended March 31, 2024 and 2023, respectively	(1)	2
Net other comprehensive income	18	—
Comprehensive income attributable to common shareholders	$ 203	$ 170

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Cash Flows (Unaudited)
(In millions)

	For the Three Months Ended March 31,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 185	$ 170
Adjustments to reconcile to net cash flows provided by operating activities:		
Depreciation and amortization	188	172
Deferred income taxes and amortization of investment tax credits	8	26
Provision for losses on accounts receivable	5	3
Pension and non-pension postretirement benefits	—	1
Other non-cash, net	4	(36)
Changes in assets and liabilities:		
Receivables and unbilled revenues	(2)	(1)
Income tax receivable	60	18
Pension contributions	(11)	(10)
Accounts payable and accrued liabilities	(61)	(60)
Accrued taxes	24	44
Other assets and liabilities, net	(18)	(42)
Net cash provided by operating activities	382	285
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(609)	(526)
Acquisitions, net of cash acquired	(86)	(4)
Removal costs from property, plant and equipment retirements, net	(38)	(31)
Net cash used in investing activities	(733)	(561)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt, net of discount	1,391	8
Repayments of long-term debt	(449)	(4)
Net proceeds from common stock financing	—	1,688
Net short-term repayments with maturities less than three months	(179)	(1,175)
Advances and contributions in aid of construction, net of refunds of $9 and $7 for the three months ended March 31, 2024 and 2023, respectively	3	10
Debt issuance costs	(14)	—
Dividends paid	(138)	(119)
Other, net	(1)	(7)
Net cash provided by financing activities	613	401
Net increase in cash, cash equivalents and restricted funds	262	125
Cash, cash equivalents and restricted funds at beginning of period	364	117
Cash, cash equivalents and restricted funds at end of period	$ 626	$ 242
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid as of the end of period	$ 422	$ 338

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
(In millions)

	Common Stock					Treasury Stock		
	Shares	Par Value	Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Shares	At Cost	Total Shareholders' Equity
Balance as of December 31, 2023	200.1	$ 2	$ 8,550	$ 1,659	$ (26)	(5.5)	$ (388)	$ 9,797
Net income attributable to common shareholders	—	—	—	185	—	—	—	185
Common stock issuances (a)	0.2	—	11	—	—	—	(4)	7
Net other comprehensive income	—	—	—	—	18	—	—	18
Balance as of March 31, 2024	200.3	$ 2	$ 8,561	$ 1,844	$ (8)	(5.5)	$ (392)	$ 10,007

(a) Includes stock-based compensation, employee stock purchase plan and dividend reinvestment and direct stock purchase plan activity.

	Common Stock					Treasury Stock		
	Shares	Par Value	Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Shares	At Cost	Total Shareholders' Equity
Balance as of December 31, 2022	187.4	$ 2	$ 6,824	$ 1,267	$ (23)	(5.4)	$ (377)	$ 7,693
Net income attributable to common shareholders	—	—	—	170	—	—	—	170
Common stock issuances (a)	12.7	—	1,695	—	—	—	(11)	1,684
Balance as of March 31, 2023	200.1	$ 2	$ 8,519	$ 1,437	$ (23)	(5.4)	$ (388)	$ 9,547

(a) Includes stock-based compensation, employee stock purchase plan and dividend reinvestment and direct stock purchase plan activity.

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Notes to Consolidated Financial Statements (Unaudited)
(Unless otherwise noted, in millions, except per share data)

Note 1: Basis of Presentation

The unaudited Consolidated Financial Statements included in this report include the accounts of American Water Works Company, Inc. and all of its subsidiaries (the "Company" or "American Water"), in which a controlling interest is maintained after the elimination of intercompany balances and transactions. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial reporting, and the rules and regulations for reporting on Quarterly Reports on Form 10-Q ("Form 10-Q"). Accordingly, they do not contain certain information and disclosures required by GAAP for comprehensive financial statements. In the opinion of management, all adjustments necessary for a fair statement of the financial position as of March 31, 2024, and the results of operations and cash flows for all periods presented, have been made. All adjustments are of a normal, recurring nature, except as otherwise disclosed.

The unaudited Consolidated Financial Statements and Notes included in this report should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2023 ("Form 10-K"), which provides a more complete discussion of the Company's accounting policies, financial position, operating results and other matters. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year, primarily due to the seasonality of the Company's operations.

Note 2: Significant Accounting Policies

New Accounting Standards

Presented in the table below are recently issued accounting standards that have not yet been adopted by the Company as of March 31, 2024:

Standard	Description	Date of Adoption	Application	Effect on the Consolidated Financial Statements
Segment Reporting	The guidance in this standard expands reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. Additionally, the guidance enhances interim disclosure requirements, clarifies circumstances in which an entity can disclose multiple segment measures of profit and loss, provides new segment disclosure requirements for entities with a single reportable segment, and other disclosure requirements.	Fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024	Retrospective	The Company is evaluating the impact on its Consolidated Financial Statements.
Income Taxes	The guidance in this standard requires disclosure of a tax rate reconciliation table, in both percentages and reporting currency amounts, which includes additional categories of information about federal, state, and foreign income taxes and provides further details about reconciling items in certain categories that meet a quantitative threshold. The guidance also requires an annual disclosure of income taxes paid, net of refunds, disaggregated by federal, state, and foreign taxes paid, and further disaggregated by jurisdiction based on a quantitative threshold. The standard includes other disclosure requirements and eliminates certain existing disclosure requirements.	January 1, 2025	Prospective, with retrospective application also permitted	The Company is evaluating the impact on its Consolidated Financial Statements and the timing of adoption.

Property, Plant and Equipment

The New Jersey Economic Development Authority ("NJEDA") determined that the Company was qualified to receive $161 million in tax credits in connection with its capital investment in its corporate headquarters in Camden, New Jersey. The Company was qualified to receive the tax credits over a 10-year period commencing in 2019.

In the first quarters of 2024 and 2023, the NJEDA issued the utilization certificates for the 2021 and 2020 tax credits, respectively, to the Company in the amount of $16 million each. The Company sold these tax credits to an external party for $15 million each. As of March 31, 2024, the Company had assets of $15 million in other current assets and $90 million in other long-term assets on the Consolidated Balance Sheets for the 2022 through 2028 tax credits. As of December 31, 2023, the Company had assets of $32 million in other current assets and $90 million in other long-term assets on the Consolidated Balance Sheets for the 2021 through 2028 tax credits. The Company has made the necessary annual filing for the year ended December 31, 2022, and expects to make the 2023 filing in the second quarter of 2024, prior to the required filing deadline. The submitted filing, for the 2022 tax credits, is under review by the NJEDA and it is expected that the Company will receive final NJEDA approval and monetize these credits in 2024.

Allowance for Uncollectible Accounts

Allowances for uncollectible accounts are maintained for estimated probable losses resulting from the Company's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due, previous loss history, current economic and societal conditions and reasonable and supportable forecasts that affect the collectability of receivables from customers. The Company generally writes off accounts when they become uncollectible or are over a certain number of days outstanding.

Presented in the table below are the changes in the allowance for uncollectible accounts for the three months ended March 31:

	2024	2023
Balance as of January 1	$ (51)	$ (60)
Amounts charged to expense	(5)	(3)
Amounts written off	8	5
Other, net (a)	(1)	3
Balance as of March 31	$ (49)	$ (55)

(a) This portion of the allowance for uncollectible accounts is primarily related to COVID-19 related regulatory asset activity.

Reclassifications

Certain reclassifications have been made to prior periods in the Consolidated Financial Statements and Notes to conform to the current presentation.

Note 3: Regulatory Matters

General Rate Cases

Presented in the table below are annualized incremental revenues, including reductions for the amortization of the excess accumulated deferred income taxes ("EADIT") that are generally offset in income tax expense, assuming a constant sales volume and customer count, resulting from general rate case authorizations that became effective during 2024:

	Effective Date	Amount
General rate cases by state:		
West Virginia	February 25, 2024	$ 18
Indiana, Step Increase	February 21, 2024	25
Total general rate case authorizations		$ 43

On March 4, 2024, the West Virginia Public Service Commission issued an order approving the adjustment of base rates requested in a rate case filed on May 1, 2023, by the Company's West Virginia subsidiary. The general rate case order approved an $18 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges of $7 million, based on an authorized return on equity of 9.8%, authorized rate base of $886 million, which reflects capital investments through February 2024, a common equity ratio of 50.1% and a long-term debt ratio of 49.9%. The increased water and wastewater revenues related to the base rate adjustment are being driven primarily by (i) $220 million of related water and wastewater system capital investments made since the completion of the West Virginia subsidiary's previous rate case, (ii) higher pension and other postretirement benefit costs, and (iii) increases in production costs, including chemicals, fuel and power costs.

On February 14, 2024, the Indiana Utility Regulatory Commission issued an order approving the adjustment of base rates requested in a rate case filed on March 31, 2023, by the Company's Indiana subsidiary. The general rate case order approved a $66 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges, based on an authorized return on equity of 9.65%, authorized rate base of $1.84 billion, a common equity ratio of 56.15% and a debt ratio of 43.85%. For purposes of determining rates, the adjustment is based on an equity component of 48.19% due to the regulatory practice in Indiana of including certain zero-cost items or tax credit balances in the capital structure calculation. The annualized revenue increase will include three step increases, with $25 million of the increase to be included in rates in February 2024, $17 million in May 2024, and $24 million in May 2025. The increases are being driven primarily by (i) over $875 million of water and wastewater system capital investments since the completion of the Indiana subsidiary's last rate case and through April 30, 2025, (ii) higher pension and other postretirement benefit costs, and (iii) increases in production costs, including chemicals, fuel and power costs.

Pending General Rate Case Filings

On May 1, 2024, the Company's Iowa subsidiary filed a general rate case requesting approximately $21 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 52.57% and debt component of 47.43%. The requested annualized revenue increase is driven primarily by approximately $157 million in capital investments made and to be made by the Iowa subsidiary through March 2026.

On May 1, 2024, the Company's Tennessee subsidiary filed a general rate case requesting approximately $14 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 54.52% and debt component of 45.48%. The requested annualized revenue increase is driven primarily by approximately $173 million in capital investments made and to be made by the Tennessee subsidiary through December 2025.

On January 25, 2024, the Company's Illinois subsidiary filed tariffs for new water and wastewater rates. The request seeks a two-step rate increase consisting of aggregate annualized incremental revenue, based on a proposed return on equity of 10.75%, of (i) approximately $132 million, excluding infrastructure surcharges of $5 million, effective January 1, 2025, based on a future test year through December 31, 2025, with average rate base and a capital structure with an equity component of 52.27% and a debt component of 47.73%, and (ii) approximately $16 million effective January 1, 2026, based on a future test year to include end of period rate base and a capital structure with an equity component of 54.43% and a debt component of 45.57%. The requested increases are driven primarily by an estimated $557 million in capital investments to be made by the Illinois subsidiary from January 2024 through December 2025. The request also proposes a treatment and compliance rider to address recovery of future environmental compliance investments, and a modification to the existing volume balancing account mechanism to include full production cost recovery.

On January 19, 2024, the Company's New Jersey subsidiary filed a general rate case requesting approximately $162 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 56.30% and a debt component of 43.70%. The requested annualized revenue increase is driven primarily by approximately $1.3 billion in capital investments made and to be made by the New Jersey subsidiary through December 2024. The request also proposes a revenue decoupling mechanism and seeks a deferral of certain production cost adjustments.

On December 15, 2023, the Company's California subsidiary submitted a request to delay by one year its cost of capital filing and maintain its current authorized cost of capital through 2025. On February 2, 2024, the California Public Utilities Commission ("CPUC") granted the request for a one year extension of the cost of capital filing to May 1, 2025, to set its authorized cost of capital beginning January 1, 2026.

On November 8, 2023, the Company's Pennsylvania subsidiary filed a general rate case requesting approximately $204 million in additional annualized revenues, excluding projected infrastructure surcharges of $20 million. The request is based on a proposed return on equity of 10.95% and a capital structure with an equity component of 55.30% and a debt component of 44.70%. The requested annualized incremental revenue increase is driven primarily by an estimated $1.0 billion of incremental capital investments to be made through mid-2025. The request also proposes a mechanism to address compliance with evolving environmental requirements, such as emerging federal regulations for lead and per- and polyfluoroalkyl substances. If approved, the new rates would be expected to take effect on August 7, 2024.

On November 1, 2023, the Company's Virginia subsidiary filed a general rate case requesting $20 million in additional annualized revenues. The request is based on a proposed return on equity of 10.95% and a capital structure with an equity component of 45.67% and a debt and other component of 54.33%. The requested increase is driven by approximately $110 million in capital investments between May 2023 and April 2025. The request also proposed a revenue decoupling mechanism and seeks deferral of certain production cost adjustments. Interim rates became effective May 1, 2024, with the difference between interim and final approved rates subject to refund.

On June 30, 2023, the Company's Kentucky subsidiary filed a general rate case requesting $26 million in additional annualized revenues, excluding infrastructure surcharges of $10 million. Proposed rates were effective on an interim basis on February 6, 2024, and the difference between the interim and final approved rates is subject to refund. The request is based on a proposed return on common equity of 10.75% and a proposed capital structure with a common equity component of 52.45%. An order is expected in the general rate case in May of 2024.

On July 1, 2022, the Company's California subsidiary filed a general rate case requesting an increase in 2024 revenue of $56 million and a total increase in revenue over the 2024 to 2026 period of $95 million, all as compared to 2022 revenues. The Company updated its filing in January 2023 to capture the authorized step increase effective January 1, 2023. The filing was also updated to incorporate a decoupling proposal and a revision to the Company's sales and associated variable expense forecast. The revised filing requested additional annualized revenues for the test year 2024 of $37 million, compared to 2023 revenues. This excludes the proposed step rate and attrition rate increase for 2025 and 2026 of $20 million and $19 million, respectively. The total revenue requirement request for the three-year rate case cycle, incorporating updates to present rate revenues and forecasted demand, is $76 million. On November 17, 2023, the California subsidiary filed with the CPUC a partial settlement agreement reached with the CPUC's Public Advocates Office, which would determine the amount of incremental annualized water and wastewater revenue to be received by the California subsidiary to be $20 million in the 2024 test year, $16 million in the 2025 escalation year, and $15 million in the 2026 attrition year. The partial settlement agreement addresses the California subsidiary's revenue requirement request but does not address rate design or certain other matters, such as the requested inclusion and implementation of a revenue stability mechanism to separate the California subsidiary's revenue and water sales. New rates would be implemented retroactively to January 1, 2024, upon a final decision issued by the CPUC approving the partial settlement agreement and resolving the other issues not addressed by the partial settlement agreement, which is expected to occur in the second half of 2024.

Infrastructure Surcharges

A number of states have authorized the use of regulatory mechanisms that permit rates to be adjusted outside of a general rate case for certain costs and investments, such as infrastructure surcharge mechanisms that permit recovery of capital investments to replace aging infrastructure. Presented in the table below are annualized incremental revenues, assuming a constant sales volume and customer count, resulting from infrastructure surcharge authorizations that became effective during 2024:

	Effective Date	Amount
Infrastructure surcharges by state:		
New Jersey	April 30, 2024	$ 9
Pennsylvania	April 1, 2024	7
Iowa	March 1, 2024	1
West Virginia (a)	March 1, 2024	7
Missouri	January 20, 2024	26
Illinois	January 1, 2024	5
Total infrastructure surcharge authorizations		$ 55

(a) On March 5, 2024, the West Virginia Public Service Commission directed the Company's West Virginia subsidiary to interpret the distribution system improvement charge ("DSIC") Order as having included within the DSIC the three-year amortization of a prior authorized deferral associated with a large treatment plant project. The inclusion of this deferral increased the net incremental revenue by $0.7 million to a total of $6.6 million effective March 1, 2024.

Pending Infrastructure Surcharge Filings

On March 1, 2024, the Company's Missouri subsidiary filed an infrastructure surcharge proceeding requesting $20 million in additional annualized revenues.

Other Regulatory Matters

In September 2020, the CPUC released a decision under its Low-Income Rate Payer Assistance program rulemaking that required the Company's California subsidiary to file a proposal to alter its water revenue adjustment mechanism in its next general rate case filing in 2022, which would have become effective upon receiving an order in the current pending rate case. On October 5, 2020, the Company's California subsidiary filed an application for rehearing of the decision and following the CPUC's denial of its rehearing application in September 2021, the Company's California subsidiary filed a petition for writ of review with the California Supreme Court on October 27, 2021. On May 18, 2022, the California Supreme Court issued a writ of review for the California subsidiary's petition and the petitions filed by other entities challenging the decision. Independent of the judicial challenge, California passed Senate Bill 1469, which allows the CPUC to consider and authorize the implementation of a mechanism that separates the water corporation's revenue and its water sales. Legislation was signed by the Governor on September 30, 2022, and became effective on January 1, 2023. In response to the legislation, on January 27, 2023, the Company's California subsidiary filed an updated application requesting the CPUC to consider a Water Resources Sustainability Plan decoupling mechanism in its pending 2022 general rate case, which, if adopted, will become effective upon receiving an order in the current pending rate case.

Note 4: Revenue Recognition

Disaggregated Revenues

The Company's primary business involves the ownership of utilities that provide water and wastewater services to residential, commercial, industrial, public authority, fire service and sale for resale customers, collectively presented as the "Regulated Businesses." The Company also operates other businesses that provide water and wastewater services to the U.S. government on military installations, as well as municipalities, collectively presented throughout this Form 10-Q within "Other."

Presented in the table below are operating revenues disaggregated for the three months ended March 31, 2024:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 502	$ 2	$ 504
Commercial	186	1	187
Fire service	41	—	41
Industrial	42	—	42
Public and other	55	1	56
Total water services	826	4	830
Wastewater services:			
Residential	59	—	59
Commercial	16	—	16
Industrial	2	—	2
Public and other	8	—	8
Total wastewater services	85	—	85
Miscellaneous utility charges	9	—	9
Alternative revenue programs	—	2	2
Lease contract revenue	—	2	2
Total Regulated Businesses	920	8	928
Other	83	—	83
Total operating revenues	$ 1,003	$ 8	$ 1,011

(a) Includes revenues associated with provisional rates, alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of Accounting Standards Codification Topic 606, *Revenue From Contracts With Customers* ("ASC 606"), and accounted for under other existing GAAP.

Presented in the table below are operating revenues disaggregated for the three months ended March 31, 2023:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 460	$ 1	$ 461
Commercial	170	1	171
Fire service	39	—	39
Industrial	38	—	38
Public and other	56	—	56
Total water services	763	2	765
Wastewater services:			
Residential	54	—	54
Commercial	14	—	14
Industrial	2	—	2
Public and other	6	—	6
Total wastewater services	76	—	76
Miscellaneous utility charges	8	—	8
Alternative revenue programs	—	9	9
Lease contract revenue	—	2	2
Total Regulated Businesses	847	13	860
Other	78	—	78
Total operating revenues	$ 925	$ 13	$ 938

(a) Includes revenues associated with provisional rates, alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of ASC 606, and accounted for under other existing GAAP.

Contract Balances

Contract assets and contract liabilities are the result of timing differences between revenue recognition, billings, and cash collections. In the Company's Military Services Group ("MSG"), certain contracts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Contract assets are recorded when billing occurs subsequent to revenue recognition and are reclassified to accounts receivable when billed and the right to consideration becomes unconditional. Contract liabilities are recorded when the Company receives advances from customers prior to satisfying contractual performance obligations, particularly for construction contracts, and are recognized as revenue when the associated performance obligations are satisfied.

Contract assets of $108 million and $95 million are included in unbilled revenues on the Consolidated Balance Sheets as of March 31, 2024 and December 31, 2023, respectively. Contract liabilities of $63 million and $63 million are included in other current liabilities on the Consolidated Balance Sheets as of March 31, 2024 and December 31, 2023, respectively. Revenues recognized for the three months ended March 31, 2024 and 2023, from amounts included in contract liabilities were $21 million and $33 million, respectively.

Remaining Performance Obligations

Remaining performance obligations ("RPOs") represent revenues the Company expects to recognize in the future from contracts that are in progress. The Company enters into agreements for the provision of services to water and wastewater facilities for the U.S. military, municipalities and other customers. As of March 31, 2024, the Company's operation and maintenance ("O&M") and capital improvement contracts in the MSG and the Contract Services Group have RPOs. Contracts with the U.S. government for work on various military installations expire between 2051 and 2073 and have RPOs of $7.2 billion as of March 31, 2024, as measured by estimated remaining contract revenue. Such contracts are subject to customary termination provisions held by the U.S. government, prior to the agreed-upon contract expiration. Contracts with municipalities and commercial customers expire between 2026 and 2038 and have RPOs of $666 million as of March 31, 2024, as measured by estimated remaining contract revenue. Some of the Company's long-term contracts to operate and maintain the federal government's, a municipality's or other party's water or wastewater treatment and delivery facilities include responsibility for certain maintenance for some of those facilities, in exchange for an annual fee. Unless specifically required to perform certain maintenance activities, the maintenance costs are recognized when the maintenance is performed.

Note 5: Acquisitions and Divestitures

Regulated Businesses

Closed Acquisitions

On March 11, 2024, the Company's Illinois subsidiary completed the acquisition of a wastewater treatment plant and related assets from Granite City for a cash purchase price of $86 million, which added approximately 26,000 wastewater customers, including 15,500 customers indirectly in surrounding communities. Assets acquired from this acquisition, principally utility plant, totaled $91 million and liabilities assumed totaled $5 million. This acquisition was accounted for as a business combination and the preliminary purchase price allocation will be finalized once the valuation of assets acquired has been completed, no later than one year after the acquisition date.

The pro forma impact of the Company's acquisitions was not material to the Consolidated Statements of Operations for the periods ended March 31, 2024 and 2023.

Pending Acquisitions

Effective March 24, 2023, the Company's Pennsylvania subsidiary acquired the rights to buy the wastewater system assets of the Township of Towamencin, for an aggregate purchase price of $104 million, subject to adjustment as provided in the asset purchase agreement. This system provides wastewater services to approximately 6,300 customer connections in seven townships in Montgomery County, Pennsylvania. The Company expects to close this acquisition upon final regulatory approval.

On October 11, 2022, the Company's Pennsylvania subsidiary entered into an agreement to acquire the public wastewater collection and treatment system assets (the "System Assets") from the Butler Area Sewer Authority. On November 9, 2023, the Pennsylvania Public Utility Commission (the "PaPUC") approved a settlement agreement without modification with respect to the Company's Pennsylvania subsidiary's application to acquire the System Assets from the Butler Area Sewer Authority for a purchase price of $230 million, subject to adjustment as provided for in the asset purchase agreement. This system provides wastewater service for approximately 15,000 customer connections. On December 14, 2023, Center Township and Summit Township filed appeals with the Pennsylvania Commonwealth Court seeking to reverse the order entered by the PaPUC approving the sale of the System Assets. On December 29, 2023, the Company's Pennsylvania subsidiary filed applications with the Commonwealth Court seeking to dismiss the appeals and requesting expedited consideration. By order dated February 1, 2024, the Commonwealth Court deferred deciding the application to dismiss the appeals and directed that the issues raised by the applications to dismiss are to be considered as part of the merits of the appeals and that the disposition of the appeals was to be expedited. Based on the court's schedule, the Company estimates that the disposition of the appeals could occur as soon as the second quarter of 2024.

Sale of Homeowner Services Group

On December 9, 2021 (the "Closing Date"), the Company sold all of the equity interests in subsidiaries that comprised the Homeowner Services Group ("HOS") to a wholly owned subsidiary (the "Buyer") of funds advised by Apax Partners LLP, a global private equity advisory firm, for total consideration of approximately $1.275 billion. The consideration at closing was comprised of $480 million in cash, a secured seller promissory note payable in cash and issued by the Buyer in the principal amount of $720 million, with an interest rate of 7.00% per year, and a contingent cash payment of $75 million payable upon satisfaction of certain conditions on or before December 31, 2023.

On February 2, 2024, the secured seller note was amended to increase the principal amount from $720 million to $795 million, in full satisfaction of the $75 million contingent cash payment payable under the HOS sale agreement. In addition, the interest rate payable on the secured seller note has increased from 7.00% per year to 10.00% per year until maturity. The Company recognized $17 million and $13 million of interest income during the three months ended March 31, 2024 and 2023, respectively, from the secured seller note. The secured seller note requires compliance with affirmative and negative covenants (subject to certain conditions, limitations and exceptions), including a covenant limiting the incurrence by the Buyer and certain affiliates of additional indebtedness in excess of certain thresholds, but does not include any financial maintenance covenants. Certain of these covenants have been amended, including to provide for annual reductions of specified debt incurrence ratios. Furthermore, the amendment to the secured seller note eliminated the conditional right, beginning December 9, 2024, to require a repayment, without premium or penalty, of 100% of the outstanding principal amount in full in cash together with all accrued and unpaid interest and other obligations thereunder. The final maturity date of the secured seller note remains December 9, 2026. The repayment obligations of the Buyer under the seller note are secured by a first priority security interest in certain property of the Buyer and the former HOS subsidiaries, including their cash and securities accounts, as well as a pledge of the equity interests in each of those subsidiaries, subject to certain limitations and exceptions.

The secured seller note may not be prepaid at the Buyer's election except in certain limited circumstances before the fourth anniversary of the Closing Date. If the Buyer seeks to repay the secured seller note in breach of this non-call provision, an event of default will occur under the secured seller note and the Company may, among other actions, demand repayment in full together with a premium ranging from 105.5% to 107.5% of the outstanding principal amount of the loan and a customary "make-whole" payment.

Note 6: Shareholders' Equity

Accumulated Other Comprehensive Loss

Presented in the table below are the changes in accumulated other comprehensive loss by component, net of tax, for the three months ended March 31, 2024 and 2023, respectively:

	Defined Benefit Pension Plans					
	Employee Benefit Plan Funded Status	Amortization of Prior Service Cost	Amortization of Actuarial Loss	Gain (Loss) on Cash Flow Hedges	Gain on Fixed-Income Securities	Accumulated Other Comprehensive Loss
Balance as of December 31, 2023	$ (96)	$ 1	$ 74	$ (9)	$ 4	$ (26)
Other comprehensive income before reclassifications	—	—	—	19	(1)	18
Net other comprehensive income	—	—	—	19	(1)	18
Balance as of March 31, 2024	$ (96)	$ 1	$ 74	$ 10	$ 3	$ (8)
Balance as of December 31, 2022	$ (93)	$ 1	$ 70	$ (1)	$ —	$ (23)
Other comprehensive income before reclassifications	—	—	—	(2)	2	—
Net other comprehensive income	—	—	—	(2)	2	—
Balance as of March 31, 2023	$ (93)	$ 1	$ 70	$ (3)	$ 2	$ (23)

The Company does not reclassify the amortization of defined benefit pension cost components from accumulated other comprehensive loss directly to net income in its entirety, as a portion of these costs have been deferred as a regulatory asset. These accumulated other comprehensive loss components are included in the computation of net periodic pension cost.

The amortization of the gain (loss) on cash flow hedges is reclassified to net income during the period incurred and is included in Interest expense in the accompanying Consolidated Statements of Operations.

An unrealized gain (loss) on available-for-sale fixed-income securities is reclassified to net income upon sale of the securities as a realized gain or loss and is included in Other, net in the accompanying Consolidated Statements of Operations.

Dividends

On March 1, 2024, the Company paid a quarterly cash dividend of $0.7075 per share to shareholders of record as of February 8, 2024.

On May 1, 2024, the Company's Board of Directors declared a quarterly cash dividend payment of $0.7650 per share, payable on June 3, 2024, to shareholders of record as of May 14, 2024. Future dividends, when and as declared at the discretion of the Board of Directors, will be dependent upon future earnings and cash flows, compliance with various regulatory, financial and legal requirements, and other factors. See Note 9—Shareholders' Equity in the Notes to Consolidated Financial Statements in the Company's Form 10-K for additional information regarding the payment of dividends on the Company's common stock.

Note 7: Long-Term Debt

On February 23, 2024, American Water Capital Corp. ("AWCC") completed a $1.4 billion debt offering, which included the sale of $700 million aggregate principal amount of its 5.150% senior notes due 2034 and $700 million aggregate principal amount of its 5.450% senior notes due 2054. At the closing of this offering, AWCC received, after deduction of underwriting discounts and before deduction of offering expenses, net proceeds of approximately $1,381 million. AWCC is using the net proceeds of the offering (1) to lend funds to American Water and the Regulated Businesses; (2) to repay at maturity AWCC's 3.850% Senior Notes due 2024; (3) to repay AWCC's commercial paper obligations; and (4) for general corporate purposes.

During the three months ended March 31, 2024, AWCC and the Company's regulated subsidiaries made sinking fund payments for, or repaid at maturity, $449 million in aggregate principal amount of outstanding long-term debt, with annual interest rates ranging from 0.00% to 7.17%, a weighted average interest rate of 4.16%, and maturity dates ranging from 2024 to 2051.

The Company had entered into 15 treasury lock agreements through February 2024, with notional amounts totaling $825 million. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss. In February 2024, the Company terminated the treasury lock agreements realizing a pre-tax net gain of $14 million, to be amortized through Interest expense over a 10-year period or 30-year period, in accordance with the tenor of the notes issued on February 23, 2024.

No ineffectiveness was recognized on hedging instruments for the three months ended March 31, 2024 or 2023.

On June 29, 2023, AWCC issued $1,035 million aggregate principal amount of 3.625% Exchangeable Senior Notes due 2026 (the "Notes"). AWCC received net proceeds of approximately $1,022 million, after deduction of underwriting discounts and commissions but before deduction of offering expenses payable by AWCC. A portion of the net proceeds was used to repay AWCC's commercial paper obligations and the remainder was used for general corporate purposes. The Notes are senior unsecured obligations of AWCC and have the benefit of a support agreement from parent company, which serves as the functional equivalent of a guarantee by parent company of the obligations of AWCC under the Notes. The Notes will mature on June 15, 2026 (the "Maturity Date"), unless earlier exchanged or repurchased.

The Notes are exchangeable at an initial exchange rate of 5.8213 shares of parent company's common stock per $1,000 principal amount of Notes (equivalent to an initial exchange price of approximately $171.78 per share of common stock). The initial exchange rate of the Notes is subject to adjustment as provided in the indenture pursuant to which the Notes were issued (the "Note Indenture"). Prior to the close of business on the business day immediately preceding March 15, 2026, the Notes are exchangeable at the option of the noteholders only upon the satisfaction of specified conditions and during certain periods described in the Note Indenture. On or after March 15, 2026, until the close of business on the business day immediately preceding the Maturity Date, the Notes will be exchangeable at the option of the noteholders at any time regardless of these conditions or periods. Upon any exchange of the Notes, AWCC will (1) pay cash up to the aggregate principal amount of the Notes and (2) pay or deliver (or cause to be delivered), as the case may be, cash, shares of parent company's common stock, or a combination of cash and shares of such common stock, at AWCC's election, in respect of the remainder, if any, of AWCC's exchange obligation in excess of the aggregate principal amount of the Notes being exchanged.

AWCC may not redeem the Notes prior to the Maturity Date, and no sinking fund is provided for the Notes. Subject to certain conditions, holders of the Notes will have the right to require AWCC to repurchase all or a portion of their Notes upon the occurrence of a fundamental change, as defined in the Note Indenture, at a repurchase price of 100% of their principal amount plus any accrued and unpaid interest.

Note 8: Short-Term Debt

Liquidity needs for capital investment, working capital and other financial commitments are generally funded through cash flows from operations, public and private debt offerings, commercial paper markets and, if and to the extent necessary, borrowings under the AWCC revolving credit facility, and, in the future, issuances of equity. AWCC maintains an unsecured revolving credit facility which provides $2.75 billion in aggregate total commitments from a diversified group of financial institutions. The termination date of the credit agreement with respect to AWCC's revolving credit facility is October 26, 2028. The revolving credit facility is used principally to support AWCC's commercial paper program, to provide additional liquidity support and to provide a sub-limit for the issuance of up to $150 million in letters of credit. Subject to satisfying certain conditions, the credit agreement permits AWCC to increase the maximum commitment under the facility by up to an aggregate of $500 million and to request extensions of its expiration date for up to two one-year periods, as to which one such extension request remains. As of March 31, 2024 and December 31, 2023, there were no borrowings under the revolving credit facility. As of March 31, 2024 and December 31, 2023, there were $75 million of outstanding letters of credit under the revolving credit facility.

At March 31, 2024, there was no outstanding short-term debt as the net proceeds of the debt offering on February 23, 2024, were used to repay the outstanding short-term commercial paper obligations. See Note 7—Long-Term Debt for additional information relating to the debt offering on February 23, 2024.

At December 31, 2023, short-term debt consisting of commercial paper borrowings totaled $180 million, or net of discount $179 million. The weighted-average interest rate on AWCC's outstanding short-term borrowings was approximately 5.51% and there were no commercial paper borrowings outstanding with maturities greater than three months.

Presented in the tables below is the aggregate credit facility commitments, commercial paper limit and letter of credit availability under the revolving credit facility, as well as the available capacity for each:

	As of March 31, 2024		
	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	—	(75)	(75)
Remaining availability as of March 31, 2024	$ 2,600	$ 75	$ 2,675

(a) Total remaining availability of $2.68 billion as of March 31, 2024, was accessible through revolver draws.

	As of December 31, 2023		
	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	(180)	(75)	(255)
Remaining availability as of December 31, 2023	$ 2,420	$ 75	$ 2,495

(a) Total remaining availability of $2.50 billion as of December 31, 2023, was accessible through revolver draws.

Presented in the table below is the Company's total available liquidity as of March 31, 2024 and December 31, 2023, respectively:

	Cash and Cash Equivalents	Availability on Revolving Credit Facility	Total Available Liquidity
Available liquidity as of March 31, 2024	$ 584	$ 2,675	$ 3,259
Available liquidity as of December 31, 2023	$ 330	$ 2,495	$ 2,825

Note 9: Income Taxes

The Company's effective income tax rate was 23.6% and 20.6% for the three months ended March 31, 2024 and 2023, respectively. The increase in the Company's effective income tax rate for the three months ended March 31, 2024, was primarily due to the decrease in the amortization of EADIT pursuant to regulatory orders and a decrease in deductions related to payments of stock-based compensation benefits.

On August 16, 2022, the Inflation Reduction Act of 2022 (the "IRA") was signed into law. The IRA contains a 15% Corporate Alternative Minimum Tax ("CAMT") provision on applicable corporations effective January 1, 2023. To determine if a company is considered an applicable corporation subject to CAMT, the company's average adjusted financial statement income ("AFSI") for the three consecutive years preceding the tax year must exceed $1 billion. An applicable corporation must make several adjustments to net income when determining AFSI. A corporation paying CAMT is eligible for a future tax credit, which can be utilized when regular tax exceeds CAMT. Based on current guidance, the Company is an applicable corporation subject to CAMT beginning in 2024 and expects to owe CAMT in excess of the regular tax liability. In the absence of an extension of the Internal Revenue Service ("IRS") and the U.S. Treasury Notice 2023-42 (which provides relief of penalties related to the 2023 estimated tax payments associated with the CAMT liability), the Company will begin including the CAMT liability with its estimated cash payments in 2024. The Company will continue to evaluate the impacts of the IRA as the U.S. Treasury and the IRS issue additional guidance.

Note 10: Pension and Other Postretirement Benefits

Presented in the table below are the components of net periodic benefit costs:

	For the Three Months Ended March 31,	
	2024	2023
Components of net periodic pension benefit cost:		
Service cost	$ 5	$ 4
Interest cost	21	22
Expected return on plan assets	(24)	(23)
Amortization of prior service credit	(1)	(1)
Amortization of actuarial loss	6	4
Net periodic pension benefit cost	$ 7	$ 6
Components of net periodic other postretirement benefit credit:		
Service cost	$ 1	$ 1
Interest cost	3	4
Expected return on plan assets	(3)	(3)
Amortization of prior service credit	(8)	(8)
Amortization of actuarial loss	—	1
Net periodic other postretirement benefit credit	$ (7)	$ (5)

The Company contributed $11 million and $10 million for the funding of its defined benefit pension plans for the three months ended March 31, 2024 and 2023, respectively. The Company expects to make pension contributions to the plan trusts of $33 million during the remainder of 2024.

Note 11: Commitments and Contingencies

Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. As of March 31, 2024, the Company has accrued approximately $6 million of probable loss contingencies and has estimated that the maximum amount of loss associated with reasonably possible loss contingencies arising out of such legal actions, which can be reasonably estimated, is $2 million. For certain legal actions, the Company is unable to estimate possible losses. The Company believes that damages or settlements, if any, recovered by plaintiffs in such legal actions, other than as described in this Note 11 —Commitments and Contingencies, will not have a material adverse effect on the Company.

Dunbar, West Virginia Water Main Break Class Action Litigation

On the evening of June 23, 2015, a 36-inch pre-stressed concrete transmission water main, installed in the early 1970s, failed. The water main is part of the West Relay pumping station located in the City of Dunbar, West Virginia and owned by the Company's West Virginia subsidiary ("WVAWC"). The failure of the main caused water outages and low pressure for up to approximately 25,000 WVAWC customers. In the early morning hours of June 25, 2015, crews completed a repair, but that same day, the repair developed a leak. On June 26, 2015, a second repair was completed, and service was restored that day to approximately 80% of the impacted customers, and to the remaining approximately 20% by the next morning. The second repair showed signs of leaking, but the water main was usable until June 29, 2015, to allow tanks to refill. The system was reconfigured to maintain service to all but approximately 3,000 customers while a final repair was being completed safely on June 30, 2015. Water service was fully restored by July 1, 2015, to all customers affected by this event.

On June 2, 2017, a complaint captioned *Jeffries, et al. v. West Virginia-American Water Company* was filed in West Virginia Circuit Court in Kanawha County on behalf of an alleged class of residents and business owners who lost water service or pressure as a result of the Dunbar main break. The complaint alleges breach of contract by WVAWC for failure to supply water, violation of West Virginia law regarding the sufficiency of WVAWC's facilities and negligence by WVAWC in the design, maintenance and operation of the water system. The *Jeffries* plaintiffs seek unspecified alleged damages on behalf of the class for lost profits, annoyance and inconvenience, and loss of use, as well as punitive damages for willful, reckless and wanton behavior in not addressing the risk of pipe failure and a large outage.

In February 2020, the *Jeffries* plaintiffs filed a motion seeking class certification on the issues of breach of contract and negligence, and to determine the applicability of punitive damages and a multiplier for those damages if imposed. In July 2020, the Circuit Court entered an order granting the *Jeffries* plaintiffs' motion for certification of a class regarding certain liability issues but denying certification of a class to determine a punitive damages multiplier. In August 2020, WVAWC filed a Petition for Writ of Prohibition in the Supreme Court of Appeals of West Virginia seeking to vacate or remand the Circuit Court's order certifying the issues class. In January 2021, the Supreme Court of Appeals remanded the case back to the Circuit Court for further consideration in light of a decision issued in another case relating to the class certification issues raised on appeal. In July 2022, the Circuit Court entered an order again certifying a class to address at trial certain liability issues but not to consider damages. In August 2022, WVAWC filed another Petition for Writ of Prohibition in the Supreme Court of Appeals of West Virginia challenging the West Virginia Circuit Court's July 2022 order, which petition was denied on June 8, 2023. On August 21, 2023, the Circuit Court set a date of September 9, 2024, for a class trial on issues relating to duty and breach of that duty. The trial will not find class-wide or punitive damages.

The Company and WVAWC believe that WVAWC has valid, meritorious defenses to the claims raised in this class action complaint. WVAWC is vigorously defending itself against these allegations. Given the current stage of this proceeding, the Company cannot reasonably estimate the amount of any reasonably possible loss or a range of loss related to this proceeding.

Chattanooga, Tennessee Water Main Break Class Action Litigation

On September 12, 2019, the Company's Tennessee subsidiary ("TAWC"), experienced a leak in a 36-inch water transmission main, which caused service fluctuations or interruptions to TAWC customers and the issuance of a boil water notice. TAWC repaired the main by early morning on September 14, 2019, and restored full water service by the afternoon of September 15, 2019, with the boil water notice lifted for all customers on September 16, 2019.

On September 17, 2019, a complaint captioned *Bruce, et al. v. American Water Works Company, Inc., et al.* was filed in the Circuit Court of Hamilton County, Tennessee against TAWC, the Company and American Water Works Service Company, Inc. ("Service Company" and, together with TAWC and the Company, collectively, the "Tennessee-American Water Defendants"), on behalf of a proposed class of individuals or entities who lost water service or suffered monetary losses as a result of the Chattanooga incident (the "Tennessee Plaintiffs"). The complaint alleged breach of contract and negligence against the Tennessee-American Water Defendants, as well as an equitable remedy of piercing the corporate veil. In the complaint as originally filed, the Tennessee Plaintiffs were seeking an award of unspecified alleged damages for wage losses, business and economic losses, out-of-pocket expenses, loss of use and enjoyment of property and annoyance and inconvenience, as well as punitive damages, attorneys' fees and pre- and post-judgment interest. In September 2020, the court dismissed all of the Tennessee Plaintiffs' claims in their complaint, except for the breach of contract claims against TAWC, which remain pending. In October 2020, TAWC answered the complaint, and the parties have been engaging in discovery. On January 12, 2023, after hearing oral argument, the court issued an oral ruling denying the Tennessee Plaintiffs' motion for class certification. On February 9, 2023, the Tennessee Plaintiffs sought reconsideration of the ruling by the court, and any final ruling is appealable to the Tennessee Court of Appeals, as allowed under Tennessee law. On September 21, 2023, the court upheld its prior ruling but gave the Tennessee Plaintiffs the option to file an amended class definition. On October 12, 2023, the Tennessee Plaintiffs filed an amended class definition seeking certification of a business customer-only class. On December 1, 2023, TAWC filed a memorandum in opposition to the amended class definition. On January 18, 2024, and April 19, 2024, the court heard oral argument on the motions. On April 19, 2024, the court provided an oral ruling denying the amended class and incorporating its denial of the original class. A written order will be drafted, and when entered, the Tennessee Plaintiffs will have a right under state law to appeal the denial of class certification.

The Company and TAWC believe that TAWC has valid, meritorious defenses to the claims raised in this class action complaint. TAWC is vigorously defending itself against these allegations. Given the current stage of this proceeding, the Company cannot currently determine the likelihood of a loss, if any, or estimate the amount of any loss or a range of loss related to this proceeding.

Mountaineer Gas Company Main Break

During the afternoon of November 10, 2023, WVAWC was informed that an 8-inch ductile iron water main owned by WVAWC, located on the West Side of Charleston, West Virginia and originally installed in approximately 1989, experienced a leak. In the early morning hours of November 11, 2023, WVAWC crews successfully completed a repair to the water main. A precautionary boil water advisory was issued the same day to approximately 300 WVAWC customers and ultimately lifted on November 12, 2023.

On November 10, 2023, a break was reported in a low-pressure natural gas main located near the affected WVAWC water main, and an inflow of water into the natural gas main and associated delivery pipelines occurred. The natural gas main and pipelines are owned by Mountaineer Gas Company, a regulated natural gas distribution company serving over 220,000 customers in West Virginia ("Mountaineer Gas"). The resulting inflow of water into the natural gas main and related pipelines resulted in a loss of natural gas service to approximately 1,500 Mountaineer Gas customers, as well as water entering customer service lines and certain natural gas appliances owned or used by some of the affected Mountaineer Gas customers. Mountaineer Gas reported that restoration of natural gas service to all affected gas mains occurred on November 24, 2023. The timing, order and causation of both the WVAWC water main break and Mountaineer Gas's main break are currently unknown and under investigation.

To date, a total of four pending lawsuits have been filed against Mountaineer Gas and WVAWC purportedly on behalf of customers in Charleston, West Virginia related to these incidents. On November 14, 2023, a complaint captioned *Ruffin et al. v. Mountaineer Gas Company and West Virginia-American Water Company* was filed in West Virginia Circuit Court in Kanawha County on behalf of an alleged class of Mountaineer Gas residential and business customers and other households and businesses supplied with natural gas in Kanawha County, which lost natural gas service on November 10, 2023, as a result of these events. The complaint alleges, among other things, breach of contract by Mountaineer Gas, trespass by WVAWC, nuisance by WVAWC, violation of statutory obligations by Mountaineer Gas and WVAWC, and negligence by Mountaineer Gas and WVAWC. The complaint seeks class-wide damages against Mountaineer Gas and WVAWC for loss of use of natural gas, annoyance, inconvenience and lost profits, as well as punitive damages.

On November 15, 2023, a complaint captioned *Toliver et al. v. West Virginia-American Water Company and Mountaineer Gas Company* was filed in West Virginia Circuit Court in Kanawha County on behalf of an alleged class of all natural persons or entities who are citizens of the State of West Virginia and who are customers of WVAWC and/or Mountaineer Gas in the affected areas. The complaint alleges against Mountaineer Gas and WVAWC, among other things, negligence, nuisance, trespass and strict liability, as well as breach of contract against Mountaineer Gas. The complaint seeks class-wide damages against Mountaineer Gas and WVAWC for property damage, loss of use and enjoyment of property, annoyance and inconvenience and business losses, as well as punitive damages.

On November 16, 2023, a complaint captioned *Dodson et al. v. West Virginia American Water and Mountaineer Gas Company* was filed in West Virginia Circuit Court in Kanawha County on behalf of an alleged class of all West Virginia citizens living between Pennsylvania Avenue south of Washington Street, and Iowa Street, who are customers of Mountaineer Gas. The complaint alleges against Mountaineer Gas and WVAWC, among other things, negligence, nuisance, trespass, statutory code violations and unfair or deceptive business practices. The complaint seeks class-wide damages against Mountaineer Gas and WVAWC for property loss and damage, loss of use and enjoyment of property, mental and emotional distress, and aggravation and inconvenience, as well as punitive damages.

On January 4, 2024, a fourth complaint, captioned *Thomas v. West Virginia-American Water Company and Mountaineer Gas Company*, was filed in West Virginia Circuit Court in Kanawha County asserting similar allegations as those included in the *Ruffin*, *Toliver* and *Dodson* lawsuits, with the addition of counts alleging unjust enrichment and violations of the West Virginia Human Rights Act and the West Virginia Consumer Credit and Protection Act.

On November 17, 2023, the *Ruffin* plaintiff filed a motion to consolidate the class action lawsuits before a single judge in Kanawha County Circuit Court. The motion was granted orally as to all four class action lawsuits but no written order has yet been entered.

On December 5, 2023, a complaint captioned *Mountaineer Gas Company v. West Virginia-American Water Company* was filed in West Virginia Circuit Court in Kanawha County seeking damages under theories of trespass, negligence and implied indemnity. The damages being sought related to the incident include, among other things, repair and response costs incurred by Mountaineer Gas and attorneys' fees and expenses incurred by Mountaineer Gas. On December 14, 2023, Mountaineer Gas filed a motion with the Supreme Court of West Virginia to transfer this case to the West Virginia Business Court. On December 29, 2023, WVAWC filed a joinder in the motion to transfer the case. WVAWC has also filed a partial motion to dismiss this lawsuit. On March 6, 2024, the motion to transfer the complaint captioned *Mountaineer Gas Company v. West Virginia-American Water Company* to the West Virginia Business Court was granted and trial and resolution judges were assigned. WVAWC's partial motion to dismiss this lawsuit remains pending.

On December 20, 2023, Mountaineer Gas filed answers to each of the first three class action lawsuits, which included cross-claims against WVAWC alleging that Mountaineer Gas is without fault for the claims and damages alleged in the lawsuits and WVAWC should be required to indemnify Mountaineer Gas for any damages and for attorneys' fees and expenses incurred by Mountaineer Gas in the lawsuits. WVAWC has filed a partial motion to dismiss certain claims in the *Ruffin, Toliver, Dodson* and *Thomas* lawsuits and a motion to dismiss the cross-claims asserted against WVAWC therein by Mountaineer Gas. Mountaineer Gas subsequently voluntarily dismissed its cross-claims. On January 30, 2024, a motion was filed with the West Virginia Supreme Court on behalf of the *Toliver* plaintiff to refer the four class action complaints and the *Mountaineer Gas* complaint to the West Virginia Mass Litigation Panel. On February 7, 2024, WVAWC filed a motion joining in that referral request. On February 19, 2024, Mountaineer Gas filed a motion opposing the referral of the four class action complaints and the *Mountaineer Gas* complaint to the West Virginia Mass Litigation Panel. On March 28, 2024, the Kanawha County Circuit Court trial judge filed a memorandum opposing the referral. The referral motion remains pending with the Chief Justice of the West Virginia Supreme Court.

On December 6, 2023, WVAWC initiated a process whereby Mountaineer Gas customers could file claims with WVAWC and seek payment from WVAWC of up to $2,000 per affected household for the inconvenience arising from a loss of use of their appliances and documented out-of-pocket expenses as a result of the natural gas outage. In light of the diminishing number of new claims being filed, the claims process was concluded on March 8, 2024. As of March 31, 2024, a total of 557 Mountaineer Gas customers completed this claims process, with another 87 claims to be completed, and the completed claimants were paid by WVAWC an average of approximately $1,500 each. In return, these customers were required to execute a partial release of liability in favor of WVAWC.

On November 16, 2023, the Public Service Commission of West Virginia (the "WVPSC") issued an order initiating a general investigation into both the water main break and natural gas outages occurring in this incident to determine the cause or causes thereof, as well as breaks and outages generally throughout the systems of WVAWC and Mountaineer Gas and the utility practices of both utilities. Following a series of disagreements among the parties regarding the scope of discovery, the WVPSC closed the general investigation into both utilities and ordered a separate general investigation for each utility. The WVPSC focused the two general investigations away from the cause of the events and instead on the maintenance practices of each utility during and after the main breaks. On January 29, 2024, the Consumer Advocate Division of the WVPSC filed a motion to intervene in the WVAWC general investigation. WVAWC is cooperating with its general investigation. On March 1, 2024, the staff of the WVPSC issued an initial memorandum in each separate general investigation for Mountaineer Gas and WVAWC. On April 24, 2024, the staff issued a final joint memorandum in the Mountaineer Gas general investigation stating its view that Mountaineer Gas responded appropriately, reasonably and according to Mountaineer Gas's written procedures. The staff is making no recommendations for improvements to Mountaineer Gas and is recommending that the Mountaineer Gas general investigation be closed. Both general investigations remain pending, and the due date for the staff memorandum in the WVAWC general investigation is July 24, 2024.

The Company and WVAWC believe that the causes of action and other claims asserted against WVAWC in the class action complaints and the lawsuit filed by Mountaineer Gas are without merit and that WVAWC has meritorious defenses to such claims, and WVAWC is defending itself vigorously in these litigation proceedings. Given the current stage of these proceedings and the general investigation, the Company and WVAWC are currently unable to predict the outcome of any of the proceedings described above, and the Company cannot currently determine the likelihood of a loss, if any, or estimate the amount of any loss or a range of loss related to this proceeding.

Alternative Water Supply in Lieu of Carmel River Diversions

Compliance with Orders to Reduce Carmel River Diversions—Monterey Peninsula Water Supply Project

Under a 2009 order (the "2009 Order") of the State Water Resources Control Board (the "SWRCB"), the Company's California subsidiary ("Cal Am") is required to decrease significantly its yearly diversions of water from the Carmel River according to a set reduction schedule. In 2016, the SWRCB issued an order (the "2016 Order," and, together with the 2009 Order, the "Orders") approving a deadline of December 31, 2021, for Cal Am's compliance with these prior orders.

Cal Am is currently involved in developing the Monterey Peninsula Water Supply Project (the "Water Supply Project"), which includes the construction of a desalination plant, to be owned by Cal Am, and the construction of wells that would supply water to the desalination plant. In addition, the Water Supply Project also includes Cal Am's purchase of water from a groundwater replenishment project (the "GWR Project") between Monterey One Water and the Monterey Peninsula Water Management District (the "MPWMD"). The Water Supply Project is intended, among other things, to fulfill Cal Am's obligations under the Orders.

Cal Am's ability to move forward on the Water Supply Project is subject to administrative review by the CPUC and other government agencies, obtaining necessary permits, and intervention from other parties. In September 2016, the CPUC unanimously approved a final decision to authorize Cal Am to enter into a water purchase agreement for the GWR Project and to construct a pipeline and pump station facilities and recover up to $50 million in associated incurred costs, plus an allowance for funds used during construction ("AFUDC"), subject to meeting certain criteria.

In September 2018, the CPUC unanimously approved another final decision finding that the Water Supply Project meets the CPUC's requirements for a certificate of public convenience and necessity and an additional procedural phase was not necessary to consider alternative projects. The CPUC's 2018 decision concludes that the Water Supply Project is the best project to address estimated future water demands in Monterey, and, in addition to the cost recovery approved in its 2016 decision, adopts Cal Am's cost estimates for the Water Supply Project, which amounted to an aggregate of $279 million plus AFUDC at a rate representative of Cal Am's actual financing costs. The 2018 final decision specifies the procedures for recovery of all of Cal Am's prudently incurred costs associated with the Water Supply Project upon its completion, subject to the frameworks included in the final decision related to cost caps, operation and maintenance costs, financing, ratemaking and contingency matters. The reasonableness of the Water Supply Project costs will be reviewed by the CPUC when Cal Am seeks cost recovery for the Water Supply Project. Cal Am is also required to implement mitigation measures to avoid, minimize or offset significant environmental impacts from the construction and operation of the Water Supply Project and comply with a mitigation monitoring and reporting program, a reimbursement agreement for CPUC costs associated with that program, and reporting requirements on plant operations following placement of the Water Supply Project in service. Cal Am has incurred $248 million in aggregate costs as of March 31, 2024, related to the Water Supply Project, which includes $76 million in AFUDC.

In September 2021, Cal Am, Monterey One Water and the MPWMD reached an agreement on Cal Am's purchase of additional water from an expansion to the GWR Project, which is not expected to produce additional water until 2024 at the earliest. On December 5, 2022, the CPUC issued a final decision that authorized Cal Am to enter into the amended water purchase agreement, and specifically to increase pumping capacity and reliability of groundwater extraction from the Seaside Groundwater Basin. The final decision sets the cost cap for the proposed facilities at approximately $62 million. Cal Am may seek recovery of amounts above the cost cap in a subsequent rate filing or general rate case. Additionally, the final decision authorizes AFUDC at Cal Am's actual weighted average cost of debt for most of the facilities. On December 30, 2022, Cal Am filed with the CPUC an application for rehearing of the CPUC's December 5, 2022, final decision, and on March 30, 2023, the CPUC issued a decision denying Cal Am's application for rehearing, but adopting its proposed AFUDC for already incurred and future costs. This decision also provided Cal Am the opportunity to serve supplemental testimony to increase its cost cap for certain of the Water Supply Project's extraction wells. The amended water purchase agreement and a memorandum of understanding to negotiate certain milestones related to the expansion of the GWR Project have been signed by the relevant parties. Further hearings were scheduled in a Phase 2 to this CPUC proceeding to focus on updated supply and demand estimates for the Water Supply Project, and Phase 2 testimony was completed in September 2022. On October 23, 2023, a status conference was held to determine procedural steps to conclude the proceeding, and further evidentiary hearings were held in March 2024.

While Cal Am believes that its expenditures to date have been prudent and necessary to comply with the Orders, as well as relevant final decisions of the CPUC related thereto, Cal Am cannot currently predict its ability to recover all of its costs and expenses associated with the Water Supply Project and there can be no assurance that Cal Am will be able to recover all of such costs and expenses in excess of the $112 million in aggregate construction costs, plus applicable AFUDC, previously approved by the CPUC in its 2016 final decision and its December 2022 final decision, as amended by its March 30, 2023, rehearing decision.

Coastal Development Permit Application

In 2018, Cal Am submitted a coastal development permit application (the "Marina Application") to the City of Marina (the "City") for those project components of the Water Supply Project located within the City's coastal zone. Members of the City's Planning Commission, as well as City councilpersons, have publicly expressed opposition to the Water Supply Project. In May 2019, the City issued a notice of final local action based upon the denial by the Planning Commission of the Marina Application. Thereafter, Cal Am appealed this decision to the Coastal Commission, as permitted under the City's code and the California Coastal Act. At the same time, Cal Am submitted an application (the "Original Jurisdiction Application") to the Coastal Commission for a coastal development permit for those project components located within the Coastal Commission's original jurisdiction. After Coastal Commission staff issued reports recommending denial of the Original Jurisdiction Application, noting potential impacts on environmentally sensitive habitat areas and wetlands and possible disproportionate impacts to communities of concern, in September 2020, Cal Am withdrew the Original Jurisdiction Application in order to address the staff's environmental justice concerns. The withdrawal of the Original Jurisdiction Application did not impact Cal Am's appeal of the City's denial of the Marina Application, which remains pending before the Coastal Commission. In November 2020, Cal Am refiled the Original Jurisdiction Application.

In October 2022, Cal Am announced a phasing plan for the proposed desalination plant component of the Water Supply Project. The desalination plant and slant wells originally approved by the CPUC would produce up to 6.4 million gallons of desalinated water per day. Under the phased approach, the facilities would initially be constructed to produce up to 4.8 million gallons per day of desalinated water, enough to meet anticipated demand through about 2030, and would limit the number of slant wells initially constructed. As demand increases in the future, desalination facilities would be expanded to meet the additional demand. The phased approach seeks to meet near-term demand by allowing for additional supply as it becomes needed, while also providing an opportunity for regional future public participation and was developed by Cal Am based on feedback received from the community.

In November 2022, the Coastal Commission approved the Marina Application and the Original Jurisdiction Application with respect to the phased development of the proposed desalination plant, subject to compliance with a number of conditions, all of which Cal Am expects to satisfy. In December 2022, the City, Marina Coast Water District ("MCWD"), MCWD's groundwater sustainability agency, and the MPWMD jointly filed a petition for writ of mandate in Monterey County Superior Court against the Coastal Commission, alleging that the Coastal Commission violated the California Coastal Act and the California Environmental Quality Act in issuing a coastal development permit to Cal Am for construction of the slant wells. Cal Am is named as a real party in interest. On November 14, 2023, the court set an initial trial date of May 1, 2024. This matter remains pending.

Following the issuance of the coastal development permit, Cal Am continues to work constructively with all appropriate agencies to provide necessary information in connection with obtaining the remaining required permits for the Water Supply Project. However, there can be no assurance that the Water Supply Project in its current configuration will be completed on a timely basis, if ever. For the year ended December 31, 2023, Cal Am has complied with the diversion limitations contained in the 2016 Order. Continued compliance with the diversion limitations in 2024 and future years may be impacted by a number of factors, including, without limitation, potential recurrence of drought conditions in California and the exhaustion of water supply reserves, and will require successful development of alternate water supply sources sufficient to meet customer demand. The Orders remain in effect until Cal Am certifies to the SWRCB, and the SWRCB concurs, that Cal Am has obtained a permanent supply of water to substitute for past unauthorized Carmel River diversions. While the Company cannot currently predict the likelihood or result of any adverse outcome associated with these matters, further attempts to comply with the Orders may result in material additional costs and obligations to Cal Am, including fines and penalties against Cal Am in the event of noncompliance with the Orders.

Cal Am's Action for Damages Following Termination of Regional Desalination Project ("RDP")

In 2010, the CPUC had approved the RDP, which was a precursor to the current Water Supply Project and called for the construction of a desalination facility in the City of Marina. The RDP was to be implemented through a Water Purchase Agreement and ancillary agreements (collectively, the "Agreements") among MCWD, Cal Am and the Monterey County Water Resources Agency ("MCWRA"). In 2011, due to a conflict of interest concerning a former member of MCWRA's Board of Directors, MCWRA stated that the Agreements were void, and, as a result, Cal Am terminated the Agreements. In ensuing litigation filed by Cal Am in 2012 to resolve the termination of the RDP, the court in 2015 entered a final judgment agreeing with Cal Am's position that four of the five Agreements are void, and one, the credit line agreement, is not void. As a result of this litigation, Cal Am was permitted to institute further proceedings, discussed below, to determine the amount of damages that may be awarded to Cal Am as a result of the failure of the RDP.

In 2015, Cal Am and MCWRA filed a complaint in San Francisco County Superior Court against MCWD and RMC Water and Environment, a private engineering consulting firm ("RMC"), seeking to recover compensatory, consequential and incidental damages associated with the failure of the RDP, as well as punitive and treble damages, statutory penalties and attorneys' fees. In 2019, MCWD was granted a motion for summary judgment related to the tort claims in the complaint. A settlement as to the non-tort claims was finalized and entered into in March 2020. In July 2020, Cal Am appealed the grant of summary judgment on MCWD's tort claims, and in December 2022, the trial court's decision was reversed with instructions to vacate its prior orders granting MCWD's motions for summary judgment and to enter new orders denying the motions. In February 2023, MCWD filed a petition for review of the appellate decision with the California Supreme Court, which was denied in March 2023. The trial court's prior trial date of May 6, 2024, for Cal Am's remaining tort claims against MCWD, has been vacated, and a new trial date will be set for later in the year.

Proposed Acquisition of Monterey System Assets — MPWMD Condemnation Action

Local Agency Formation Commission Litigation

The water system assets of Cal Am located in Monterey, California (the "Monterey system assets") are the subject of a condemnation action by the MPWMD stemming from a November 2018 public ballot initiative. In 2019, the MPWMD issued a preliminary valuation and cost of service analysis report, finding in part that (1) an estimate of the Monterey system assets' total value plus adjustments would be approximately $513 million, (2) the cost of service modeling results indicate significant annual reductions in revenue requirements and projected monthly water bills, and (3) the acquisition of the Monterey system assets by the MPWMD would be economically feasible. In 2020, the MPWMD certified a final environmental impact report, analyzing the environmental impacts of the MPWMD's project to (1) acquire the Monterey system assets through the power of eminent domain, if necessary, and (2) expand its geographic boundaries to include all parts of this system.

In February 2021, the MPWMD filed an application with the Local Agency Formation Commission of Monterey County ("LAFCO") seeking approval to become a retail water provider and annex approximately 58 parcels of land into the MPWMD's boundaries. In June 2021, LAFCO's commissioners voted to require a third-party independent financial study as to the feasibility of an acquisition by the MPWMD of the Monterey system assets. In December 2021, LAFCO's commissioners denied the MPWMD's application to become a retail water provider, determining that the MPWMD does not have the authority to proceed with a condemnation of the Monterey system assets. In April 2022, the MPWMD filed a lawsuit against LAFCO challenging its decision to deny the MPWMD's application seeking approval to become a retail water provider. In June 2022, the court granted, with conditions, a motion by Cal Am to intervene in the MPWMD's lawsuit against LAFCO. In December 2022, the court sustained in part, and denied in part, demurrers that had been filed by LAFCO seeking to dismiss the MPWMD's lawsuit.

On December 11, 2023, the Monterey County Superior Court issued a writ of mandate directing LAFCO to vacate and set aside its original denial of the MPWMD's application to serve as a retail water provider (in conjunction with its effort to acquire the Monterey system assets) and to re-hear the application in compliance with all applicable law. The court held that LAFCO incorrectly applied two statutory standards and noted a lack of sufficient evidence to support certain of LAFCO's factual findings. As a result, the LAFCO denial has been nullified and LAFCO will be required to hold another hearing on the MPWMD's application. On February 8, 2024, and February 9, 2024, respectively, Cal Am and LAFCO each filed a notice of appeal with the California Court of Appeals regarding the Monterey County Superior Court's decision to issue the writ of mandate. The MPWMD filed a notice of cross-appeal on February 15, 2024. Cal Am is evaluating potential additional actions to seek to uphold LAFCO's denial of the MPWMD's application, including filing other challenges and/or making suitable presentations at a subsequent LAFCO rehearing.

MPWMD Condemnation Actions

Separate from the proceedings related to the MPWMD's application with LAFCO, by letter dated October 3, 2022, the MPWMD notified Cal Am of a decision to appraise the Monterey system assets and requesting access to a number of Cal Am's properties and documents to assist the MPWMD with such an appraisal. Cal Am responded by letter on October 24, 2022, denying the request for access, stating that the MPWMD does not have the right to appraise Cal Am's system without LAFCO approval to become a retail water provider. On April 28, 2023, Cal Am rejected an offer by the MPWMD to purchase the Monterey system assets for $448.8 million. Over the written and oral objections of Cal Am, at a hearing held on October 10, 2023, the MPWMD adopted a resolution of necessity to authorize it to file an eminent domain lawsuit with respect to the Monterey system assets. On December 15, 2023, the MPWMD filed a lawsuit in Monterey County Superior Court seeking to condemn the Monterey system assets. On February 26, 2024, Cal Am filed a motion requesting the Monterey County Superior Court dismiss the MPWMD's lawsuit seeking to condemn Cal Am's Monterey system assets. Cal Am's motion asserts that the MPWMD lacks legal authorization from both the California legislature and LAFCO to become a retail water provider and the lawsuit improperly seeks to effect a taking of property outside the boundaries of the MPWMD's territory. The motion is scheduled for a hearing on May 3, 2024.

While the Company cannot currently predict the outcome of the MPWMD's eminent domain lawsuit, the Company believes that, given existing legal precedent related to similar attempts by public agencies in California to take over water systems and its other defenses, Cal Am should be able to defend itself successfully against this lawsuit.

West Virginia Elk River Freedom Industries Chemical Spill

On June 8, 2018, the U.S. District Court for the Southern District of West Virginia granted final approval of a settlement class and global class action settlement (the "Settlement") for all claims and potential claims by all class members (collectively, the "West Virginia Plaintiffs") arising out of the January 2014 Freedom Industries, Inc. chemical spill in West Virginia. The effective date of the Settlement was July 16, 2018. Under the terms and conditions of the Settlement, WVAWC and certain other Company affiliated entities did not admit, and will not admit, any fault or liability for any of the allegations made by the West Virginia Plaintiffs in any of the actions that were resolved.

As of March 31, 2024, $0.5 million of the aggregate Settlement amount of $126 million remains reflected in accrued liabilities, and $0.5 million in an offsetting insurance receivable remains reflected in other current assets on the Consolidated Balance Sheets pending resolution of all asserted actual or potential claims associated with this matter. The amount reflected in accrued liabilities reflects the status of the liability and the offsetting insurance receivable reflected in other current assets, each as of March 31, 2024.

Note 12: Earnings per Common Share

Presented in the table below is a reconciliation of the numerator and denominator for the basic and diluted earnings per share ("EPS") calculations:

	For the Three Months Ended March 31,	
	2024	2023
Numerator:		
Net income attributable to common shareholders	$ 185	$ 170
Denominator:		
Weighted-average common shares outstanding—Basic	195	186
Effect of dilutive common stock equivalents	—	—
Weighted-average common shares outstanding—Diluted	195	186

The effect of dilutive common stock equivalents is related to outstanding restricted stock units ("RSUs") and performance stock units ("PSUs") granted under the Company's 2007 Omnibus Equity Compensation Plan and outstanding RSUs and PSUs granted under the Company's 2017 Omnibus Equity Compensation Plan, as well as estimated shares to be purchased under the Company's 2017 Nonqualified Employee Stock Purchase Plan. Less than one million share-based awards were excluded from the computation of diluted EPS for the three months ended March 31, 2024 and 2023, because their effect would have been anti-dilutive under the treasury stock method.

The if-converted method is applied to the Notes issued in June 2023 for computing diluted EPS. For both periods presented, there was no dilution resulting from the Notes. See Note 7—Long-Term Debt for additional information relating to the Notes.

Note 13: Fair Value of Financial Information

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Current assets and current liabilities—The carrying amounts reported on the Consolidated Balance Sheets for current assets and current liabilities, including revolving credit debt, due to the short-term maturities and variable interest rates, approximate their fair values.

Secured seller promissory note from the sale of the Homeowner Services Group—The carrying amount reported on the Consolidated Balance Sheets for the secured seller promissory note, included as part of the consideration from the sale of HOS, is $795 million and $720 million as of March 31, 2024 and December 31, 2023, respectively. On February 2, 2024, the secured seller promissory note from the sale of HOS was amended to increase the principal amount, in full satisfaction of a $75 million contingent cash payment, see Note 5—Acquisitions and Divestitures for additional information. This amount represents the principal amount owed under the secured seller promissory note, for which the Company expects to receive full payment. The accounting fair value measurement of the secured seller promissory note approximated $789 million and $704 million as of March 31, 2024 and December 31, 2023, respectively. The accounting fair value measurement is an estimate that is reflective of changes in benchmark interest rates. The secured seller promissory note is classified as Level 3 within the fair value hierarchy.

Preferred stock with mandatory redemption requirements and long-term debt—The fair values of preferred stock with mandatory redemption requirements and long-term debt are categorized within the fair value hierarchy based on the inputs that are used to value each instrument. The fair value of long-term debt classified as Level 1 is calculated using quoted prices in active markets. Level 2 instruments are valued using observable inputs and Level 3 instruments are valued using observable and unobservable inputs.

Presented in the tables below are the carrying amounts, including fair value adjustments previously recognized in acquisition purchase accounting, and the fair values of the Company's financial instruments:

	As of March 31, 2024				
		At Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 3	$ —	$ —	$ 3	$ 3
Long-term debt	13,123	10,402	1,035	653	12,090

	As of December 31, 2023				
		At Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 3	$ —	$ —	$ 3	$ 3
Long-term debt	12,190	9,575	1,044	757	11,376

Recurring Fair Value Measurements

Presented in the tables below are assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy:

	As of March 31, 2024			
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	$ 42	$ —	$ —	$ 42
Rabbi trust investments	25	—	—	25
Deposits	8	—	—	8
Other investments				
Money market and other	20	—	—	20
Fixed-Income Securities	135	6	—	141
Total assets	230	6	—	236
Liabilities:				
Deferred compensation obligations	29	—	—	29
Total liabilities	29	—	—	29
Total assets	$ 201	$ 6	$ —	$ 207

	As of December 31, 2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	$ 34	$ —	$ —	$ 34
Rabbi trust investments	22	—	—	22
Deposits	8	—	—	8
Other investments				
Money market and other	26	—	—	26
Fixed-Income Securities	140	6	—	146
Total assets	230	6	—	236
Liabilities:				
Deferred compensation obligations	27	—	—	27
Mark-to-market derivative liability	—	8	—	8
Total liabilities	27	8	—	35
Total assets	$ 203	$ (2)	$ —	$ 201

Restricted funds—The Company's restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operation, maintenance and repair projects.

Rabbi trust investments—The Company's rabbi trust investments consist of equity and index funds from which supplemental executive retirement plan benefits and deferred compensation obligations can be paid. The Company includes these assets in other long-term assets on the Consolidated Balance Sheets.

Deposits—Deposits include escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets on the Consolidated Balance Sheets.

Deferred compensation obligations—The Company's deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. The Company includes such plans in other long-term liabilities on the Consolidated Balance Sheets. The value of the Company's deferred compensation obligations is based on the market value of the participants' notional investment accounts. The notional investments are comprised primarily of mutual funds, which are based on observable market prices.

Mark-to-market derivative assets and liabilities—The Company employs derivative financial instruments in the form of treasury lock agreements, classified as cash flow hedges, in order to fix the interest cost on existing or forecasted debt. The Company uses a calculation of future cash inflows and estimated future outflows, which are discounted, to determine the current fair value. Additional inputs to the present value calculation include the contract terms, counterparty credit risk, interest rates and market volatility.

Other investments—The Company maintains a Voluntary Employees' Beneficiary Association trust for purposes of paying active union employee medical benefits ("Active VEBA"). The investments in the Active VEBA trust primarily consist of money market funds and available-for-sale fixed income securities.

The money market and other investments have original maturities of three months or less when purchased. The fair value measurement of the money market and other investments is based on observable market prices and therefore included in the recurring fair value measurements hierarchy as Level 1.

The available-for-sale fixed income securities are primarily investments in U.S. Treasury securities and government bonds. The majority of U.S. Treasury securities and government bonds have been categorized as Level 1 because they trade in highly-liquid and transparent markets. Certain U.S. Treasury securities are based on prices that reflect observable market information, such as actual trade information of similar securities, and are therefore categorized as Level 2, because the valuations are calculated using models which utilize actively traded market data that the Company can corroborate.

The Company includes other investments measured and recorded at fair value on the Consolidated Balance Sheets of $72 million and $62 million in other current assets, as of March 31, 2024 and December 31, 2023, respectively, and $90 million and $111 million in other long-term assets, as of March 31, 2024 and December 31, 2023, respectively. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income until realized.

The following tables summarize the unrealized positions for available-for-sale fixed income securities as of March 31, 2024 and December 31, 2023:

	As of March 31, 2024			
	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale fixed-income securities	$ 138	$ 6	$ 3	$ 141

	As of December 31, 2023			
	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale fixed-income securities	$ 143	$ 6	$ 3	$ 146

The fair value of the Company's available-for-sale fixed income securities, summarized by contractual maturities, as of March 31, 2024, is as follows:

	Amount
Other investments - Available-for-sale fixed-income securities	
Less than one year	$ 98
1 year - 5 years	30
5 years - 10 years	4
Greater than 10 years	9
Total	$ 141

Note 14: Leases

The Company has operating and finance leases involving real property, including facilities, utility assets, vehicles, and equipment. Certain operating leases have renewal options ranging from one year to 60 years. The exercise of lease renewal options is at the Company's sole discretion. Renewal options that the Company was reasonably certain to exercise are included in the Company's right-of-use ("ROU") assets. Certain operating leases contain the option to purchase the leased property. The operating leases for real property, vehicles and equipment will expire over the next 36 years, five years, and five years, respectively.

The Company participates in a number of arrangements with various public entities ("Partners") in West Virginia. Under these arrangements, the Company transferred a portion of its utility plant to the Partners in exchange for an equal principal amount of Industrial Development Bonds ("IDBs") issued by the Partners under the Industrial Development and Commercial Development Bond Act. The Company leased back the utility plant under agreements for a period of 30 to 40 years. The Company has recorded these agreements as finance leases in property, plant and equipment, as ownership of the assets will revert back to the Company at the end of the lease term. The carrying value of the finance lease assets was $144 million as of March 31, 2024 and December 31, 2023. The Company determined that the finance lease obligations and the investments in IDBs meet the conditions for offsetting, and as such, are reported net on the Consolidated Balance Sheets and are excluded from the lease disclosure presented below.

The Company also enters into O&M agreements with the Partners. The Company pays an annual fee for use of the Partners' assets in performing under the O&M agreements. The O&M agreements are recorded as operating leases, and future annual use fees of $3 million in 2024, $4 million in 2025 through 2028, and $41 million thereafter, are included in operating lease ROU assets and operating lease liabilities on the Consolidated Balance Sheets.

Rental expenses under operating leases were $3 million for the three months ended March 31, 2024 and March 31, 2023.

For the three months ended March 31, 2024, cash paid for amounts in lease liabilities, which includes operating cash flows from operating leases, was $3 million. For the three months ended March 31, 2024, there were ROU assets obtained in exchange for new operating lease liabilities of $6 million.

As of March 31, 2024, the weighted-average remaining lease term of the operating leases was 18 years, and the weighted-average discount rate of the operating leases was 5%.

The future maturities of lease liabilities as of March 31, 2024, were $8 million in 2024, $10 million in 2025, $9 million in 2026, $9 million in 2027, $7 million in 2028, and $89 million thereafter. As of March 31, 2024, imputed interest was $48 million.

Note 15: Segment Information

The Company's operating segments are comprised of its businesses which generate revenue, incur expense and have separate financial information which is regularly used by management to make operating decisions, assess performance and allocate resources. The Company operates primarily through one reportable segment, the Regulated Businesses segment. The Regulated Businesses segment also includes inter-segment revenues, costs and interest which are eliminated to reconcile to the Consolidated Statements of Operations.

The Company also operates other businesses, primarily MSG, that do not meet the criteria of a reportable segment in accordance with GAAP and are collectively presented throughout this Form 10-Q within "Other," which is consistent with how management assesses the results of these businesses. Other also includes corporate costs that are not allocated to the Company's Regulated Businesses, interest income related to the secured seller promissory note from the sale of HOS, income from assets not associated with the Regulated Businesses, eliminations of inter-segment transactions and fair value adjustments related to acquisitions that have not been allocated to the Regulated Businesses segment. The adjustments related to the acquisitions are reported in Other as they are excluded from segment performance measures evaluated by management.

Presented in the tables below is summarized segment information:

	As of or for the Three Months Ended March 31, 2024		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 928	$ 83	$ 1,011
Depreciation and amortization	184	4	188
Total operating expenses, net	611	74	685
Interest expense	(97)	(27)	(124)
Interest income	3	21	24
Provision for income taxes	53	4	57
Net income attributable to common shareholders	185	—	185
Total assets	27,807	3,279	31,086
Cash paid for capital expenditures	603	6	609

	As of or for the Three Months Ended March 31, 2023		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 860	$ 78	$ 938
Depreciation and amortization	169	3	172
Total operating expenses, net	572	71	643
Interest expense	(87)	(28)	(115)
Interest income	1	13	14
Provision for (benefit from) income taxes	46	(2)	44
Net income (loss) attributable to common shareholders	174	(4)	170
Total assets	25,626	2,660	28,286
Cash paid for capital expenditures	524	2	526

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with the unaudited Consolidated Financial Statements and the Notes thereto included elsewhere in this Form 10-Q, and in the Company's Form 10-K for the year ended December 31, 2023. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about the Company's business, operations and financial performance. The cautionary statements made in this Form 10-Q should be read as applying to all related forward-looking statements whenever they appear in this Form 10-Q. The Company's actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those that are discussed under "Forward-Looking Statements" and elsewhere in this Form 10-Q. The Company has a disclosure committee consisting of members of senior management and other key employees involved in the preparation of the Company's SEC reports. The disclosure committee is actively involved in the review and discussion of the Company's SEC filings.

Overview

American Water is the largest and most geographically diverse, publicly traded water and wastewater utility company in the United States, as measured by both operating revenues and population served. The Company's primary business involves the ownership of utilities that provide water and wastewater services to residential, commercial, industrial, public authority, fire service and sale for resale customers, collectively presented as the "Regulated Businesses." Services provided by the Company's utilities are subject to regulation by multiple state utility commissions or other entities engaged in utility regulation, collectively referred to as public utility commissions ("PUCs"). The Company also operates other businesses not subject to economic regulation by state PUCs that provide water and wastewater services to the U.S. government on military installations, as well as municipalities, collectively presented throughout this Form 10-Q within "Other." See Part I, Item 1—Business in the Company's Form 10-K for additional information.

Financial Results

For the three months ended March 31, 2024, diluted earnings per share, prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), were $0.95, an increase of $0.04, as compared to the same period in the prior year. The increase was primarily driven by the implementation of new rates in the Regulated Businesses from its capital and acquisition investments, offset somewhat by increased production and employee related costs, higher financing costs to fund the capital investment plan, including the 2023 equity issuance, and $0.05 per share of net unfavorable one-time items year-over-year. Results for the three months ended March 31, 2024, include additional interest income of $0.02 per share, resulting from the early 2024 amendment to the secured seller note from the sale of the former HOS business.

Growth Through Capital Investment in Infrastructure and Regulated Acquisitions

The Company continues to grow its businesses, with the substantial majority of its growth to be achieved in the Regulated Businesses through (i) continued capital investment in the Company's infrastructure to provide safe, clean, reliable and affordable water and wastewater services to its customers, (ii) regulated acquisitions to expand the Company's services to new customers and (iii) the addition of approximately 4,400 new customers through organic growth in existing systems. The Company plans to invest approximately $3.1 billion in these growth strategies in 2024. During the first three months of 2024, the Company invested $720 million, primarily in the Regulated Businesses, as discussed below.

Growth and Optimization

- $634 million capital investment, primarily in the Regulated Businesses for infrastructure improvements and replacements; and
- $86 million to fund the Company's Illinois subsidiary's acquisition of a wastewater treatment plant and related assets from Granite City, which treatment plant serves approximately 26,000 customers, including 15,500 customers indirectly in surrounding communities

Effective March 24, 2023, the Company's Pennsylvania subsidiary acquired the rights to buy the wastewater system assets of the Township of Towamencin, for an aggregate purchase price of $104 million, subject to adjustment as provided in the asset purchase agreement. This system provides wastewater services to approximately 6,300 customer connections in seven townships in Montgomery County, Pennsylvania. The Company expects to close this acquisition upon final regulatory approval.

On October 11, 2022, the Company's Pennsylvania subsidiary entered into an agreement to acquire the public wastewater collection and treatment system assets (the "System Assets") from the Butler Area Sewer Authority. On November 9, 2023, the Pennsylvania Public Utility Commission (the "PaPUC") approved a settlement agreement without modification with respect to the Company's Pennsylvania subsidiary's application to acquire the System Assets from the Butler Area Sewer Authority for a purchase price of $230 million, subject to adjustment as provided for in the asset purchase agreement. This system provides wastewater service for approximately 15,000 customer connections. On December 14, 2023, Center Township and Summit Township filed appeals with the Pennsylvania Commonwealth Court seeking to reverse the order entered by the PaPUC approving the sale of the System Assets. On December 29, 2023, the Company's Pennsylvania subsidiary filed applications with the Commonwealth Court seeking to dismiss the appeals and requesting expedited consideration. By order dated February 1, 2024, the Commonwealth Court deferred deciding the application to dismiss the appeals and directed that the issues raised by the applications to dismiss are to be considered as part of the merits of the appeals and that the disposition of the appeals was to be expedited. Based on the court's schedule, the Company estimates that the disposition of the appeals could occur as soon as the second quarter of 2024.

In December 2020, the Company's Pennsylvania subsidiary entered into an agreement (an acquisition intended to comply with Act 12 (discussed below)) to acquire the wastewater collection system assets of Brentwood Borough ("Brentwood") for a purchase price of approximately $19 million. On February 22, 2024, the PaPUC denied the Pennsylvania subsidiary's application to acquire Brentwood. On April 3, 2024, the Pennsylvania subsidiary filed an appeal of the decision with the Pennsylvania Commonwealth Court, asserting, among other things, the PaPUC did not apply the correct legal standard in its decision. The Company cannot currently predict the outcome of this appeal, and the matter remains pending.

As of March 31, 2024, the Company had entered into 26 agreements with a total aggregate purchase price of $517 million for pending acquisitions in the Regulated Businesses, including the agreements discussed above, to add approximately 66,800 additional customers. Four of these 26 agreements, representing an aggregate purchase price of $251 million (including Butler Area Sewer Authority, discussed above) and serving approximately 18,800 customers, have received commission approval. The remaining pending acquisitions, including 13,400 customers under Act 12, require regulatory approval to complete.

On February 7, 2024, the PaPUC proposed the Tentative Supplemental Implementation Order which seeks to make certain changes to the process by which the PaPUC considers and decides applications to acquire water and wastewater assets under Pennsylvania's existing utility valuation law, known as Act 12 of 2016 ("Act 12"). The Tentative Supplemental Implementation Order proposes, among other things, a reasonableness review ratio that would be applied to help guide the determination on the overall prudency of the transaction and reasonableness of the purchase price. The public comment period on the proposed Tentative Supplemental Implementation Order has ended and a final order is expected soon. Separately, draft legislation has also been proposed in the Pennsylvania House of Representatives that would amend Act 12 and establish new guidelines for evaluating applicable acquisitions. The Company cannot currently predict the outcome of these or other legislative initiatives, or their impacts, but the Company intends to continue to support outcomes that allow for consolidation and investment in water and wastewater infrastructure in Pennsylvania and in its other regulated jurisdictions.

Other Matters

Environmental, Health and Safety, and Water Quality Regulation

On April 10, 2024, the U.S. Environmental Protection Agency ("EPA") announced a final National Primary Drinking Water Regulation ("NPDWR") for six PFAS, including perfluorooctanoic acid ("PFOA"), perfluorooctane sulfonic acid ("PFOS"), perfluorononanoic acid ("PFNA"), hexafluoropropylene oxide dimer acid ("HFPO-DA", commonly known as "GenX Chemicals"), perfluorohexane sulfonic acid ("PFHxS"), and perfluorobutane sulfonic acid ("PFBS"). The NPDWR establishes legally enforceable levels, called Maximum Contaminant Levels ("MCLs"), for PFAS in drinking water. Utilities will be required to complete their initial monitoring for PFAS by 2027, followed by ongoing compliance monitoring. Utilities will be required to comply with the new MCLs by April 2029, implementing solutions to reduce PFAS levels where needed. Beginning in April 2029, utilities that exceed any of the PFAS MCLs will be required to provide notification to the public of the violation.

The Company performed an initial review of the NPDWR, when it was proposed by the EPA in March 2023, to assess the MCL requirements for PFAS and the application of the Hazard Index approach for PFNA, PFBS, PFHxS, and GenX Chemicals. While the proposed MCLs were finalized without change, EPA also set MCLs for three of the four PFAS analytes included in the Hazard Index as part of the final rule. Subject to the Company's continuing review of the NPDWR and the adoption of more stringent requirements by state environmental regulators, as previously disclosed, the Company estimates an investment of approximately $1 billion of capital expenditures to install additional treatment facilities over a five-year period in order to comply with the new regulations. Additionally, the Company estimates that it will incur annual operating expenses of up to approximately $50 million related to testing and treatment, with the majority of the operating expenses beginning after the April 2029 compliance deadline. The actual expenses may differ from these estimates and will be dependent upon the Company completing its review and analysis of the NPDWR.

The Company supports sound policies and compliance with the NPDWR by all water utilities, while protecting customers and communities from the costly burden of monitoring and mitigating PFAS contamination in water systems. The Company continues to advocate for policies that hold polluters accountable and is participating in the multi-district litigation and other lawsuits filed against certain PFAS manufacturers seeking damages and reimbursement of costs incurred and continuing to be incurred to address contamination of public water supply systems by PFAS. For more information on the PFAS multi-district litigation, see Part II, Item 1—Legal Proceedings—PFAS Multi-District Litigation.

On April 19, 2024, the EPA issued a final rule to designate PFOA and PFOS as hazardous substances under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"). American Water is evaluating the final rule. The Company, along with a coalition (Water Coalition Against PFAS) of many other water and wastewater organizations, is actively advocating for and supporting bipartisan legislation that would provide PFAS liability protections under CERCLA for water and wastewater systems, as passive receivers of PFAS, and to hold polluters, and not the public or customers, accountable for PFAS related liability.

Regulatory Matters

General Rate Cases

Presented in the table below are annualized incremental revenues, including reductions for the amortization of the excess accumulated deferred income taxes ("EADIT") that are generally offset in income tax expense, assuming a constant sales volume and customer count, resulting from general rate case authorizations that became effective during 2024:

(In millions)	Effective Date	Amount
General rate cases by state:		
West Virginia	February 25, 2024	$ 18
Indiana, Step Increase	February 21, 2024	25
Total general rate case authorizations		$ 43

On March 4, 2024, the West Virginia Public Service Commission issued an order approving the adjustment of base rates requested in a rate case filed on May 1, 2023, by the Company's West Virginia subsidiary. The general rate case order approved an $18 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges of $7 million, based on an authorized return on equity of 9.8%, authorized rate base of $886 million, which reflects capital investments through February 2024, a common equity ratio of 50.1% and a long-term debt ratio of 49.9%. The increased water and wastewater revenues related to the base rate adjustment are being driven primarily by (i) $220 million of related water and wastewater system capital investments made since the completion of the West Virginia subsidiary's previous rate case, (ii) higher pension and other postretirement benefit costs, and (iii) increases in production costs, including chemicals, fuel and power costs.

On February 14, 2024, the Indiana Utility Regulatory Commission ("IURC") issued an order approving the adjustment of base rates requested in a rate case filed on March 31, 2023, by the Company's Indiana subsidiary. The general rate case order approved a $66 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges, based on an authorized return on equity of 9.65%, authorized rate base of $1.84 billion, a common equity ratio of 56.15% and a debt ratio of 43.85%. For purposes of determining rates, the adjustment is based on an equity component of 48.19% due to the regulatory practice in Indiana of including certain zero-cost items or tax credit balances in the capital structure calculation. The annualized revenue increase will include three step increases, with $25 million of the increase to be included in rates in February 2024, $17 million in May 2024, and $24 million in May 2025. The increases are being driven primarily by (i) over $875 million of water and wastewater system capital investments since the completion of the Indiana subsidiary's last rate case and through April 30, 2025, (ii) higher pension and other postretirement benefit costs, and (iii) increases in production costs, including chemicals, fuel and power costs.

Pending General Rate Case Filings

On May 1, 2024, the Company's Iowa subsidiary filed a general rate case requesting approximately $21 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 52.57% and debt component of 47.43%. The requested annualized revenue increase is driven primarily by approximately $157 million in capital investments made and to be made by the Iowa subsidiary through March 2026.

On May 1, 2024, the Company's Tennessee subsidiary filed a general rate case requesting approximately $14 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 54.52% and debt component of 45.48%. The requested annualized revenue increase is driven primarily by approximately $173 million in capital investments made and to be made by the Tennessee subsidiary through December 2025.

On January 25, 2024, the Company's Illinois subsidiary filed tariffs for new water and wastewater rates. The request seeks a two-step rate increase consisting of aggregate annualized incremental revenue, based on a proposed return on equity of 10.75%, of (i) approximately $132 million, excluding infrastructure surcharges of $5 million, effective January 1, 2025, based on a future test year through December 31, 2025, with average rate base and a capital structure with an equity component of 52.27% and a debt component of 47.73%, and (ii) approximately $16 million effective January 1, 2026, based on a future test year to include end of period rate base and a capital structure with an equity component of 54.43% and a debt component of 45.57%. The requested increases are driven primarily by an estimated $557 million in capital investments to be made by the Illinois subsidiary from January 2024 through December 2025. The request also proposes a treatment and compliance rider to address recovery of future environmental compliance investments, and a modification to the existing volume balancing account mechanism to include full production cost recovery.

On January 19, 2024, the Company's New Jersey subsidiary filed a general rate case requesting approximately $162 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 56.30% and a debt component of 43.70%. The requested annualized revenue increase is driven primarily by approximately $1.3 billion in capital investments made and to be made by the New Jersey subsidiary through December 2024. The request also proposes a revenue decoupling mechanism and seeks a deferral of certain production cost adjustments.

On December 15, 2023, the Company's California subsidiary submitted a request to delay by one year its cost of capital filing and maintain its current authorized cost of capital through 2025. On February 2, 2024, the California Public Utilities Commission ("CPUC") granted the request for a one year extension of the cost of capital filing to May 1, 2025, to set its authorized cost of capital beginning January 1, 2026.

On November 8, 2023, the Company's Pennsylvania subsidiary filed a general rate case requesting approximately $204 million in additional annualized revenues, excluding projected infrastructure surcharges of $20 million. The request is based on a proposed return on equity of 10.95% and a capital structure with an equity component of 55.30% and a debt component of 44.70%. The requested annualized incremental revenue increase is driven primarily by an estimated $1.0 billion of incremental capital investments to be made through mid-2025. The request also proposes a mechanism to address compliance with evolving environmental requirements, such as emerging federal regulations for lead and PFAS substances. If approved, the new rates would be expected to take effect on August 7, 2024.

On November 1, 2023, the Company's Virginia subsidiary filed a general rate case requesting $20 million in additional annualized revenues. The request is based on a proposed return on equity of 10.95% and a capital structure with an equity component of 45.67% and a debt and other component of 54.33%. The requested increase is driven by approximately $110 million in capital investments between May 2023 and April 2025. The request also proposed a revenue decoupling mechanism and seeks deferral of certain production cost adjustments. Interim rates became effective May 1, 2024, with the difference between interim and final approved rates subject to refund.

On June 30, 2023, the Company's Kentucky subsidiary filed a general rate case requesting $26 million in additional annualized revenues, excluding infrastructure surcharges of $10 million. Proposed rates were effective on an interim basis on February 6, 2024, and the difference between the interim and final approved rates is subject to refund. The request is based on a proposed return on common equity of 10.75% and a proposed capital structure with a common equity component of 52.45%. An order is expected in the general rate case in May of 2024.

On July 1, 2022, the Company's California subsidiary filed a general rate case requesting an increase in 2024 revenue of $56 million and a total increase in revenue over the 2024 to 2026 period of $95 million, all as compared to 2022 revenues. The Company updated its filing in January 2023 to capture the authorized step increase effective January 1, 2023. The filing was also updated to incorporate a decoupling proposal and a revision to the Company's sales and associated variable expense forecast. The revised filing requested additional annualized revenues for the test year 2024 of $37 million, compared to 2023 revenues. This excludes the proposed step rate and attrition rate increase for 2025 and 2026 of $20 million and $19 million, respectively. The total revenue requirement request for the three-year rate case cycle, incorporating updates to present rate revenues and forecasted demand, is $76 million. On November 17, 2023, the California subsidiary filed with the CPUC a partial settlement agreement reached with the CPUC's Public Advocates Office, which would determine the amount of incremental annualized water and wastewater revenue to be received by the California subsidiary to be $20 million in the 2024 test year, $16 million in the 2025 escalation year, and $15 million in the 2026 attrition year. The partial settlement agreement addresses the California subsidiary's revenue requirement request but does not address rate design or certain other matters, such as the requested inclusion and implementation of a revenue stability mechanism to separate the California subsidiary's revenue and water sales. New rates would be implemented retroactively to January 1, 2024, upon a final decision issued by the CPUC approving the partial settlement agreement and resolving the other issues not addressed by the partial settlement agreement, which is expected to occur in the second half of 2024.

Infrastructure Surcharges

A number of states have authorized the use of regulatory mechanisms that permit rates to be adjusted outside of a general rate case for certain costs and investments, such as infrastructure surcharge mechanisms that permit recovery of capital investments to replace aging infrastructure. Presented in the table below are annualized incremental revenues, assuming a constant sales volume and customer count, resulting from infrastructure surcharge authorizations that became effective during 2024:

(In millions)	Effective Date	Amount
Infrastructure surcharges by state:		
New Jersey	April 30, 2024	$ 9
Pennsylvania	April 1, 2024	7
Iowa	March 1, 2024	1
West Virginia (a)	March 1, 2024	7
Missouri	January 20, 2024	26
Illinois	January 1, 2024	5
Total infrastructure surcharge authorizations		$ 55

(a) On March 5, 2024, the West Virginia Public Service Commission directed the Company's West Virginia subsidiary to interpret the distribution system improvement charge ("DSIC") Order as having included within the DSIC the three-year amortization of a prior authorized deferral associated with a large treatment plant project. The inclusion of this deferral increased the net incremental revenue by $0.7 million to a total of $6.6 million effective March 1, 2024.

Pending Infrastructure Surcharge Filings

On March 1, 2024, the Company's Missouri subsidiary filed an infrastructure surcharge proceeding requesting $20 million in additional annualized revenues.

Other Regulatory Matters

In September 2020, the CPUC released a decision under its Low-Income Rate Payer Assistance program rulemaking that required the Company's California subsidiary to file a proposal to alter its water revenue adjustment mechanism in its next general rate case filing in 2022, which would have become effective upon receiving an order in the current pending rate case. On October 5, 2020, the Company's California subsidiary filed an application for rehearing of the decision and following the CPUC's denial of its rehearing application in September 2021, the Company's California subsidiary filed a petition for writ of review with the California Supreme Court on October 27, 2021. On May 18, 2022, the California Supreme Court issued a writ of review for the California subsidiary's petition and the petitions filed by other entities challenging the decision. Independent of the judicial challenge, California passed Senate Bill 1469, which allows the CPUC to consider and authorize the implementation of a mechanism that separates the water corporation's revenue and its water sales. Legislation was signed by the Governor on September 30, 2022, and became effective on January 1, 2023. In response to the legislation, on January 27, 2023, the Company's California subsidiary filed an updated application requesting the CPUC to consider a Water Resources Sustainability Plan decoupling mechanism in its pending 2022 general rate case, which, if adopted, will become effective upon receiving an order in the current pending rate case.

Consolidated Results of Operations

Presented in the table below are the Company's consolidated results of operations:

(In millions)	For the Three Months Ended March 31, 2024	2023
Operating revenues	$ 1,011	$ 938
Operating expenses:		
Operation and maintenance	416	393
Depreciation and amortization	188	172
General taxes	81	78
Total operating expenses, net	685	643
Operating income	326	295
Other (expense) income:		
Interest expense	(124)	(115)
Interest income	24	14
Non-operating benefit costs, net	9	9
Other, net	7	11
Total other (expense) income	(84)	(81)
Income before income taxes	242	214
Provision for income taxes	57	44
Net income attributable to common shareholders	$ 185	$ 170

Segment Results of Operations

The Company's operating segments are comprised of its businesses which generate revenue, incur expense and have separate financial information which is regularly used by management to make operating decisions, assess performance and allocate resources. The Company operates its business primarily through one reportable segment, the Regulated Businesses segment. Other, primarily includes MSG, which does not meet the criteria of a reportable segment in accordance with GAAP. Other also includes corporate costs that are not allocated to the Company's Regulated Businesses, interest income related to the secured seller promissory note from the sale of HOS, income from assets not associated with the Regulated Businesses, eliminations of inter-segment transactions and fair value adjustments related to acquisitions that have not been allocated to the Regulated Businesses segment. This presentation is consistent with how management assesses the results of these businesses.

Regulated Businesses Segment

Presented in the table below is financial information for the Regulated Businesses:

(In millions)	For the Three Months Ended March 31, 2024	2023
Operating revenues	$ 928	$ 860
Operation and maintenance	351	330
Depreciation and amortization	184	169
General taxes	76	73
Other expenses	(79)	(68)
Provision for income taxes	53	46
Net income attributable to common shareholders	$ 185	$ 174

Operating Revenues

Presented in the tables below is information regarding the main components of the Regulated Businesses' operating revenues:

(In millions)	For the Three Months Ended March 31, 2024	2023
Water services:		
Residential	$ 504	$ 461
Commercial	187	171
Fire service	41	39
Industrial	42	38
Public and other	58	65
Total water services	832	774
Wastewater services:		
Residential	59	54
Commercial	16	14
Industrial	2	2
Public and other	8	6
Total wastewater services	85	76
Other (a)	11	10
Total operating revenues	$ 928	$ 860

(a) Includes other operating revenues consisting primarily of miscellaneous utility charges, fees and rents.

(Gallons in millions)	For the Three Months Ended March 31, 2024	2023
Billed water services volumes:		
Residential	34,414	33,808
Commercial	17,291	16,836
Industrial	8,337	8,840
Fire service, public and other	11,116	11,688
Total billed water services volumes	71,158	71,172

For the three months ended March 31, 2024, operating revenues increased $68 million, primarily due to a $53 million increase from authorized rate increases, including infrastructure surcharges, principally to fund infrastructure investment in various states and an $8 million increase from water and wastewater acquisitions, as well as organic growth in existing systems. In addition, operating revenues were $6 million higher as a result of reduced amortization of EADIT, primarily in the Company's Missouri subsidiary.

Operation and Maintenance

Presented in the table below is information regarding the main components of the Regulated Businesses' operation and maintenance expense:

(In millions)	For the Three Months Ended March 31, 2024	2023
Employee-related costs	$ 135	$ 129
Production costs	102	93
Operating supplies and services	63	57
Maintenance materials and supplies	22	22
Customer billing and accounting	14	13
Other	15	16
Total operation and maintenance expense	$ 351	$ 330

For the three months ended March 31, 2024, operation and maintenance expense increased $21 million, primarily due to increased production costs from higher purchased water usage and increased fuel, power and chemicals costs. In addition, operation and maintenance expense was higher due to increased employee related costs, primarily from annual merit increases.

Depreciation and Amortization

For the three months ended March 31, 2024, depreciation and amortization increased $15 million, primarily due to additional utility plant placed in service from capital infrastructure investments.

Other Expenses

For the three months ended March 31, 2024, other expenses increased $11 million, primarily due to higher interest expense from the issuance of incremental long-term debt in June 2023 and February 2024, as well as a decrease in allowance for funds used during construction in the current period. These increases were partially offset by a decrease in interest expense as a result of lower average commercial paper borrowings.

Provision for Income Taxes

For the three months ended March 31, 2024, the Regulated Businesses' provision for income taxes increased $7 million. The Regulated Businesses' effective income tax rate was 22.3% and 20.9% for the three months ended March 31, 2024 and 2023, respectively. The increase was primarily due to the decrease in the amortization of EADIT pursuant to regulatory orders.

Other

Presented in the table below is information for Other:

(In millions)	For the Three Months Ended March 31, 2024	2023
Operating revenues	$ 83	$ 78
Operation and maintenance	65	63
Depreciation and amortization	4	3
General taxes	5	5
Interest expense	(27)	(28)
Interest income	21	13
Other income	1	2
Provision (benefit) for income taxes	4	(2)
Net income (loss) attributable to common shareholders	$ —	$ (4)

Operating Revenues

For the three months ended March 31, 2024, operating revenues increased $5 million, from an increase in capital projects in MSG, primarily at Naval Station Mayport. The Naval Station Mayport contract was awarded on June 30, 2022, with the performance start date for operation on March 1, 2023.

Operation and Maintenance

For the three months ended March 31, 2024, operation and maintenance expense increased $2 million, primarily due to costs associated with the increased capital projects in MSG.

Interest income

For the three months ended March 31, 2024, interest income increased $8 million, primarily due to the increased interest rate on the amended secured seller promissory note from the sale of HOS. See Note 5—Acquisitions and Divestitures in the Notes to Consolidated Financial Statements for additional information.

Legislative Updates

During 2024, the Company's regulatory jurisdictions enacted the following legislation that has been approved and is effective as of May 1, 2024:

- New Jersey passed Assembly Bill 4791, establishing the "Resiliency and Environmental System Investment Charge Program," which creates a regulatory mechanism that enables water and wastewater utilities to recover the costs of investment in certain non-revenue producing utility system components that enhance water and wastewater system resiliency, environmental compliance such as existing and proposed requirements for PFAS, safety, and public health. Legislation was signed by the Governor and became effective on January 12, 2024.
- Indiana passed Senate Bill 5, which provides access to a property by a water utility to replace lead service lines when a landowner does not enroll in the offered lead service line replacement program, does not personally replace the customer owned portion of the lead service line following notice and a 45-day waiting period, or is non-responsive to attempted communication after the 45-day waiting period. Legislation was signed by the Governor and became effective on March 11, 2024.

During 2024, the Company's regulatory jurisdictions enacted the following legislation that has been approved but is not yet effective as of May 1, 2024:

- Iowa passed House File 2101, which increases the threshold amount required for approval by the Iowa Utilities Board for water and wastewater utility acquisition filings from $0.5 million to $3 million. Legislation was signed by the Governor on April 10, 2024 and will become effective on July 1, 2024.
- Indiana passed Senate Bill 247, which establishes a 30-day filing with the IURC by a utility for an acquisition of utilities, with an appraised value and purchase price of less than $3 million under the offered utility statute. Legislation was signed by the Governor on March 11, 2024, and will become effective on July 1, 2024.
- West Virginia passed House Bill 5617, which adopts standards and authorizes the Public Service Commission to promulgate rules for maintenance, flushing, flow testing, and marking of fire hydrants owned by water utilities. Also allows for rate recovery. Legislation was signed by the Governor on March 20, 2024, and will become effective on June 4, 2024.

Condemnation and Eminent Domain

All or portions of the Regulated Businesses' utility assets could be acquired by state, municipal or other government entities through one or more of the following methods: (i) eminent domain (also known as condemnation); (ii) the right of purchase given or reserved by a municipality or political subdivision when the original certificate of public convenience and necessity ("CPCN") was granted; and (iii) the right of purchase given or reserved under the law of the state in which the utility subsidiary was incorporated or from which it received its CPCN. The acquisition consideration related to such a proceeding initiated by a local government may be determined consistent with applicable eminent domain law or may be negotiated or fixed by appraisers as prescribed by the law of the state or the jurisdiction of the particular CPCN.

As such, the Regulated Businesses are periodically subject to condemnation proceedings in the ordinary course of business. For example, the Monterey water service system assets (the "Monterey system assets") of the Company's California subsidiary ("Cal Am") are the subject of a potential condemnation action by the Monterey Peninsula Water Management District (the "MPWMD") stemming from a November 2018 public ballot initiative. For more information on this matter, see Part II, Item 1—Legal Proceedings—Proposed Acquisition of Monterey System Assets — MPWMD Condemnation Action and Note 11—Commitments and Contingencies in the Notes to Consolidated Financial Statements.

Furthermore, the law in certain jurisdictions in which the Regulated Businesses operate provides for eminent domain rights allowing private property owners to file a lawsuit to seek just compensation against a public utility, if a public utility's infrastructure has been determined to be a substantial cause of damage to that property. In these actions, the plaintiff would not have to prove that the public utility acted negligently. In California, for example, lawsuits have been filed in connection with large-scale natural events such as wildfires. Some of these lawsuits have included allegations that infrastructure of certain utilities triggered the natural event that resulted in damage to the property. In some cases, the PUC has allowed certain costs or losses incurred by the utility to be recovered from customers in rates, but in other cases such recovery in rates has been disallowed. Also, the utility may have obtained insurance that could respond to some or all of such losses, although the utility would be at risk for any losses not ultimately subject to rate or insurance recovery or losses that exceed the limits of such insurance.

Tax Matters

On August 16, 2022, the Inflation Reduction Act of 2022 (the "IRA") was signed into law. The IRA contains a 15% Corporate Alternative Minimum Tax ("CAMT") provision on applicable corporations effective January 1, 2023. To determine if a company is considered an applicable corporation subject to CAMT, the company's average adjusted financial statement income ("AFSI") for the three consecutive years preceding the tax year must exceed $1 billion. An applicable corporation must make several adjustments to net income when determining AFSI. A corporation paying CAMT is eligible for a future tax credit, which can be utilized when regular tax exceeds CAMT. Based on current guidance, the Company is an applicable corporation subject to CAMT beginning in 2024 and expects to owe CAMT in excess of the regular tax liability. In the absence of an extension of the Internal Revenue Service ("IRS") and the U.S. Treasury Notice 2023-42 (which provides relief of penalties related to the 2023 estimated tax payments associated with the CAMT liability), the Company will begin including the CAMT liability with its estimated cash payments in 2024. The Company will continue to evaluate the impacts of the IRA as the U.S. Treasury and the IRS issue additional guidance.

Liquidity and Capital Resources

For a general overview of the sources and uses of capital resources, see the introductory discussion in Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources in the Company's Form 10-K.

Liquidity needs for capital investment, working capital and other financial commitments are generally funded through cash flows from operations, public and private debt offerings, commercial paper markets, future issuances of equity, and, if and to the extent necessary, borrowings under American Water Capital Corp.'s ("AWCC") revolving credit facility.

The Company expects to fund future maturities of long-term debt through a combination of external debt and, to the extent available, cash flows from operations. Since the Company expects its capital investments over the next few years to be greater than its cash flows from operating activities, the Company currently plans to fund the excess of its capital investments over its cash flows from operating activities for the next five years through a combination of long-term debt and equity issuances, in addition to the remaining proceeds from the sale of HOS. The remaining proceeds from the sale of HOS include receipt of payments under a secured seller promissory note, plus interest. If necessary, the Company may delay certain capital investments or other funding requirements or pursue financing from other sources to preserve liquidity. In this event, the Company believes it can rely upon cash flows from operations to meet its obligations and fund its minimum required capital investments for an extended period of time.

On February 23, 2024, AWCC completed a $1.4 billion debt offering, which included the sale of $700 million aggregate principal amount of its 5.150% senior notes due 2034 and $700 million aggregate principal amount of its 5.450% senior notes due 2054. At the closing of this offering, AWCC received, after deduction of underwriting discounts and before deduction of offering expenses, net proceeds of approximately $1,381 million. AWCC is using the net proceeds of the offering (1) to lend funds to American Water and the Regulated Businesses; (2) to repay at maturity AWCC's 3.850% Senior Notes due 2024; (3) to repay AWCC's commercial paper obligations; and (4) for general corporate purposes.

AWCC's revolving credit facility provides $2.75 billion in aggregate total commitments from a diversified group of financial institutions. The revolving credit facility is used principally to support AWCC's commercial paper program, to provide additional liquidity support, and to provide a sub limit for the issuance of up to $150 million in letters of credit. The maximum aggregate principal amount of short-term borrowings authorized for issuance under AWCC's commercial paper program is $2.60 billion. The termination date of the credit agreement with respect to AWCC's revolving credit facility is October 26, 2028. and permits AWCC to increase the maximum commitment by up to an aggregate of $500 million and to request extensions of its expiration date for up to two one-year periods, as to which one such extension request remains. As of March 31, 2024 and December 31, 2023, there were no borrowings under the revolving credit facility. As of March 31, 2024 and December 31, 2023, there were $75 million of outstanding letters of credit under its revolving credit facility. At March 31, 2024, there was no outstanding short-term debt as the net proceeds of the debt offering on February 23, 2024, were used to repay the outstanding short-term commercial paper obligations. At December 31, 2023, there was $180 million, or net of discount $179 million of outstanding short-term debt and the weighted-average interest rate on AWCC's outstanding short-term borrowings was approximately 5.51%.

Presented in the tables below is the aggregate credit facility commitments, commercial paper limit and letter of credit availability under the revolving credit facility as of March 31, 2024 and December 31, 2023, as well as the available capacity for each:

	As of March 31, 2024		
(In millions)	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	—	(75)	(75)
Remaining availability as of March 31, 2024	$ 2,600	$ 75	$ 2,675

(a) Total remaining availability of $2.68 billion as of March 31, 2024, was accessible through revolver draws.

	As of December 31, 2023		
(In millions)	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	(180)	(75)	(255)
Remaining availability as of December 31, 2023	$ 2,420	$ 75	$ 2,495

(a) Total remaining availability of $2.50 billion as of December 31, 2023, was accessible through revolver draws.

Presented in the table below is the Company's total available liquidity as of March 31, 2024 and December 31, 2023, respectively:

(In millions)	Cash and Cash Equivalents	Availability on Revolving Credit Facility	Total Available Liquidity
Available liquidity as of March 31, 2024	$ 584	$ 2,675	$ 3,259
Available liquidity as of December 31, 2023	$ 330	$ 2,495	$ 2,825

The Company believes that its ability to access the debt and equity capital markets, the revolving credit facility and cash flows from operations will generate sufficient cash to fund the Company's short-term requirements. The Company believes it has sufficient liquidity and the ability to manage its expenditures, should there be a disruption of the capital and credit markets. However, there can be no assurance that the lenders will be able to meet existing commitments to AWCC under the revolving credit facility, or that AWCC will be able to access the commercial paper or loan markets in the future on acceptable terms or at all. See Note 8—Short-Term Debt in the Notes to Consolidated Financial Statements for additional information.

The Company had entered into 15 treasury lock agreements through February 2024, with notional amounts totaling $825 million. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss. In February 2024, the Company terminated the treasury lock agreements realizing a pre-tax net gain of $14 million, to be amortized through Interest expense over a 10-year period or 30-year period, in accordance with the tenor of the notes issued on February 23, 2024.

No ineffectiveness was recognized on hedging instruments for the three months ended March 31, 2024 or 2023.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the warmer months. Presented in the table below is a summary of the major items affecting the Company's cash flows from operating activities:

	For the Three Months Ended March 31,	
	2024	2023
(In millions)		
Net income	$ 185	$ 170
Add (less):		
Depreciation and amortization	188	172
Deferred income taxes and amortization of investment tax credits	8	26
Other non-cash activities (a)	9	(32)
Changes in working capital (b)	3	(41)
Pension contributions	(11)	(10)
Net cash provided by operating activities	$ 382	$ 285

(a) Includes provision for losses on accounts receivable, pension and non-pension postretirement benefits and other non-cash, net. Details of each component can be found on the Consolidated Statements of Cash Flows.

(b) Changes in working capital include changes to receivables and unbilled revenues, income tax receivable, accounts payable, accrued liabilities, accrued taxes and other current assets and liabilities, net.

For the three months ended March 31, 2024, cash provided by operating activities increased $97 million, due to changes in working capital, which is mainly due to the utilization of an income tax receivable for the current year tax liability, as well as an increase to net income and other non-cash activities.

Cash Flows from Investing Activities

Presented in the table below is a summary of the major items affecting the Company's cash flows from investing activities:

	For the Three Months Ended March 31,	
	2024	2023
(In millions)		
Net capital expenditures	$ (609)	$ (526)
Acquisitions, net of cash acquired	(86)	(4)
Other investing activities, net (a)	(38)	(31)
Net cash used in investing activities	$ (733)	$ (561)

(a) Includes removal costs from property, plant and equipment retirements.

For the three months ended March 31, 2024, cash used in investing activities increased $172 million, primarily due to increased payments for capital expenditures and acquisitions.

Cash Flows from Financing Activities

Presented in the table below is a summary of the major items affecting the Company's cash flows from financing activities:

(In millions)	For the Three Months Ended March 31, 2024	2023
Proceeds from long-term debt	$ 1,391	$ 8
Repayments of long-term debt	(449)	(4)
Net proceeds from common stock financing	—	1,688
Net short-term repayments with maturities less than three months	(179)	(1,175)
Debt issuance costs and make-whole premium on early debt redemption	(14)	—
Dividends paid	(138)	(119)
Other financing activities, net (a)	2	3
Net cash provided by financing activities	$ 613	$ 401

(a) Includes proceeds from issuances of common stock under various employee stock plans and the Company's dividend reinvestment and direct stock purchase plan, net of taxes paid, and advances and contributions in aid of construction, net of refunds.

For the three months ended March 31, 2024, cash provided by financing activities increased $212 million, primarily due to the issuance of long-term debt in February 2024 and lower repayments of short-term commercial paper borrowings compared to the prior period. This was partially offset by the repayment of long-term debt in the current period and the proceeds from the common stock financing in March 2023.

Debt Covenants

The Company's debt agreements contain financial and non-financial covenants. To the extent that the Company is not in compliance with these covenants, an event of default may occur under one or more debt agreements and the Company, or its subsidiaries, may be restricted in its ability to pay dividends, issue new debt or access the revolving credit facility. The long-term debt indentures contain a number of covenants that, among other things, prohibit or restrict the Company from issuing debt secured by the Company's assets, subject to certain exceptions. Failure to comply with any of these covenants could accelerate repayment obligations.

Covenants in certain long-term notes and the revolving credit facility require the Company to maintain a ratio of consolidated debt to consolidated capitalization (as defined in the relevant documents) of not more than 0.70 to 1.00. On March 31, 2024, the Company's ratio was 0.57 to 1.00 and therefore the Company was in compliance with the covenants.

Security Ratings

Presented in the table below are long-term and short-term credit ratings and rating outlooks as of May 1, 2024, as issued by Moody's Investors Service on January 29, 2024, and S&P Global Ratings on March 4, 2024:

Securities	Moody's Investors Service	S&P Global Ratings
Rating outlook	Stable	Stable
Senior unsecured debt	Baa1	A
Commercial paper	P-2	A-1

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon the ability to generate cash flows in an amount sufficient to service debt and meet investment plans. The Company can provide no assurances that its ability to generate cash flows is sufficient to maintain its existing ratings. The Company does not have any material borrowings that are subject to default or prepayment as a result of the downgrading of these security ratings, although such a downgrading could increase fees and interest charges under its credit facility.

As part of its normal course of business, the Company routinely enters into contracts for the purchase and sale of water, power and other fuel, chemicals and other services. These contracts either contain express provisions or otherwise permit the Company and its counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if the Company is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that the Company must provide collateral to secure its obligations. The Company does not expect to post any collateral which will have a material adverse impact on the Company's results of operations, financial position or cash flows.

Access to the capital markets, including the commercial paper market, and respective financing costs in those markets, may be directly affected by the Company's securities ratings. The Company primarily accesses the debt capital markets, including the commercial paper market, through AWCC. However, the Company has also issued debt through its regulated subsidiaries, primarily in the form of mortgage bonds and tax-exempt securities or borrowings under state revolving funds, to lower the overall cost of debt.

Dividends

For discussion of the Company's dividends, see Note 6—Shareholders' Equity in the Notes to Consolidated Financial Statements for additional information.

Application of Critical Accounting Policies and Estimates

The financial condition of the Company, results of operations and cash flows, as reflected in the Company's Consolidated Financial statements, are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. See Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates in the Company's Form 10-K for a discussion of its critical accounting policies. Additionally, see Note 2—Significant Accounting Policies in the Notes to Consolidated Financial Statements for updates, if any, to the significant accounting policies previously disclosed in the Company's Form 10-K.

Recent Accounting Standards

See Note 2—Significant Accounting Policies in the Notes to Consolidated Financial Statements for a description of new accounting standards recently adopted or pending adoption.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk in the normal course of business, including changes in commodity prices, equity prices and interest rates. For further discussion of its exposure to market risk, see Part II, Item 7A—Quantitative and Qualitative Disclosures about Market Risk in the Company's Form 10-K. As of March 31, 2024, there were no treasury lock agreements outstanding as the Company terminated the treasury lock agreements in February 2024. There have been no other significant changes to the Company's exposure to market risk since December 31, 2023.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

American Water maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective.

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of March 31, 2024.

Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of March 31, 2024, the Company's disclosure controls and procedures were effective at a reasonable level of assurance.

Changes in Internal Control over Financial Reporting

The Company concluded that there have been no changes in internal control over financial reporting that occurred during the three months ended March 31, 2024, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following information updates and amends the information provided in the Company's Form 10-K in Item 3—Legal Proceedings. Capitalized terms used but not otherwise defined herein have the meanings set forth in the Company's Form 10-K. In accordance with the SEC's disclosure rules, the Company has elected to disclose environmental proceedings involving the Company and a governmental authority if the amount of potential monetary sanctions, exclusive of interest and costs, that the Company reasonably believes will result from such proceeding is $1 million or more.

Alternative Water Supply in Lieu of Carmel River Diversions

Monterey Peninsula Water Supply Project

Water Supply Project Land Acquisition and Slant Well Site Use

The July 15, 2024 trial date previously set by the Monterey County Superior Court for the City's May 2020 lawsuit has been vacated pending receipt of the SWRCB's expert advisory opinion. The court scheduled a status and trial setting conference for July 15, 2024.

Challenges Related to Compliance with California's Sustainable Groundwater Management Act

In November 2021, the City appealed the court's decision denying the City's claims, and in December 2021, Monterey County appealed as to the court's finding that the City's action creating a GSA was not void. The related validation and reverse validation actions remain stayed during the pendency of the appeal. On November 13, 2023, the California Court of Appeal affirmed the trial court's decision. On December 22, 2023, the City filed a petition for review with the California Supreme Court, which was denied on February 14, 2024.

Cal Am's Action for Damages Following Termination of Regional Desalination Project ("RDP")

In 2010, the CPUC had approved the RDP, which was a precursor to the current Water Supply Project and called for the construction of a desalination facility in the City of Marina. The RDP was to be implemented through a Water Purchase Agreement and ancillary agreements (collectively, the "Agreements") among MCWD, Cal Am and the Monterey County Water Resources Agency ("MCWRA"). In 2011, due to a conflict of interest concerning a former member of MCWRA's Board of Directors, MCWRA stated that the Agreements were void, and, as a result, Cal Am terminated the Agreements. In ensuing litigation filed by Cal Am in 2012 to resolve the termination of the RDP, the court in 2015 entered a final judgment agreeing with Cal Am's position that four of the five Agreements are void, and one, the credit line agreement, is not void. As a result of this litigation, Cal Am was permitted to institute further proceedings, discussed below, to determine the amount of damages that may be awarded to Cal Am as a result of the failure of the RDP.

In 2015, Cal Am and MCWRA filed a complaint in San Francisco County Superior Court against MCWD and RMC Water and Environment, a private engineering consulting firm ("RMC"), seeking to recover compensatory, consequential and incidental damages associated with the failure of the RDP, as well as punitive and treble damages, statutory penalties and attorneys' fees. In 2019, MCWD was granted a motion for summary judgment related to the tort claims in the complaint. A settlement as to the non-tort claims was finalized and entered into in March 2020, in which MCWD and RMC paid Cal Am an aggregate of $5.2 million to resolve Cal Am's contract claims against MCWD and all claims against RMC relating to the RDP. Under this agreement, Cal Am's and MCWRA's right to appeal the dismissal of their tort claims against MCWD were expressly reserved.

In July 2020, Cal Am appealed the grant of summary judgment on MCWD's tort claims, and in December 2022, the trial court's decision was reversed with instructions to vacate its prior orders granting MCWD's motions for summary judgment and to enter new orders denying the motions. In February 2023, MCWD filed a petition for review of the appellate decision with the California Supreme Court, which was denied in March 2023. The trial court's prior trial date of May 6, 2024, for Cal Am's remaining tort claims against MCWD, has been vacated, and a new trial date will be set for later in the year.

Proposed Acquisition of Monterey System Assets — MPWMD Condemnation Action

Local Agency Formation Commission Litigation

On February 8, 2024, and February 9, 2024, respectively, Cal Am and LAFCO each filed a notice of appeal with the California Court of Appeals regarding the Monterey County Superior Court's decision to issue the writ of mandate. The MPWMD filed a notice of cross-appeal on February 15, 2024.

MPWMD Condemnation Action

On February 26, 2024, Cal Am filed a motion requesting the Monterey County Superior Court dismiss the MPWMD's eminent domain lawsuit seeking to condemn Cal Am's Monterey system assets. Cal Am's motion asserts that the MPWMD lacks legal authorization from both the California legislature and LAFCO to become a retail water provider and the lawsuit improperly seeks to effect a taking of property outside the boundaries of the MPWMD's territory. The motion is scheduled for a hearing on May 3, 2024.

Chattanooga, Tennessee Class Action Litigation

On January 18, 2024, and April 19, 2024, the court heard oral argument on the motions related to the Tennessee Plaintiffs' motion for an amended class definition. On April 19, 2024, the court provided an oral ruling denying the amended class and incorporating its denial of the original class. A written order will be drafted, and when entered, the Tennessee Plaintiffs will have a right under state law to appeal the denial of class certification.

Mountaineer Gas Company Main Break

On November 17, 2023, the *Ruffin* plaintiff filed a motion to consolidate the first three lawsuits before a single judge in Kanawha County Circuit Court. The motion was granted orally but no written order has yet been entered.

On March 6, 2024, the motion to transfer the complaint captioned *Mountaineer Gas Company v. West Virginia-American Water Company* to the West Virginia Business Court was granted and assigned trial and resolution judges. WVAWC's partial motion to dismiss this lawsuit remains pending.

On February 19, 2024, Mountaineer Gas filed a motion opposing the referral of the four class action complaints and the *Mountaineer Gas* complaint to the West Virginia Mass Litigation Panel. On March 28, 2024, the Kanawha County Circuit Court trial judge filed a memorandum opposing the referral. The referral motion remains pending with the Chief Justice of the West Virginia Supreme Court.

On December 6, 2023, WVAWC initiated a process whereby Mountaineer Gas customers could file claims with WVAWC and seek payment from WVAWC of up to $2,000 per affected household for the inconvenience arising from a loss of use of their applicances and documented out-of-pocket expenses as a result of the natural gas outage. In light of the diminishing number of new claims being filed, the claims process was concluded on March 8, 2024. As of March 31, 2024, a total of 557 Mountaineer Gas customers completed the claims process, with another 87 claims pending completion, and the completed claimants were paid by WVAWC an average of approximately $1,500 each. In return, these customers were required to execute a partial release of liability in favor of WVAWC.

On March 1, 2024, the staff of the WVPSC issued an initial memorandum in each separate general investigation for Mountaineer Gas and WVAWC. On April 24, 2024, the staff issued a final joint memorandum in the Mountaineer Gas general investigation stating its view that Mountaineer Gas responded appropriately, reasonably and according to Mountaineer Gas's written procedures. The staff is making no recommendations for improvements to Mountaineer Gas and is recommending that the Mountaineer Gas general investigation be closed. Both general investigations remain pending, and the due date for the staff memorandum in the WVAWC general investigation is July 24, 2024.

PFAS Multi-District Litigation

On February 8, 2024, after a hearing on December 14, 2023, the MDL court issued its final approval of the DuPont settlement. A fairness hearing on the 3M settlement was held on February 2, 2024, and that settlement was approved by the MDL court on March 29, 2024. The Company has begun the process of perfecting its claims under each settlement within the time periods provided by the MDL court. On April 26, 2024, a potential class action settlement involving defendant Tyco Fire Products LP was filed with the MDL court to resolve claims brought in the MDL against this defendant by public water systems. This potential settlement remains subject to preliminary and final approval of the MDL court. The MDL matter remains pending.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, readers should carefully consider the factors discussed in Item 1A—Risk Factors in the Form 10-K, and in the Company's other filings with the SEC, which could materially affect the Company's business, financial condition, cash flows or future results. There have been no material changes from the risk factors previously disclosed in Item 1A—Risk Factors in the Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In February 2015, the Board of Directors authorized an anti-dilutive stock repurchase program to mitigate the dilutive effect of shares issued through the Company's dividend reinvestment and direct stock purchase plan and employee stock purchase and executive compensation activities. The program allows the Company to purchase up to 10 million shares of its outstanding common stock over an unrestricted period of time in the open market or through privately negotiated transactions. The program is conducted in accordance with Rule 10b-18 of the Exchange Act, and, to facilitate these repurchases, the Company enters into Rule 10b5-1 stock repurchase plans with a third-party broker, which allow the Company to repurchase shares of its common stock at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Subject to applicable regulations, the Company may elect to amend or cancel the program or the stock repurchase parameters at its discretion to manage dilution.

The Company did not repurchase shares of common stock during the three months ended March 31, 2024. From April 1, 2015, the date repurchases under the anti-dilutive stock repurchase program commenced, through March 31, 2024, the Company repurchased an aggregate of 4,860,000 shares of common stock under the program, leaving an aggregate of 5,140,000 shares available for repurchase under this program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
2.1#	Membership Interest Purchase Agreement, dated as of October 28, 2021, by and among American Water Enterprises, LLC, American Water (USA), LLC, American Water Resources, LLC, Pivotal Home Solutions, LLC, American Water Resources Holdings, LLC, American Water Works Company, Inc. and Lakehouse Buyer Inc. (incorporated by reference to Exhibit 2.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed October 29, 2021).
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed November 6, 2008).
3.2	Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, File No. 001-34028, filed December 8, 2022).
4.1	Indenture, dated as of December 4, 2009, between American Water Capital Corp. and Computershare Trust Company, N.A., as successor to Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed December 3, 2010).
4.2	Officers' Certificate of American Water Capital Corp., dated February 23, 2024, establishing the 5.150% Senior Notes due 2034 (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed February 23, 2024).
4.3	Officers' Certificate of American Water Capital Corp., dated February 23, 2024, establishing the 5.450% Senior Notes due 2054 (incorporated by reference to Exhibit 4.2 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed February 23, 2024).
*10.1	Form of American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Restricted Stock Unit Grant.
*10.2	Form of American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Restricted Stock Unit Grant (for CEO, CFO and COO).
*10.3	American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Performance Stock Unit Grant Form A-1.
*10.4	American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Performance Stock Unit Grant Form A-2 (for CEO, CFO and COO).

Exhibit Number	Exhibit Description
*10.5	American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Performance Stock Unit Grant Form B-1.
*10.6	American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Performance Stock Unit Grant Form B-2 (for CEO, CFO and COO).
*10.7	American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Performance Stock Unit Grant Form C-1.
*10.8	American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Performance Stock Unit Grant Form C-2 (for CEO, CFO and COO).
10.9#	Amendment No. 1 to Secured Seller Note Agreement, dated as of February 2, 2024, by and among Lakehouse Bidco Inc., Lakehouse Buyer Inc., American Water Resources, LLC, Pivotal Home Solutions, LLC, American Water Resources Holdings, LLC, American Water Resources of Texas, LLC, American Water Resources of Florida, LLC, and American Water Enterprises, LLC (incorporated by reference to Exhibit 10.1.2 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed February 5, 2024).
*22.1	Guaranteed Securities.
*31.1	Certification of M. Susan Hardwick, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
*31.2	Certification of John C. Griffith, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
**32.1	Certification of M. Susan Hardwick, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
**32.2	Certification of John C. Griffith, Executive Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101).

Certain schedules and exhibits to this agreement have been omitted as permitted by rules or regulations of the SEC. The Company will furnish the omitted schedules and exhibits to the SEC upon request.

* Filed herewith.

** Furnished herewith.

The Membership Interest Purchase Agreement filed as Exhibit 2.1 and the Amendment to Secured Seller Note Agreement filed as Exhibit 10.9 to this Quarterly Report on Form 10-Q have been included to provide investors and security holders with information regarding the terms of the respective agreements. The filing of these agreements is not intended to provide any other factual information about the parties thereto, or any of their respective subsidiaries or affiliates. The representations, warranties and covenants contained in the respective agreements (i) were made by the parties thereto only for purposes of that respective agreement and as of specific dates; (ii) were made solely for the benefit of the parties to the respective agreement; (iii) may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures exchanged between the parties in connection with the execution of the respective agreement (such disclosures include information that has been included in public disclosures, as well as additional non-public information); (iv) may have been made for the purposes of allocating contractual risk between the parties to the respective agreements instead of establishing these matters as facts; and (v) may be subject to standards of materiality applicable to the contracting parties to the respective agreements that differ from those applicable to investors.

Investors should not rely on the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or condition of the parties to the respective agreements thereto, or any of their respective subsidiaries or affiliates. Additionally, the representations, warranties, covenants, conditions and other terms of the respective agreements may be subject to subsequent waiver or modification. Moreover, information concerning the subject matter of the representations, warranties and covenants may change after the date of the respective agreement, which subsequent information may or may not be fully reflected in the Company's public disclosures. The respective agreements should not be read alone, but should instead be read in conjunction with the other information regarding the Company that is or will be contained in, or incorporated by reference into, the reports and other documents that are filed by the Company with the SEC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 1st day of May, 2024.

AMERICAN WATER WORKS COMPANY, INC.
(REGISTRANT)

By /s/ M. SUSAN HARDWICK
M. Susan Hardwick
President and Chief Executive Officer
(Principal Executive Officer)

By /s/ JOHN C. GRIFFITH
John C. Griffith
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

By /s/ MELISSA K. WIKLE
Melissa K. Wikle
Senior Vice President, Chief Accounting Officer
(Principal Accounting Officer)

Exhibit 10.1

AMERICAN WATER WORKS COMPANY, INC.
2017 OMNIBUS EQUITY COMPENSATION PLAN
RESTRICTED STOCK UNIT GRANT

This RESTRICTED STOCK UNIT GRANT, dated as of February 13, 2024 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to _____ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan")) has adopted a 2024 Long Term Performance Plan ("2024 LTPP") pursuant to which designated employees will be granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value $0.01 per share, (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants: a restricted stock unit and three performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2024 LTPP and to grant the Participant an Equity Award under the 2024 LTPP; and

WHEREAS, the Committee has determined that the restricted stock unit portion of the Equity Award granted pursuant to the 2024 LTPP to the Participant shall be issued under the Plan and the terms and conditions of such restricted stock unit shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Restricted Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant _____ units (the "Restricted Stock Units"). Each unit (a "Unit") shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable Redemption Date (as defined below).

2. Restricted Stock Unit Account. The Company shall establish and maintain a Restricted Stock Unit account as a bookkeeping account on its records (the "Restricted Stock Unit Account") for the Participant and shall record in such Restricted Stock Unit Account the number of Restricted Stock Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Restricted Stock Unit Account established for the Participant.

3. Vesting.

(a) Except as provided in subparagraph (c) below, the Restricted Stock Units shall vest on the following dates (each a "Service Date"), provided the Participant continues to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through the applicable Service Date:

Service Date	Units Vesting
January 31, 2025	1/3
January 31, 2026	1/3
January 31, 2027	1/3

The vesting of the Restricted Stock Units is cumulative, but shall not exceed 100% of the Units subject to the Restricted Stock Units. If the foregoing schedule would produce fractional Units, the number of Units for which the Restricted Stock Units becomes vested on a Service Date shall be rounded down to the nearest whole Unit. The Restricted Stock Units shall become vested with respect to 100% of the Units subject to the Restricted Stock Units on January 31, 2027, if the Participant is employed by, or providing service to, the Employer on such date.

(b) Subject to subparagraph (c) below, if at any time prior to January 31, 2027, the Participant's employment or service with the Employer terminates for any reason, including death or disability, then all of the unvested Restricted Stock Units shall be immediately forfeited and the Participant shall not have any rights with respect to the vesting or the redemption of any portion of the Restricted Stock Unit.

(c) If at any time prior to January 31, 2027, but while the Participant is employed by or providing service to the Employer, a Change of Control (as defined below) occurs, the Company is not the surviving corporation (or survives only as a subsidiary of another corporation or entity (the "surviving corporation")) and the Restricted Stock Units are not converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation), then the portion of the Restricted Stock Units that have not yet vested as provided in subparagraph 3(a) above shall become fully vested on the date of the Change of Control (the "Change of Control Date"). In the event the Participant's Restricted Stock Units are assumed by the surviving corporation but the Participant ceases to be employed by, or providing service to, the surviving corporation (or a parent or subsidiary of the surviving corporation) within twelve (12) months after the date of the Change of Control on account of (i) a termination of such Participant's employment by the surviving corporation (or a parent or subsidiary of the surviving corporation) for any reason other than on account of Cause (as defined below), or on account of death or Disability (each as defined in the Plan), or (ii) a termination of employment or service by the Participant for Good Reason (as defined in the Plan), then the portion of the Restricted

Stock Units that have not yet vested as provided in subparagraph 3(a) above shall become fully vested on the date of such termination of employment or service (the "Termination Date"). For purposes of this Grant, "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Agreement unless the event constituting the Change of Control constitutes a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations. For the avoidance of doubt, if the Change of Control does not constitute a permitted change in control event under section 409A of the Code, then the Restricted Stock Unit shall not vest on the occurrence of the Change of Control. For purposes of this Grant, "Cause" shall mean a finding by the Committee that the Participant (i) has breached his or her employment or service contract with the Employer, if any; (ii) has engaged in disloyalty to the Employer including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (iii) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (iv) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (v) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

4. Redemption. Unless an election is made pursuant to Paragraph 5 below, the Restricted Stock Units that have become vested pursuant to Paragraph 3 shall be redeemed by the Company on the earliest of the (i) applicable Service Date, (ii) the Change of Control Date or (iii) the Termination Date, (the date of redemption is hereinafter referred to as the "Redemption Date"). As soon as administratively practicable following the applicable Redemption Date, but not later than forty-five (45) days following the Redemption Date, (or, if applicable, the Deferred Date, as defined in Paragraph 5 below), all Restricted Stock Units that become vested pursuant to Paragraph 3 above shall be redeemed and converted to an equivalent number of shares of Company Stock, and the Participant shall receive a single distribution of such shares of Company Stock, which shall be issued under the Plan.

5. Deferrals. The Participant may make an irrevocable election to defer the Redemption Date (or further defer the Deferred Date (as defined below), if applicable) of any of the Restricted Stock Units that vest, plus dividend equivalents earned on such Restricted Stock Units as described in Paragraph 6 below, to a later date, provided that, except as to any election made by the Participant to accelerate the Deferred Date in the event of his or her death prior to the Deferred Date, (a) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (b) the new Redemption Date cannot be earlier than five (5) years from the original Redemption Date under Paragraph 4 above (or five (5) years from the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (c) the election must be made no less than twelve (12) months prior to the date of the Redemption Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Redemption Date, the Participant must complete the deferral election form provided to the Participant, and return such

form to the Company in the manner and by the deadline provided therein. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date or the Termination Date occurs prior to the Deferred Date, the redemption of the Participant's Restricted Stock Units, plus corresponding dividend equivalents, will be the Change of Control Date or the Termination Date, as applicable. If a Redemption Date is delayed one or more times pursuant to any election made by the Participant pursuant to this Paragraph 5, the new Redemption Date shall be referred to as the "Deferred Date."

6. Dividend Equivalents. Until the Redemption Date (or the Deferred Date, if elected), if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Restricted Stock Units credited to the Participant's Restricted Stock Unit Account as of the date of payment of any such dividend were shares of Company Stock. On the Redemption Date (or the Deferred Date, if applicable), the Company shall pay to the Participant in a lump sum cash equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Units that have been forfeited as provided in Paragraph 3 above shall be immediately forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

7. Change of Control. Except as set forth in Paragraph 3(c) of this Grant, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Restricted Stock Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

8. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to redemption or distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

9. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code section 409A, the obligation of the Company to deliver shares of Company Stock upon the redemption of the Restricted Stock Units shall be subject to the condition that shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of

1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock on the Redemption Date (or the Deferred Date, if applicable), the Participant agrees:

(i) to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and the Personal Securities Trading and Preclearance Practice; and

(ii) that the shares of Company Stock obtained by the Participant upon the redemption of the Restricted Stock Units shall be subject to the guidelines and restrictions set forth in the Company's Executive Stock Ownership Guidelines and Executive Stock Retention Requirements, effective as of July 26, 2022 (and as they may be amended, restated, supplemented and interpreted), and any applicable clawback or compensation recovery or recoupment policies and other policies that may be approved by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

10. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

11. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (a) rights and obligations with respect to withholding taxes, (b) the registration, qualification or listing of the shares of Company Stock,

(c) changes in capitalization of the Company, and (d) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (i) to be bound by the terms of the Plan and this Grant, (ii) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (iii) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

12. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except with respect to the dividend equivalent rights provided in Paragraph 6), or the right to vote, with respect to any Restricted Stock Units.

13. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

14. Assignment and Transfers. No Restricted Stock Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and a Restricted Stock Unit shall be redeemed and a dividend equivalent distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Restricted Stock Unit or dividend equivalent by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

15. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and redemption of the Restricted Stock Units and payment of dividend equivalents. Any tax withholding obligation of the Employer with respect to the redemption of the Restricted Stock Units may, at the Committee's discretion, be satisfied by having shares of Company Stock withheld, up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

16. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Restricted Stock Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

17. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflict of laws provisions thereof.

18. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be (i) delivered by hand, (ii) delivered by a national overnight courier or delivery service, (iii) enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service, or (iv) in the case of notices by the Company to the Participant, delivered by e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means).

19. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Restricted Stock Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 5 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

20. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: M. Susan Hardwick

Its: President and CEO

Exhibit 10.2

AMERICAN WATER WORKS COMPANY, INC.
2017 OMNIBUS EQUITY COMPENSATION PLAN
RESTRICTED STOCK UNIT GRANT

This RESTRICTED STOCK UNIT GRANT, dated as of February 13, 2024 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to _____ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan")) has adopted a 2024 Long Term Performance Plan ("2024 LTPP") pursuant to which designated employees will be granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value $0.01 per share, (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants: a restricted stock unit and three performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2024 LTPP and to grant the Participant an Equity Award under the 2024 LTPP; and

WHEREAS, the Committee has determined that the restricted stock unit portion of the Equity Award granted pursuant to the 2024 LTPP to the Participant shall be issued under the Plan and the terms and conditions of such restricted stock unit shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Restricted Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant _____ units (the "Restricted Stock Units"). Each unit (a "Unit") shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable Redemption Date (as defined below).

2. Restricted Stock Unit Account. The Company shall establish and maintain a Restricted Stock Unit account as a bookkeeping account on its records (the "Restricted Stock Unit Account") for the Participant and shall record in such Restricted Stock Unit Account the number of Restricted Stock Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Restricted Stock Unit Account established for the Participant.

3. Vesting.

(a) Except as provided in subparagraphs (c), (d), and (e) below, the Restricted Stock Units shall vest on the following dates (each a "Service Date"), provided the Participant continues to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through the applicable Service Date:

Service Date	Units Vesting
January 31, 2025	1/3
January 31, 2026	1/3
January 31, 2027	1/3

The vesting of the Restricted Stock Units is cumulative, but shall not exceed 100% of the Units subject to the Restricted Stock Units. If the foregoing schedule would produce fractional Units, the number of Units for which the Restricted Stock Units becomes vested on a Service Date shall be rounded down to the nearest whole Unit. The Restricted Stock Units shall become vested with respect to 100% of the Units subject to the Restricted Stock Units on January 31, 2027, if the Participant is employed by, or providing service to, the Employer on such date.

(b) Subject to subparagraphs (c), (d), and (e) below, if at any time prior to January 31, 2027, the Participant's employment or service with the Employer terminates for any reason, including death or disability, then all of the unvested Restricted Stock Units shall be immediately forfeited and the Participant shall not have any rights with respect to the vesting or the redemption of any portion of the Restricted Stock Unit.

(c) If prior to January 31, 2027, the Participant's employment or service with the Employer terminates on account of Normal Retirement (as defined below), then the portion of the Restricted Stock Units that have not yet vested as provided in subparagraph 3(a) above shall continue to become vested following the Participant's termination of employment or service on account of Normal Retirement in accordance with the schedule set forth in subparagraph 3(a). For purposes of this Grant, (i) "Normal Retirement" shall mean termination of employment or service with the Employer (other than for Cause (as defined below)) after the Participant has attained age sixty (60) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof and (ii) "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or

nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

(d) If prior to January 31, 2027, the Participant's employment or service with the Employer terminates on account of Early Retirement (as defined below), then 75% of the portion of the Restricted Stock Units that have not yet vested as provided in subparagraph 3(a) above shall continue to become vested following the Participant's termination of employment or service on account of Early Retirement in accordance with the schedule set forth in subparagraph 3(a) and the remaining 25% of the portion of the Restricted Stock Units that have not vested as of the Participant's Early Retirement shall be immediately forfeited. For purposes of this Grant, "Early Retirement" shall mean termination of employment or service with the Employer (other than for Cause) after the Participant has attained age fifty-five (55) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof.

(e) If at any time prior to January 31, 2027, but while the Participant is employed by or providing service to the Employer, a Change of Control (as defined below) occurs, the Company is not the surviving corporation (or survives only as a subsidiary of another corporation or entity (the "surviving corporation")) and the Restricted Stock Units are not converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation), then the portion of the Restricted Stock Units that have not yet vested as provided in subparagraph 3(a) above shall become fully vested on the date of the Change of Control (the "Change of Control Date"). In the event the Participant's Restricted Stock Units are assumed by the surviving corporation but the Participant ceases to be employed by, or providing service to, the surviving corporation (or a parent or subsidiary of the surviving corporation) within twelve (12) months after the date of the Change of Control on account of (i) a termination of such Participant's employment by the surviving corporation (or a parent or subsidiary of the surviving corporation) for any reason other than on account of Cause (as defined in 3(c)), or on account of death or Disability (each as defined in the Plan), or (ii) a termination of employment or service by the Participant for Good Reason (as defined in the Plan), then the portion of the Restricted Stock Units that have not yet vested as provided in subparagraph 3(a) above shall become fully vested on the date of such termination of employment or service (the "Termination Date"). For purposes of this Grant, "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Agreement unless the event constituting the Change of Control constitutes a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations. For the avoidance of doubt, if the Change of Control does not constitute a permitted change in control event under section 409A of the Code, then the Restricted Stock Unit shall not vest on the occurrence of the Change of Control.

4. Redemption. Unless an election is made pursuant to Paragraph 5 below, the Restricted Stock Units that have become vested pursuant to Paragraph 3 shall be redeemed by the Company

on the earliest of the (i) applicable Service Date, (ii) the Change of Control Date or (iii) the Termination Date, (the date of redemption is hereinafter referred to as the "Redemption Date"). As soon as administratively practicable following the applicable Redemption Date, but not later than forty-five (45) days following the Redemption Date, (or, if applicable, the Deferred Date, as defined in Paragraph 5 below), all Restricted Stock Units that become vested pursuant to Paragraph 3 above shall be redeemed and converted to an equivalent number of shares of Company Stock, and the Participant shall receive a single distribution of such shares of Company Stock, which shall be issued under the Plan. For purposes of clarity, if any Restricted Stock Units become vested pursuant to subparagraphs 3(c) or 3(d) above as a result of termination of employment or service with the Employer on account of Normal Retirement or Early Retirement, the Redemption Date for such vested Restricted Stock Units shall be the applicable Service Date or Change of Control Date to which such Restricted Stock Units would have been redeemed if the Participant had remained in the employment or service of the Employer (i.e., the Redemption Date continues to be the originally scheduled Service Date as provided in subparagraph 3(a) above or the Change of Control Date, if earlier, and is not accelerated to an earlier Service Date or to the date on which the termination of employment or service occurs).

5. Deferrals. The Participant may make an irrevocable election to defer the Redemption Date (or further defer the Deferred Date (as defined below), if applicable) of any of the Restricted Stock Units that vest, plus dividend equivalents earned on such Restricted Stock Units as described in Paragraph 6 below, to a later date, provided that, except as to any election made by the Participant to accelerate the Deferred Date in the event of his or her death prior to the Deferred Date, (a) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (b) the new Redemption Date cannot be earlier than five (5) years from the original Redemption Date under Paragraph 4 above (or five (5) years from the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (c) the election must be made no less than twelve (12) months prior to the date of the Redemption Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Redemption Date, the Participant must complete the deferral election form provided to the Participant, and return such form to the Company in the manner and by the deadline provided therein. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date or the Termination Date occurs prior to the Deferred Date, the redemption of the Participant's Restricted Stock Units, plus corresponding dividend equivalents, will be the Change of Control Date or the Termination Date, as applicable. If a Redemption Date is delayed one or more times pursuant to any election made by the Participant pursuant to this Paragraph 5, the new Redemption Date shall be referred to as the "Deferred Date."

6. Dividend Equivalents. Until the Redemption Date (or the Deferred Date, if elected), if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Restricted Stock Units credited to the Participant's

Restricted Stock Unit Account as of the date of payment of any such dividend were shares of Company Stock. On the Redemption Date (or the Deferred Date, if applicable), the Company shall pay to the Participant in a lump sum cash equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Units that have been forfeited as provided in Paragraph 3 above shall be immediately forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

7. Change of Control. Except as set forth in subparagraph 3(e) of this Grant, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Restricted Stock Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

8. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to redemption or distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

9. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code section 409A, the obligation of the Company to deliver shares of Company Stock upon the redemption of the Restricted Stock Units shall be subject to the condition that shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock on the Redemption Date (or the Deferred Date, if applicable), the Participant agrees:

(i) to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and from time to time from selling, transferring, pledging,

donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and the Personal Securities Trading and Preclearance Practice; and

(ii) that the shares of Company Stock obtained by the Participant upon the redemption of the Restricted Stock Units shall be subject to the guidelines and restrictions set forth in the Company's Executive Stock Ownership Guidelines and Executive Stock Retention Requirements, effective as of July 26, 2022 (and as they may be amended, restated, supplemented and interpreted), and any applicable clawback or compensation recovery or recoupment policies and other policies that may be approved by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

10. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

11. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (a) rights and obligations with respect to withholding taxes, (b) the registration, qualification or listing of the shares of Company Stock, (c) changes in capitalization of the Company, and (d) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (i) to be bound by the terms of the Plan and this Grant, (ii) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (iii) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

12. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except with respect to the dividend equivalent rights provided in Paragraph 6), or the right to vote, with respect to any Restricted Stock Units.

13. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or

service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

14. Assignment and Transfers. No Restricted Stock Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and a Restricted Stock Unit shall be redeemed and a dividend equivalent distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Restricted Stock Unit or dividend equivalent by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

15. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and redemption of the Restricted Stock Units and payment of dividend equivalents. Any tax withholding obligation of the Employer with respect to the redemption of the Restricted Stock Units may, at the Committee's discretion, be satisfied by having shares of Company Stock withheld, up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

16. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Restricted Stock Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

17. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflict of laws provisions thereof.

18. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be (i) delivered by hand, (ii) delivered by a national overnight courier or delivery service, (iii) enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service, or (iv) in the case of notices by the Company to the Participant, delivered by e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means).

19. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Restricted Stock Units constitute "deferred compensation" under section 409A of the Code,

distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 5 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

20. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

IN WITNESS WHEREOF, the Company has caused this Grant to be executed, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: Karl F. Kurz

Its: Board Chair

Exhibit 10.3

AMERICAN WATER WORKS COMPANY, INC.
2017 OMNIBUS EQUITY COMPENSATION PLAN
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of February 13, 2024 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to _____ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan")) has adopted a 2024 Long Term Performance Plan ("2024 LTPP") pursuant to which designated employees will be granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value $0.01 per share (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants: a restricted stock unit and three performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2024 LTPP and to grant the Participant an Equity Award under the 2024 LTPP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2024 LTPP shall be issued under the Plan, and the terms and conditions of the performance stock unit grant that may be earned based on the Performance Goal (defined below) relating to the Company's Total Stockholder Return shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant _____ performance stock units (the "Performance Units"). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the Performance Goal and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the Performance Goal described in Paragraph 3 below (the "Target Award").

2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the "Performance Unit Account") for the Participant and shall record in such Performance Unit Account the number of Performance Units granted to the Participant. The Participant shall not have any interest in any fund or specific

assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

3. Performance Goal.

(a) Unless a Change of Control (as defined below) occurs prior to the end of the Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goal described in subparagraph (b) below for the Performance Period (the "Performance Goal") and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) The Company's Total Stockholder Return ("TSR") (as described in subparagraph (c) below) will be compared to the TSR of the Peer Group companies set forth in Exhibit A attached hereto over the Performance Period (as defined below). The actual number of Performance Units the Participant earns may be greater or less than the Target Award, or even zero, based on the Company's TSR percentile ranking relative to the TSR performance of the companies in the Peer Group, as follows:

[INSERT RELATIVE TSR PERFORMANCE CURVE HERE]

If the Company's actual TSR performance is between measuring points, the number of Performance Units the Participant earns will be interpolated. If the Company's actual TSR performance is below the threshold, no Performance Units will be earned and all of Performance Units will be forfeited. If the Company's actual TSR performance is greater than the maximum, only the maximum number of Performance Units will be earned.

(c) TSR represents stock price performance and dividend accumulation over the Performance Period for the Company and Peer Group. For purposes of this calculation, the initial stock price and the ending stock price are determined using the twenty (20) day average stock price for December 31, 2023, and December 31, 2026, as applicable. The twenty (20) day average stock price is the average of the daily closing stock prices for the twenty (20) trading days that end on the applicable December 31. If December 31 is not a trading day, the closing stock price on the first trading day prior to December 31 shall be used. To determine stock price performance, each closing stock price shall be adjusted by a dividend adjustment factor. The dividend adjustment factor takes into account each per share dividend paid for the Performance Period as well as the effect of any appreciation in stock price by reason of deeming the dividend to be reinvested in the stock. The dividend adjusted price provides the closing price for the requested day, week, or month, adjusted for all applicable splits and dividend distributions. At the end of the Performance Period, the TSR for the Company, and for each company in the Peer Group, shall be determined pursuant to the following formula:

$$\text{TSR} = \frac{(\text{Dividend Adjusted Ending Stock Price} - \text{Dividend Adjusted Initial Stock Price})}{\text{Dividend Adjusted Initial Stock Price}}$$

The result shall be rounded to the nearest hundredth of one percent (.01%).

(d) As soon as administratively practicable following the end of the Performance Period (as defined in Paragraph 3(f) below), the Committee will determine whether and to what extent the Performance Goal has been met and the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(e) If a Change of Control occurs prior to the end of the Performance Period, the Company is not the surviving corporation (or survives only as a subsidiary of another corporation or entity (the "surviving corporation")) and the Performance Units are not converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation), then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the Target Award level as of the date of the Change of Control (the "Change of Control Date"). In the event the Participant's Performance Units are assumed by the surviving corporation but the Participant ceases to be employed by, or providing service to, the surviving corporation (or a parent or subsidiary of the surviving corporation) within twelve (12) months after the date of the Change of Control on account of (i) a termination of such Participant's employment by the surviving corporation (or a parent or subsidiary of the surviving corporation) for any reason other than on account of Cause (as defined in paragraph 4(c) hereof), or on account of death or Disability (each as defined in the Plan), or (ii) a termination of employment or service by the Participant for Good Reason (as defined in the Plan), then the Performance Period will end on the date of such termination of employment or service (the "Termination Date") and the Performance Units will be deemed earned at the Target Award level as of the Termination Date. For purposes of this Grant, "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and its corresponding regulations.

(f) For purposes of this Grant, the term "Performance Period" shall mean the three (3)-year period beginning on January 1, 2024 and ending December 31, 2026, and the term "Peer Group" shall mean those companies included in Exhibit A. If at any time during the Performance Period a company in the Peer Group is no longer a publicly traded entity, such company shall be removed from the Peer Group as of January 1 of the year in which the company is no longer publicly traded.

4. Termination of Employment or Service.

(a) Except as set forth in Paragraph 3(e), if, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a

termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the Performance Goal and the requirements of this Grant are met as of the last day of the Performance Period. The pro-rata portion earned will be equal to the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2025, but prior to January 31, 2026; (ii) 2/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2026, but prior to January 31, 2027; and (iii) 3/3, if the Participant's employment or service terminates with the Employer on or after January 31, 2027. If the Participant ceases to be employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units earned by the Participant pursuant to this Paragraph 4(a) will be distributed in accordance with Paragraph 5.

(b) If at any time prior to the earlier of January 31, 2025 or a Change of Control, the Participant's employment or service with the Employer is terminated by the Employer on account of any reason or no reason or by the Participant for any reason or no reason, all of the Performance Units subject to this Grant shall be immediately forfeited as of the date of the Participant's termination of employment or service with the Employer and the Participant shall not have any rights with respect to the distribution of any portion of the Performance Units.

(c) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the Performance Goal. For purposes of this Grant, "Cause" shall mean a finding by the Committee that the Participant (i) has breached his or her employment or service contract with the Employer, if any; (ii) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (iii) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (iv) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (v) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned as described in Paragraphs 3 and 4 above within seventy (70) days following the earliest of (a) January 31, 2027 (the "Distribution Date"), (b) the Change of Control Date or (c) the Termination Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the Performance Goal and service condition will be immediately forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that, except as to any election made by the Participant to accelerate the Deferred Date in the event of his or her death prior to the Deferred Date, (a) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (b) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (c) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant, as well as 100% of the other performance stock units, including corresponding dividend equivalents, earned by the Participant under the 2024 LTPP, complete the deferral election form provided to the Participant and return such form to the Company in the manner and by the deadline provided therein. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date or the Termination Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date or the Termination Date, as applicable. If a Distribution Date is delayed one or more times pursuant to any election made by the Participant pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected), the Change of Control Date or the Termination Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant in a lump sum cash equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems

appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that, with respect to any right to distribution pursuant to the Plan or this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code section 409A, the obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock upon conversion of the earned Performance Units, the Participant agrees:

i. to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and/or from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and the Personal Securities Trading and Preclearance Practice; and

ii. that any shares of Company Stock received by the Participant upon the distribution of the earned Performance Units pursuant to this Grant shall be subject to the guidelines and restrictions set forth in the Company's Executive Stock Ownership Guidelines and Executive Stock Retention Requirements, effective as of July 26, 2022 (and as they may be amended, restated, supplemented and interpreted), and any applicable clawback or compensation recovery or recoupment policies and other policies

that may be approved by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

11. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

12. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (a) rights and obligations with respect to withholding taxes, (b) the registration, qualification or listing of the shares of Company Stock, (c) changes in capitalization of the Company, and (d) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (i) to be bound by the terms of the Plan and this Grant, (ii) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (iii) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

13. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except with respect to the dividend equivalent rights provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

14. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

15. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company

hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

16. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant may, at the Committee's discretion, be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

17. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

18. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflict of laws provisions thereof.

19. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be (i) delivered by hand, (ii) delivered by a national overnight courier or delivery service, (iii) enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service, or (iv) in the case of notices by the Company to the Participant, delivered by e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means).

20. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Performance Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended

without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

21. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: M. Susan Hardwick

Its: President and CEO

PSU Grant A

Exhibit A

PEER GROUP COMPANIES

[INSERT LIST OF PEER GROUP COMPANIES HERE]

Exhibit 10.4

AMERICAN WATER WORKS COMPANY, INC.
2017 OMNIBUS EQUITY COMPENSATION PLAN
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of February 13, 2024 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to _____ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan")) has adopted a 2024 Long Term Performance Plan ("2024 LTPP") pursuant to which designated employees will be granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value $0.01 per share (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants: a restricted stock unit and three performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2024 LTPP and to grant the Participant an Equity Award under the 2024 LTPP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2024 LTPP shall be issued under the Plan, and the terms and conditions of the performance stock unit grant that may be earned based on the Performance Goal (defined below) relating to the Company's Total Stockholder Return shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant _____ performance stock units (the "Performance Units"). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the Performance Goal and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the Performance Goal described in Paragraph 3 below (the "Target Award").

2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the "Performance Unit Account") for the Participant and shall record in such Performance Unit Account the number of Performance Units granted to the Participant. The Participant shall not have any interest in any fund or specific

assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

3. Performance Goal.

(a) Unless a Change of Control (as defined below) occurs prior to the end of the Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goal described in subparagraph (b) below for the Performance Period (the "Performance Goal") and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) The Company's Total Stockholder Return ("TSR") (as described in subparagraph (c) below) will be compared to the TSR of the Peer Group companies set forth in Exhibit A attached hereto over the Performance Period (as defined below). The actual number of Performance Units the Participant earns may be greater or less than the Target Award, or even zero, based on the Company's TSR percentile ranking relative to the TSR performance of the companies in the Peer Group, as follows:

[INSERT RELATIVE TSR PERFORMANCE CURVE HERE]

If the Company's actual TSR performance is between measuring points, the number of Performance Units the Participant earns will be interpolated. If the Company's actual TSR performance is below the threshold, no Performance Units will be earned and all of Performance Units will be forfeited. If the Company's actual TSR performance is greater than the maximum, only the maximum number of Performance Units will be earned.

(c) TSR represents stock price performance and dividend accumulation over the Performance Period for the Company and Peer Group. For purposes of this calculation, the initial stock price and the ending stock price are determined using the twenty (20) day average stock price for December 31, 2023, and December 31, 2026, as applicable. The twenty (20) day average stock price is the average of the daily closing stock prices for the twenty (20) trading days that end on the applicable December 31. If December 31 is not a trading day, the closing stock price on the first trading day prior to December 31 shall be used. To determine stock price performance, each closing stock price shall be adjusted by a dividend adjustment factor. The dividend adjustment factor takes into account each per share dividend paid for the Performance Period as well as the effect of any appreciation in stock price by reason of deeming the dividend to be reinvested in the stock. The dividend adjusted price provides the closing price for the requested day, week, or month, adjusted for all applicable splits and dividend distributions. At the end of the Performance Period, the TSR for the Company, and for each company in the Peer Group, shall be determined pursuant to the following formula:

$$\text{TSR} = \frac{(\text{Dividend Adjusted Ending Stock Price} - \text{Dividend Adjusted Initial Stock Price})}{\text{Dividend Adjusted Initial Stock Price}}$$

The result shall be rounded to the nearest hundredth of one percent (.01%).

(d) As soon as administratively practicable following the end of the Performance Period (as defined in Paragraph 3(f) below), the Committee will determine whether and to what extent the Performance Goal has been met and the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(e) If a Change of Control occurs prior to the end of the Performance Period, the Company is not the surviving corporation (or survives only as a subsidiary of another corporation or entity (the "surviving corporation")) and the Performance Units are not converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation), then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the Target Award level as of the date of the Change of Control (the "Change of Control Date"). In the event the Participant's Performance Units are assumed by the surviving corporation but the Participant ceases to be employed by, or providing service to, the surviving corporation (or a parent or subsidiary of the surviving corporation) within twelve (12) months after the date of the Change of Control on account of (i) a termination of such Participant's employment by the surviving corporation (or a parent or subsidiary of the surviving corporation) for any reason other than on account of Cause (as defined in paragraph 4(e) hereof), or on account of death or Disability (each as defined in the Plan), or (ii) a termination of employment or service by the Participant for Good Reason (as defined in the Plan), then the Performance Period will end on the date of such termination of employment or service (the "Termination Date") and the Performance Units will be deemed earned at the Target Award level as of the Termination Date. For purposes of this Grant, "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and its corresponding regulations.

(f) For purposes of this Grant, the term "Performance Period" shall mean the three (3)-year period beginning on January 1, 2024 and ending December 31, 2026, and the term "Peer Group" shall mean those companies included in Exhibit A. If at any time during the Performance Period a company in the Peer Group is no longer a publicly traded entity, such company shall be removed from the Peer Group as of January 1 of the year in which the company is no longer publicly traded.

4. Termination of Employment or Service.

(a) Except as set forth in Paragraphs 3(e), 4(b), or 4(c), if, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the Performance Goal and the requirements of this Grant are met as of the last day of the Performance Period. The pro-rata portion earned will be equal to the

number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2025, but prior to January 31, 2026; (ii) 2/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2026, but prior to January 31, 2027; and (iii) 3/3, if the Participant's employment or service terminates with the Employer on or after January 31, 2027. If the Participant ceases to be employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units earned by the Participant pursuant to this Paragraph 4(a) will be distributed in accordance with Paragraph 5.

(b) Notwithstanding any provision of this Agreement to the contrary, if prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of Normal Retirement, then the Participant will earn the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, if the Performance Goal and the requirements of this Grant are met as of the last day of the Performance Period. If the Participant ceases to be employed by, or provide service to, the Employer on account of Normal Retirement pursuant to this subparagraph (b), the number of Performance Units that are earned based on the Performance Goal and other requirements of this Grant will be distributed in accordance with Paragraph 5. For purposes of this Grant, "Normal Retirement" shall mean termination of employment or service with the Employer (other than for Cause) after the Participant has attained age sixty (60) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof.

(c) Notwithstanding any provision of this Agreement to the contrary, if prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of Early Retirement, then the Participant will earn 75% of the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, if the Performance Goal and the requirements of this Grant are met as of the last day of the Performance Period, and unearned Performance Units shall be immediately forfeited. If the Participant ceases to be employed by, or provide service to, the Employer on account of Early Retirement pursuant to this subparagraph (c), then the number of Performance Units that are earned based on the Performance Goal and other requirements of this Grant will be distributed in accordance with Paragraph 5. For purposes of this Grant, "Early Retirement" shall mean termination of employment or service with the Employer (other than for Cause) after the Participant has attained age fifty-five (55) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof.

(d) Except as set forth in Paragraphs 4(b) or 4(c), if at any time prior to the earlier of January 31, 2025 or a Change of Control, the Participant's employment or service with the

Employer is terminated by the Employer on account of any reason or no reason or by the Participant for any reason or no reason, all of the Performance Units subject to this Grant shall be immediately forfeited as of the date of the Participant's termination of employment or service with the Employer and the Participant shall not have any rights with respect to the distribution of any portion of the Performance Units.

(e) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the Performance Goal. For purposes of this Grant, "Cause" shall mean a finding by the Committee that the Participant (i) has breached his or her employment or service contract with the Employer, if any; (ii) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (iii) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (iv) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (v) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned as described in Paragraphs 3 and 4 above within seventy (70) days following the earliest of (a) January 31, 2027 (the "Distribution Date"), (b) the Change of Control Date or (c) the Termination Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the Performance Goal and service condition will be immediately forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that, except as to any election made by the Participant to accelerate the Deferred Date in the event of his or her death prior to the Deferred Date, (a) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (b) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (c) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant, as well as 100% of the other performance stock units, including corresponding dividend equivalents, earned by the Participant under the 2024 LTPP, complete the deferral election form provided to the Participant and return such form to the Company in the

manner and by the deadline provided therein. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date or the Termination Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date or the Termination Date, as applicable. If a Distribution Date is delayed one or more times pursuant to any election made by the Participant pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected), the Change of Control Date or the Termination Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant in a lump sum cash equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that, with respect to any right to distribution pursuant to the Plan or this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code section 409A, the obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is

necessary to issue shares of Company Stock has been so obtained, and that shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock upon conversion of the earned Performance Units, the Participant agrees:

i. to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and/or from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and the Personal Securities Trading and Preclearance Practice; and

ii. that any shares of Company Stock received by the Participant upon the distribution of the earned Performance Units pursuant to this Grant shall be subject to the guidelines and restrictions set forth in the Company's Executive Stock Ownership Guidelines and Executive Stock Retention Requirements, effective as of July 26, 2022 (and as they may be amended, restated, supplemented and interpreted), and any applicable clawback or compensation recovery or recoupment policies and other policies that may be approved by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

11. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

12. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (a) rights and obligations with respect to withholding taxes, (b) the registration, qualification or listing of the shares of Company Stock, (c) changes in capitalization of the Company, and (d) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of

the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (i) to be bound by the terms of the Plan and this Grant, (ii) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (iii) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

13. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except with respect to the dividend equivalent rights provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

14. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

15. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

16. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant may, at the Committee's discretion, be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

17. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

18. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflict of laws provisions thereof.

19. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be (i) delivered by hand, (ii) delivered by a national overnight courier or delivery service, (iii) enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service, or (iv) in the case of notices by the Company to the Participant, delivered by e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means).

20. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Performance Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

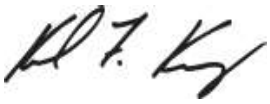
21. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused this Grant to be executed, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: Karl F. Kurz



Its: Board Chair

PSU Grant A

Exhibit A

PEER GROUP COMPANIES

[INSERT LIST OF PEER GROUP COMPANIES HERE]

Exhibit 10.5

AMERICAN WATER WORKS COMPANY, INC.
2017 OMNIBUS EQUITY COMPENSATION PLAN
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of February 13, 2024 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to _____ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan")) has adopted a 2024 Long Term Performance Plan ("2024 LTPP") pursuant to which designated employees will be granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value $0.01 per share (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants: a restricted stock unit and three performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2024 LTPP and to grant the Participant an Equity Award under the 2024 LTPP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2024 LTPP shall be issued under the Plan, and the terms and conditions of the performance stock unit grant that may be earned based on Performance Goals (defined below) relating to compounded earnings per share, as set forth in Exhibit A attached hereto, shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant _____ performance stock units (the "Performance Units"). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the Performance Goals and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the Performance Goals described in this Grant (the "Target Award").

2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the "Performance Unit Account") for the Participant and shall record in such Performance Unit Account the number of Performance Units granted to the Participant. The Participant shall not have any interest in any fund or specific

assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

3. Performance Goals.

(a) Unless a Change of Control (as defined below) occurs prior to the end of the Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goals set forth in Exhibit A attached hereto (the "Performance Goals") and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) As soon as administratively practicable following the end of the Performance Period (as defined in Paragraph 3(d) below), the Committee will determine whether and to what extent the Performance Goals have been met and the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(c) If a Change of Control occurs prior to the end of the Performance Period, the Company is not the surviving corporation (or survives only as a subsidiary of another corporation or entity (the "surviving corporation")) and the Performance Units are not converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation), then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the Target Award level as of the date of the Change of Control (the "Change of Control Date"). In the event the Participant's Performance Units are assumed by the surviving corporation but the Participant ceases to be employed by, or providing service to, the surviving corporation (or a parent or subsidiary of the surviving corporation) within twelve (12) months after the date of the Change of Control on account of (i) a termination of such Participant's employment by the surviving corporation (or a parent of subsidiary of the surviving corporation) for any reason other than on account of Cause (as defined in paragraph 4(c) hereof), or on account of death or Disability (each as defined in the Plan), or (ii) a termination of employment or service by the Participant for Good Reason (as defined in the Plan), then the Performance Period will end on the date of such termination of employment or service (the "Termination Date") and the Performance Units will be deemed earned at the Target Award level as of the Termination Date. For purposes of this Grant, "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations.

(d) For purposes of this Grant, the term "Performance Period" shall mean the three (3)-year period beginning on January 1, 2024 and ending December 31, 2026.

4. Termination of Employment or Service.

(a) Except as set forth in Paragraph 3(c), if, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period. The pro-rata portion earned will be equal to the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2025, but prior to January 31, 2026; (ii) 2/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2026, but prior to January 31, 2027; and (iii) 3/3, if the Participant's employment or service terminates with the Employer on or after January 31, 2027. If the Participant ceases to be employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units earned by the Participant pursuant to this Paragraph 4(a) will be distributed in accordance with Paragraph 5.

(b) If at any time prior to the earlier of January 31, 2025 or a Change of Control, the Participant's employment or service with the Employer is terminated by the Employer on account of any reason or no reason or by the Participant for any reason or no reason, all of the Performance Units subject to this Grant shall be immediately forfeited as of the date of the Participant's termination of employment or service with the Employer and the Participant shall not have any rights with respect to the distribution of any portion of the Performance Units.

(c) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the Performance Goals. For purposes of this Grant, "Cause" shall mean a finding by the Committee that the Participant (i) has breached his or her employment or service contract with the Employer, if any; (ii) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (iii) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (iv) has breached any written noncompetition or non-solicitation agreement between the Participant and the Employer; or (v) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned as described in Paragraphs 3 and 4 above within seventy (70) days following the earliest of (a) January 31, 2027 (the "Distribution Date"), (b) the Change of Control Date, or (c) the Termination Date. The Performance Units will be distributed in shares of

Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the Performance Goals and service condition will be immediately forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that, except as to any election made by the Participant to accelerate the Deferred Date in the event of his or her death prior to the Deferred Date, (a) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (b) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (c) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant, as well as 100% of the other performance stock units, including corresponding dividend equivalents, earned by the Participant under the 2024 LTPP, complete the deferral election form provided to the Participant, and return such form to the Company in the manner and by the deadline provided therein. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date or the Termination Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date or the Termination Date, as applicable. If a Distribution Date is delayed one or more times pursuant to any election made by the Participant pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected), the Change of Control Date or the Termination Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant in a lump sum cash equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that, with respect to any right to distribution pursuant to the Plan or this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code section 409A, the obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock upon conversion of the earned Performance Units, the Participant agrees:

(i) to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and/or from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and the Personal Securities Trading and Preclearance Practice; and

(ii) that any shares of Company Stock received by the Participant upon the distribution of the earned Performance Units pursuant to this Grant shall be subject to the guidelines and restrictions set forth in the Company's Executive

Stock Ownership Guidelines and Executive Stock Retention Requirements, effective as of July 26, 2022 (and as they may be amended, restated, supplemented and interpreted), and any applicable clawback or compensation recovery or recoupment policies and other policies that may be approved by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

11. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

12. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (a) rights and obligations with respect to withholding taxes, (b) the registration, qualification or listing of the shares of Company Stock, (c) changes in capitalization of the Company, and (d) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (i) to be bound by the terms of the Plan and this Grant, (ii) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (iii) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

13. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except with respect to the dividend equivalent rights provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

14. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

15. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign,

pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

16. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant may, at the Committee's discretion, be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

17. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

18. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflict of laws provisions thereof.

19. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be (i) delivered by hand, (ii) delivered by a national overnight courier or delivery service, (iii) enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service, or (iv) in the case of notices by the Company to the Participant, delivered by e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means).

20. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Performance Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a

manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

21. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[*SIGNATURE PAGE FOLLOWS*]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: M. Susan Hardwick

Its: President and CEO

"PSU GRANT B – EPS"

EXHIBIT A

PERFORMANCE GOALS

The number of Performance Units that may be earned shall be determined based on the achievement of Compounded Earnings Per Share Growth (as described below) over the Performance Period.

[INSERT COMPOUNDED EARNINGS PER SHARE GROWTH TARGET AND CALCULATION HERE]

Exhibit 10.6

AMERICAN WATER WORKS COMPANY, INC.
2017 OMNIBUS EQUITY COMPENSATION PLAN
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of February 13, 2024 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to _____ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan")) has adopted a 2024 Long Term Performance Plan ("2024 LTPP") pursuant to which designated employees will be granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value $0.01 per share (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants: a restricted stock unit and three performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2024 LTPP and to grant the Participant an Equity Award under the 2024 LTPP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2024 LTPP shall be issued under the Plan, and the terms and conditions of the performance stock unit grant that may be earned based on Performance Goals (defined below) relating to compounded earnings per share, as set forth in Exhibit A attached hereto, shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant _____ performance stock units (the "Performance Units"). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the Performance Goals and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the Performance Goals described in this Grant (the "Target Award").

2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the "Performance Unit Account") for the Participant and shall record in such Performance Unit Account the number of Performance Units granted to the Participant. The Participant shall not have any interest in any fund or specific

assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

3. Performance Goals.

(a) Unless a Change of Control (as defined below) occurs prior to the end of the Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goals set forth in Exhibit A attached hereto (the "Performance Goals") and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) As soon as administratively practicable following the end of the Performance Period (as defined in Paragraph 3(d) below), the Committee will determine whether and to what extent the Performance Goals have been met and the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(c) If a Change of Control occurs prior to the end of the Performance Period, the Company is not the surviving corporation (or survives only as a subsidiary of another corporation or entity (the "surviving corporation")) and the Performance Units are not converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation), then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the Target Award level as of the date of the Change of Control (the "Change of Control Date"). In the event the Participant's Performance Units are assumed by the surviving corporation but the Participant ceases to be employed by, or providing service to, the surviving corporation (or a parent or subsidiary of the surviving corporation) within twelve (12) months after the date of the Change of Control on account of (i) a termination of such Participant's employment by the surviving corporation (or a parent of subsidiary of the surviving corporation) for any reason other than on account of Cause (as defined in Paragraph 4(e) hereof), or on account of death or Disability (each as defined in the Plan), or (ii) a termination of employment or service by the Participant for Good Reason (as defined in the Plan), then the Performance Period will end on the date of such termination of employment or service (the "Termination Date") and the Performance Units will be deemed earned at the Target Award level as of the Termination Date. For purposes of this Grant, "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations.

(d) For purposes of this Grant, the term "Performance Period" shall mean the three (3)-year period beginning on January 1, 2024 and ending December 31, 2026.

4. Termination of Employment or Service.

(a) Except as set forth in Paragraphs 3(c) 4(b) or 4(c), if, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period. The pro-rata portion earned will be equal to the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2025, but prior to January 31, 2026; (ii) 2/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2026, but prior to January 31, 2027; and (iii) 3/3, if the Participant's employment or service terminates with the Employer on or after January 31, 2027. If the Participant ceases to be employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units earned by the Participant pursuant to this Paragraph 4(a) will be distributed in accordance with Paragraph 5.

(b) Notwithstanding any provision of this Agreement to the contrary, if prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of Normal Retirement, then the Participant will earn the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period. If the Participant ceases to be employed by, or provide service to, the Employer on account of Normal Retirement pursuant to this subparagraph (b), the number of Performance Units that are earned based on the Performance Goals and other requirements of this Grant will be distributed in accordance with Paragraph 5. For purposes of this Grant, "Normal Retirement" shall mean termination of employment or service with the Employer (other than for Cause) after the Participant has attained age sixty (60) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof.

(c) Notwithstanding any provision of this Agreement to the contrary, if prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of Early Retirement, then the Participant will earn 75% of the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period, and unearned Performance Units shall be immediately forfeited. If the Participant ceases to be employed by, or provide service to, the Employer on account of Early Retirement pursuant to this subparagraph (c), then the number of Performance Units that are earned based on the Performance Goals and other requirements of this Grant will be distributed in accordance with Paragraph 5. For purposes of this Grant, "Early

Retirement" shall mean termination of employment or service with the Employer (other than for Cause) after the Participant has attained age fifty-five (55) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof.

(d) Except as set forth in Paragraphs 4(b) or 4(c), if at any time prior to the earlier of January 31, 2025 or a Change of Control, the Participant's employment or service with the Employer is terminated by the Employer on account of any reason or no reason or by the Participant for any reason or no reason, all of the Performance Units subject to this Grant shall be immediately forfeited as of the date of the Participant's termination of employment or service with the Employer and the Participant shall not have any rights with respect to the distribution of any portion of the Performance Units.

(e) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the Performance Goals. For purposes of this Grant, "Cause" shall mean a finding by the Committee that the Participant (i) has breached his or her employment or service contract with the Employer, if any; (ii) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (iii) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (iv) has breached any written noncompetition or non-solicitation agreement between the Participant and the Employer; or (v) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned as described in Paragraphs 3 and 4 above within seventy (70) days following the earliest of (a) January 31, 2027 (the "Distribution Date"), (b) the Change of Control Date, or (c) the Termination Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the Performance Goals and service condition will be immediately forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that, except as to any election made by the Participant to accelerate the Deferred Date in the event of his or her death prior to the Deferred Date, (a) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (b) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the

applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (c) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant, as well as 100% of the other performance stock units, including corresponding dividend equivalents, earned by the Participant under the 2024 LTPP, complete the deferral election form provided to the Participant, and return such form to the Company in the manner and by the deadline provided therein. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date or the Termination Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date or the Termination Date, as applicable. If a Distribution Date is delayed one or more times pursuant to any election made by the Participant pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected), the Change of Control Date or the Termination Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant in a lump sum cash equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that, with respect to any right to distribution pursuant to the Plan or this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim

any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code section 409A, the obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock upon conversion of the earned Performance Units, the Participant agrees:

(i) to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and/or from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and the Personal Securities Trading and Preclearance Practice; and

(ii) that any shares of Company Stock received by the Participant upon the distribution of the earned Performance Units pursuant to this Grant shall be subject to the guidelines and restrictions set forth in the Company's Executive Stock Ownership Guidelines and Executive Stock Retention Requirements, effective as of July 26, 2022 (and as they may be amended, restated, supplemented and interpreted), and any applicable clawback or compensation recovery or recoupment policies and other policies that may be approved by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

11. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

12. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (a) rights and obligations with respect to withholding taxes, (b) the registration, qualification or listing of the shares of Company Stock, (c) changes in capitalization of the Company, and (d) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (i) to be bound by the terms of the Plan and this Grant, (ii) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (iii) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

13. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except with respect to the dividend equivalent rights provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

14. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

15. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

16. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant may, at the Committee's

discretion, be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

17. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

18. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflict of laws provisions thereof.

19. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be (i) delivered by hand, (ii) delivered by a national overnight courier or delivery service, (iii) enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service, or (iv) in the case of notices by the Company to the Participant, delivered by e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means).

20. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Performance Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

21. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or

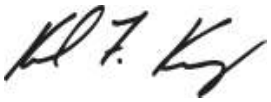
unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[*SIGNATURE PAGE FOLLOWS*]

IN WITNESS WHEREOF, the Company has caused this Grant to be executed, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: Karl F. Kurz



Its: Board Chair

"PSU GRANT B – EPS"

EXHIBIT A

PERFORMANCE GOALS

The number of Performance Units that may be earned shall be determined based on the achievement of Compounded Earnings Per Share Growth (as described below) over the Performance Period.

[INSERT COMPOUNDED EARNINGS PER SHARE GROWTH TARGET AND CALCULATION HERE]

Exhibit 10.7

AMERICAN WATER WORKS COMPANY, INC.
2017 OMNIBUS EQUITY COMPENSATION PLAN
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of February 13, 2024 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to _____ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan")) has adopted a 2024 Long Term Performance Plan ("2024 LTPP") pursuant to which designated employees will be granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value $0.01 per share (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants: a restricted stock unit and three performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2024 LTPP and to grant the Participant an Equity Award under the 2024 LTPP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2024 LTPP shall be issued under the Plan, and the terms and conditions of the performance stock unit grant that may be earned based on Performance Goals (defined below) relating to return on equity, as set forth in Exhibit A attached hereto, shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant _____ performance stock units (the "Performance Units"). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the Performance Goals and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the Performance Goals described in this Grant (the "Target Award").

2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the "Performance Unit Account") for the Participant and shall record in such Performance Unit Account the number of Performance Units granted to the Participant. The Participant shall not have any interest in any fund or specific

assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

3. Performance Goals.

(a) Unless a Change of Control (as defined below) occurs prior to the end of the Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goals set forth in Exhibit A attached hereto (the "Performance Goals") and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) As soon as administratively practicable following the end of the Performance Period (as defined in Paragraph 3(d) below), the Committee will determine whether and to what extent the Performance Goals have been met and the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(c) If a Change of Control occurs prior to the end of the Performance Period, the Company is not the surviving corporation (or survives only as a subsidiary of another corporation or entity (the "surviving corporation")) and the Performance Units are not converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation), then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the Target Award level as of the date of the Change of Control (the "Change of Control Date"). In the event the Participant's Performance Units are assumed by the surviving corporation but the Participant ceases to be employed by, or providing service to, the surviving corporation (or a parent or subsidiary of the surviving corporation) within twelve (12) months after the date of the Change of Control on account of (i) a termination of such Participant's employment by the surviving corporation (or a parent of subsidiary of the surviving corporation) for any reason other than on account of Cause (as defined in paragraph 4(c) hereof), or on account of death or Disability (each as defined in the Plan), or (ii) a termination of employment or service by the Participant for Good Reason (as defined in the Plan), then the Performance Period will end on the date of such termination of employment or service (the "Termination Date") and the Performance Units will be deemed earned at the Target Award level as of the Termination Date. For purposes of this Grant, "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations.

(d) For purposes of this Grant, the term "Performance Period" shall mean the three (3)-year period beginning on January 1, 2024 and ending December 31, 2026.

4. Termination of Employment or Service.

(a) Except as set forth in Paragraph 3(c), if, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period. The pro-rata portion earned will be equal to the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2025, but prior to January 31, 2026; (ii) 2/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2026, but prior to January 31, 2027; and (iii) 3/3, if the Participant's employment or service terminates with the Employer on or after January 31, 2027. If the Participant ceases to be employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units earned by the Participant pursuant to this Paragraph 4(a) will be distributed in accordance with Paragraph 5.

(b) If at any time prior to the earlier of January 31, 2025 or a Change of Control, the Participant's employment or service with the Employer is terminated by the Employer on account of any reason or no reason or by the Participant for any reason or no reason, all of the Performance Units subject to this Grant shall be immediately forfeited as of the date of the Participant's termination of employment or service with the Employer and the Participant shall not have any rights with respect to the distribution of any portion of the Performance Units.

(c) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the Performance Goals. For purposes of this Grant, "Cause" shall mean a finding by the Committee that the Participant (i) has breached his or her employment or service contract with the Employer, if any; (ii) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (iii) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (iv) has breached any written noncompetition or non-solicitation agreement between the Participant and the Employer; or (v) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned as described in Paragraphs 3 and 4 above within seventy (70) days following the earliest of (a) January 31, 2027 (the "Distribution Date"), (b) the Change of Control Date, or (c) the Termination Date. The Performance Units will be distributed in shares of

Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the Performance Goals and service condition will be immediately forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that, except as to any election made by the Participant to accelerate the Deferred Date in the event of his or her death prior to the Deferred Date, (a) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (b) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (c) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant, as well as 100% of the other performance stock units, including corresponding dividend equivalents, earned by the Participant under the 2024 LTPP, complete the deferral election form provided to the Participant, and return such form to the Company in the manner and by the deadline provided therein. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date or the Termination Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date or the Termination Date, as applicable. If a Distribution Date is delayed one or more times pursuant to any election made by the Participant pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected), the Change of Control Date or the Termination Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant in a lump sum cash equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that, with respect to any right to distribution pursuant to the Plan or this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code section 409A, the obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock upon conversion of the earned Performance Units, the Participant agrees:

(i) to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and/or from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and the Personal Securities Trading and Preclearance Practice; and

(ii) that any shares of Company Stock received by the Participant upon the distribution of the earned Performance Units pursuant to this Grant shall be subject to the guidelines and restrictions set forth in the Company's Executive

Stock Ownership Guidelines and Executive Stock Retention Requirements, effective as of July 26, 2022 (and as they may be amended, restated, supplemented and interpreted), and any applicable clawback or compensation recovery or recoupment policies and other policies that may be approved by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

11. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

12. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (a) rights and obligations with respect to withholding taxes, (b) the registration, qualification or listing of the shares of Company Stock, (c) changes in capitalization of the Company, and (d) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (i) to be bound by the terms of the Plan and this Grant, (ii) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (iii) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

13. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except with respect to the dividend equivalent rights provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

14. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

15. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign,

pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

16. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant may, at the Committee's discretion, be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

17. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

18. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflict of laws provisions thereof.

19. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be (i) delivered by hand, (ii) delivered by a national overnight courier or delivery service, (iii) enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service, or (iv) in the case of notices by the Company to the Participant, delivered by e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means).

20. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Performance Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a

manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

21. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[*SIGNATURE PAGE FOLLOWS*]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: M. Susan Hardwick

Its: President and CEO

"PSU GRANT C – ROE"

EXHIBIT A

PERFORMANCE GOALS

The number of Performance Units that may be earned shall be determined based on the achievement of the Return on Equity (as described below) over the Performance Period.

[INSERT RETURN ON EQUITY TARGET AND CALCULATION HERE]

Exhibit 10.8

AMERICAN WATER WORKS COMPANY, INC.
2017 OMNIBUS EQUITY COMPENSATION PLAN
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of February 13, 2024 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to _____ (the "Participant").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan")) has adopted a 2024 Long Term Performance Plan ("2024 LTPP") pursuant to which designated employees will be granted equity awards (collectively, the "Equity Award") for shares of Common Stock of the Company, par value $0.01 per share (the "Company Stock");

WHEREAS, the Equity Award is comprised of four separate grants: a restricted stock unit and three performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2024 LTPP and to grant the Participant an Equity Award under the 2024 LTPP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2024 LTPP shall be issued under the Plan, and the terms and conditions of the performance stock unit grant that may be earned based on Performance Goals (defined below) relating to return on equity, as set forth in Exhibit A attached hereto, shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant _____ performance stock units (the "Performance Units"). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the Performance Goals and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the Performance Goals described in this Grant (the "Target Award").

2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the "Performance Unit Account") for the Participant and shall record in such Performance Unit Account the number of Performance Units granted to the Participant. The Participant shall not have any interest in any fund or specific

assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

3. Performance Goals.

(a) Unless a Change of Control (as defined below) occurs prior to the end of the Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goals set forth in Exhibit A attached hereto (the "Performance Goals") and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) As soon as administratively practicable following the end of the Performance Period (as defined in Paragraph 3(d) below), the Committee will determine whether and to what extent the Performance Goals have been met and the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(c) If a Change of Control occurs prior to the end of the Performance Period, the Company is not the surviving corporation (or survives only as a subsidiary of another corporation or entity (the "surviving corporation")) and the Performance Units are not converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation), then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the Target Award level as of the date of the Change of Control (the "Change of Control Date"). In the event the Participant's Performance Units are assumed by the surviving corporation but the Participant ceases to be employed by, or providing service to, the surviving corporation (or a parent or subsidiary of the surviving corporation) within twelve (12) months after the date of the Change of Control on account of (i) a termination of such Participant's employment by the surviving corporation (or a parent of subsidiary of the surviving corporation) for any reason other than on account of Cause (as defined in Paragraph 4(e) hereof), or on account of death or Disability (each as defined in the Plan), or (ii) a termination of employment or service by the Participant for Good Reason (as defined in the Plan), then the Performance Period will end on the date of such termination of employment or service (the "Termination Date") and the Performance Units will be deemed earned at the Target Award level as of the Termination Date. For purposes of this Grant, "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations.

(d) For purposes of this Grant, the term "Performance Period" shall mean the three (3)-year period beginning on January 1, 2024 and ending December 31, 2026.

4. Termination of Employment or Service.

(a) Except as set forth in Paragraphs 3(c) 4(b) or 4(c), if, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period. The pro-rata portion earned will be equal to the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2025, but prior to January 31, 2026; (ii) 2/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2026, but prior to January 31, 2027; and (iii) 3/3, if the Participant's employment or service terminates with the Employer on or after January 31, 2027. If the Participant ceases to be employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units earned by the Participant pursuant to this Paragraph 4(a) will be distributed in accordance with Paragraph 5.

(b) Notwithstanding any provision of this Agreement to the contrary, if prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of Normal Retirement, then the Participant will earn the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period. If the Participant ceases to be employed by, or provide service to, the Employer on account of Normal Retirement pursuant to this subparagraph (b), the number of Performance Units that are earned based on the Performance Goals and other requirements of this Grant will be distributed in accordance with Paragraph 5. For purposes of this Grant, "Normal Retirement" shall mean termination of employment or service with the Employer (other than for Cause) after the Participant has attained age sixty (60) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof.

(c) Notwithstanding any provision of this Agreement to the contrary, if prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of Early Retirement, then the Participant will earn 75% of the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period, and unearned Performance Units shall be immediately forfeited. If the Participant ceases to be employed by, or provide service to, the Employer on account of Early Retirement pursuant to this subparagraph (c), then the number of Performance Units that are earned based on the Performance Goals and other requirements of this Grant will be distributed in accordance with Paragraph 5. For purposes of this Grant, "Early

Retirement" shall mean termination of employment or service with the Employer (other than for Cause) after the Participant has attained age fifty-five (55) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof.

(d) Except as set forth in Paragraphs 4(b) or 4(c), if at any time prior to the earlier of January 31, 2025 or a Change of Control, the Participant's employment or service with the Employer is terminated by the Employer on account of any reason or no reason or by the Participant for any reason or no reason, all of the Performance Units subject to this Grant shall be immediately forfeited as of the date of the Participant's termination of employment or service with the Employer and the Participant shall not have any rights with respect to the distribution of any portion of the Performance Units.

(e) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the Performance Goals. For purposes of this Grant, "Cause" shall mean a finding by the Committee that the Participant (i) has breached his or her employment or service contract with the Employer, if any; (ii) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (iii) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (iv) has breached any written noncompetition or non-solicitation agreement between the Participant and the Employer; or (v) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned as described in Paragraphs 3 and 4 above within seventy (70) days following the earliest of (a) January 31, 2027 (the "Distribution Date"), (b) the Change of Control Date, or (c) the Termination Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the Performance Goals and service condition will be immediately forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that, except as to any election made by the Participant to accelerate the Deferred Date in the event of his or her death prior to the Deferred Date, (a) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (b) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the

applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (c) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant, as well as 100% of the other performance stock units, including corresponding dividend equivalents, earned by the Participant under the 2024 LTPP, complete the deferral election form provided to the Participant, and return such form to the Company in the manner and by the deadline provided therein. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date or the Termination Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date or the Termination Date, as applicable. If a Distribution Date is delayed one or more times pursuant to any election made by the Participant pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected), the Change of Control Date or the Termination Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant in a lump sum cash equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that, with respect to any right to distribution pursuant to the Plan or this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim

any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code section 409A, the obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock upon conversion of the earned Performance Units, the Participant agrees:

(i) to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and/or from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and the Personal Securities Trading and Preclearance Practice; and

(ii) that any shares of Company Stock received by the Participant upon the distribution of the earned Performance Units pursuant to this Grant shall be subject to the guidelines and restrictions set forth in the Company's Executive Stock Ownership Guidelines and Executive Stock Retention Requirements, effective as of July 26, 2022 (and as they may be amended, restated, supplemented and interpreted), and any applicable clawback or compensation recovery or recoupment policies and other policies that may be approved by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

11. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

12. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (a) rights and obligations with respect to withholding taxes, (b) the registration, qualification or listing of the shares of Company Stock, (c) changes in capitalization of the Company, and (d) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (i) to be bound by the terms of the Plan and this Grant, (ii) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (iii) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

13. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except with respect to the dividend equivalent rights provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

14. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

15. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

16. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant may, at the Committee's

discretion, be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

17. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

18. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflict of laws provisions thereof.

19. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be (i) delivered by hand, (ii) delivered by a national overnight courier or delivery service, (iii) enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service, or (iv) in the case of notices by the Company to the Participant, delivered by e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means).

20. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Performance Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

21. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or

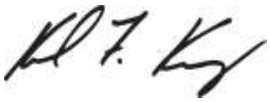
unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[*SIGNATURE PAGE FOLLOWS*]

IN WITNESS WHEREOF, the Company has caused this Grant to be executed, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: Karl F. Kurz



Its: Board Chair

"PSU GRANT C – ROE"

EXHIBIT A

PERFORMANCE GOALS

The number of Performance Units that may be earned shall be determined based on the achievement of the Return on Equity (as described below) over the Performance Period.

[INSERT RETURN ON EQUITY TARGET AND CALCULATION HERE]

Exhibit 22.1

AMERICAN WATER WORKS COMPANY, INC.

List of Securities Registered Under the Securities Act of 1933 (the "Securities Act") and Entitled to the Benefit of the Support Agreement between American Water Capital Corp. ("AWCC") and American Water Works Company, Inc. ("parent company")

The following securities have been issued by AWCC and registered under the Securities Act, and have the benefit of that certain Support Agreement, as amended, by and between AWCC and parent company, which serves as the functional equivalent of a full and unconditional guarantee by parent company of the payment obligations of AWCC thereunder:

3.400% Senior Notes due 2025
3.000% Senior Notes due 2026
2.950% Senior Notes due 2027
3.750% Senior Notes due 2028
3.450% Senior Notes due 2029
2.800% Senior Notes due 2030
2.300% Senior Notes due 2031
4.450% Senior Notes due 2032
5.150% Senior Notes due 2034
6.593% Senior Notes due 2037
4.300% Senior Notes due 2042
4.300% Senior Notes due 2045
4.000% Senior Notes due 2046
3.750% Senior Notes due 2047
4.200% Senior Notes due 2048
4.150% Senior Notes due 2049
3.450% Senior Notes due 2050
3.250% Senior Notes due 2051
5.450% Senior Notes due 2054

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, M. Susan Hardwick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2024

By: /s/ M. SUSAN HARDWICK

M. Susan Hardwick
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, John C. Griffith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2024

By: /s/ JOHN C. GRIFFITH

John C. Griffith
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Susan Hardwick, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ M. SUSAN HARDWICK

M. Susan Hardwick
President and Chief Executive Officer
(Principal Executive Officer)
May 1, 2024

Exhibit 32.2

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John C. Griffith, Executive Vice President and Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JOHN C. GRIFFITH

John C. Griffith
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
May 1, 2024

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2024

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 001-34028

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**51-0063696**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 Water Street, Camden, NJ 08102-1658
(Address of principal executive offices) (Zip Code)

(856) 955-4001
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock, par value $0.01 per share	**AWK**	**New York Stock Exchange**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.). ☐ Yes ☒ No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Shares Outstanding as of July 23, 2024
Common Stock, par value $0.01 per share	**194,863,034**

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* * *

Throughout this Quarterly Report on Form 10-Q ("Form 10-Q"), unless the context otherwise requires, references to the "Company" and "American Water" mean American Water Works Company, Inc. and all of its subsidiaries, taken together as a whole. References to the "parent company" mean American Water Works Company, Inc., without its subsidiaries.

The Company maintains a website at https://amwater.com, an Investor Relations website at https://ir.amwater.com, and a Diversity and Inclusion website at https://diversityataw.com. Information contained on the Company's websites, including its Sustainability Report, its Inclusion, Diversity and Equity Report, and other reports or documents, shall not be deemed incorporated into, or to be a part of, this report, and any website references included herein are not intended to be made through active hyperlinks.

FORWARD-LOOKING STATEMENTS

Statements included in Part I, Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations and in other sections of this Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995. In some cases, these forward-looking statements can be identified by words with prospective meanings such as "intend," "plan," "estimate," "believe," "anticipate," "expect," "predict," "project," "propose," "assume," "forecast," "likely," "uncertain," "outlook," "future," "pending," "goal," "objective," "potential," "continue," "seek to," "may," "can," "should," "will" and "could" or the negative of such terms or other variations or similar expressions. Forward-looking statements may relate to, among other things: the Company's future financial performance, liquidity and cash flows; the timing and amount of rate and revenue adjustments, including through general rate case filings, filings for infrastructure surcharges and other governmental agency authorizations and proceedings, and filings to address regulatory lag; the Company's ability to execute its current and long-term business, operational, capital expenditures and growth plans and strategies; the timing and outcome of pending or future acquisition activity, and the ability to achieve organic customer growth; the ability of the Company's California subsidiary to obtain adequate alternative water supplies in lieu of diversions from the Carmel River; the amount, allocation and timing of projected capital expenditures and related funding requirements; the Company's ability to repay or refinance debt; the future impacts of increased or increasing financing costs, inflation and interest rates; the Company's ability to finance current and projected operations, capital expenditure needs and growth initiatives by accessing the debt and equity capital markets and sources of short-term liquidity; the outcome and impact on the Company of governmental and regulatory investigations and proceedings and related potential fines, penalties and other sanctions; the ability to meet or exceed the Company's stated environmental and sustainability goals, including its greenhouse gas ("GHG") emission reduction, water delivery efficiency and water system resiliency goals; the ability to complete, and the timing and efficacy of, the design, development, implementation and improvement of technology and other strategic initiatives; the Company's ability to comply with new and changing environmental regulations; the ability to capitalize on existing or future utility privatization opportunities; trends in the water and wastewater industries in which the Company operates, including macro trends with respect to the Company's efforts related to customer, technology and work execution; regulatory, legislative, tax policy or legal developments; and impacts that future significant tax legislation may have on the Company and on its business, results of operations, cash flows and liquidity.

Forward-looking statements are predictions based on the Company's current expectations and assumptions regarding future events. They are not guarantees or assurances of any outcomes, financial results, levels of activity, performance or achievements, and readers are cautioned not to place undue reliance upon them. These forward-looking statements are subject to a number of estimates, assumptions, known and unknown risks, uncertainties and other factors. The Company's actual results may vary materially from those discussed in the forward-looking statements included herein as a result of the following important factors:

- the decisions of governmental and regulatory bodies, including decisions to raise or lower customer rates;
- the timeliness and outcome of regulatory commissions' and other authorities' actions concerning rates, capital structure, authorized return on equity, capital investment, system acquisitions and dispositions, taxes, permitting, water supply and management, and other decisions;
- changes in customer demand for, and patterns of use of, water and energy, such as may result from conservation efforts, or otherwise;
- limitations on the availability of the Company's water supplies or sources of water, or restrictions on its use thereof, resulting from allocation rights, governmental or regulatory requirements and restrictions, drought, overuse or other factors;
- a loss of one or more large industrial or commercial customers due to adverse economic conditions or other factors;
- present and future proposed changes in laws, governmental regulations and policies, including with respect to the environment (such as, for example, potential improvements to existing Federal regulations with respect to lead and copper service lines and galvanized steel pipe), health and safety, data and consumer privacy, security and protection, water quality and water quality accountability, contaminants of emerging concern (including without limitation per- and polyfluoroalkyl substances ("PFAS")), public utility and tax regulations and policies, and impacts resulting from U.S., state and local elections and changes in federal, state and local executive administrations;
- the Company's ability to collect, distribute, use, secure and store consumer data in compliance with current or future governmental laws, regulations and policies with respect to data and consumer privacy, security and protection;
- weather conditions and events, climate variability patterns, and natural disasters, including drought or abnormally high rainfall, prolonged and abnormal ice or freezing conditions, strong winds, coastal and intercoastal flooding, pandemics (including COVID-19) and epidemics, earthquakes, landslides, hurricanes, tornadoes, wildfires, electrical storms, sinkholes and solar flares;
- the outcome of litigation and similar governmental and regulatory proceedings, investigations or actions;

- the risks associated with the Company's aging infrastructure, and its ability to appropriately improve the resiliency of or maintain, update, redesign and/or replace, current or future infrastructure and systems, including its technology and other assets, and manage the expansion of its businesses;
- exposure or infiltration of the Company's technology and critical infrastructure systems, including the disclosure of sensitive, personal or confidential information contained therein, through physical or cyber attacks or other means, and impacts from required or voluntary public and other disclosures related thereto;
- the Company's ability to obtain permits and other approvals for projects and construction, update, redesign and/or replacement of various water and wastewater facilities;
- changes in the Company's capital requirements;
- the Company's ability to control operating expenses and to achieve operating efficiencies, and the Company's ability to create, maintain and promote initiatives and programs that support the affordability of the Company's regulated utility services;
- the intentional or unintentional actions of a third party, including contamination of the Company's water supplies or the water provided to its customers;
- the Company's ability to obtain and have delivered adequate and cost-effective supplies of pipe, equipment (including personal protective equipment), chemicals, power and other fuel, water and other raw materials, and to address or mitigate supply chain constraints that may result in delays or shortages in, as well as increased costs of, supplies, products and materials that are critical to or used in the Company's business operations;
- the Company's ability to successfully meet its operational growth projections, either individually or in the aggregate, and capitalize on growth opportunities, including, among other things, with respect to:
    - acquiring, closing and successfully integrating regulated operations, including without limitation the Company's ability to (i) obtain required regulatory approvals for such acquisitions, (ii) prevail in litigation or other challenges related to such acquisitions, and (iii) recover in rates the fair value of assets of the acquired regulated operations;
    - the Company's Military Services Group ("MSG") entering into new military installation contracts, price redeterminations, and other agreements and contracts with the U.S. government; and
    - realizing anticipated benefits and synergies from new acquisitions;
- risks and uncertainties following the completion of the sale of the Company's Homeowner Services Group ("HOS"), including:
    - the Company's ability to receive amounts due, payable and owing to the Company under the amended secured seller note when due; and
    - the ability of the Company to redeploy successfully and timely the net proceeds of this transaction into the Company's Regulated Businesses;
- risks and uncertainties associated with contracting with the U.S. government, including ongoing compliance with applicable government procurement and security regulations;
- cost overruns relating to improvements in or the expansion of the Company's operations;
- the Company's ability to successfully develop and implement new technologies and to protect related intellectual property;
- the Company's ability to maintain safe work sites;
- the Company's exposure to liabilities related to environmental laws and regulations, including those enacted or adopted and under consideration, and the substances related thereto, including without limitation lead and galvanized steel, PFAS and other contaminants of emerging concern, and similar matters resulting from, among other things, water and wastewater service provided to customers;
- the ability of energy providers, state governments and other third parties to achieve or fulfill their GHG emission reduction goals, including without limitation through stated renewable portfolio standards and carbon transition plans;
- changes in general economic, political, business and financial market conditions;
- access to sufficient debt and/or equity capital on satisfactory terms and as needed to support operations and capital expenditures;
- fluctuations in inflation or interest rates, and the Company's ability to address or mitigate the impacts thereof;
- the ability to comply with affirmative or negative covenants in the current or future indebtedness of the Company or any of its subsidiaries, or the issuance of new or modified credit ratings or outlooks by credit rating agencies with respect to the Company or any of its subsidiaries (or any current or future indebtedness thereof), which could increase financing costs or funding requirements and affect the Company's or its subsidiaries' ability to issue, repay or redeem debt, pay dividends or make distributions;

- fluctuations in the value of, or assumptions and estimates related to, its benefit plan assets and liabilities, including with respect to its pension and other post-retirement benefit plans, that could increase expenses and plan funding requirements;
- changes in federal or state general, income and other tax laws, including (i) future significant tax legislation or regulations (including without limitation impacts related to the Corporate Alternative Minimum Tax), and (ii) the availability of, or the Company's compliance with, the terms of applicable tax credits and tax abatement programs;
- migration of customers into or out of the Company's service territories and changes in water and energy consumption resulting therefrom;
- the use by municipalities of the power of eminent domain or other authority to condemn the systems of one or more of the Company's utility subsidiaries, including without limitation litigation and other proceedings with respect to the water system assets of the Company's California subsidiary ("Cal Am") located in Monterey, California (the "Monterey system assets"), or the assertion by private landowners of similar rights against such utility subsidiaries;
- any difficulty or inability to obtain insurance for the Company, its inability to obtain insurance at acceptable rates and on acceptable terms and conditions, or its inability to obtain reimbursement under existing or future insurance programs and coverages for any losses sustained;
- the incurrence of impairment charges, changes in fair value and other adjustments related to the Company's goodwill or the value of its other assets;
- labor actions, including work stoppages and strikes;
- the Company's ability to retain and attract highly qualified and skilled employees and/or diverse talent;
- civil disturbances or unrest, or terrorist threats or acts, or public apprehension about future disturbances, unrest, or terrorist threats or acts; and
- the impact of new, and changes to existing, accounting standards.

These forward-looking statements are qualified by, and should be read together with, the risks and uncertainties set forth above, and the risk factors and other statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 (the "Form 10-K") and in this Form 10-Q, and readers should refer to such risks, uncertainties and risk factors in evaluating such forward-looking statements. Any forward-looking statements the Company makes shall speak only as of the date this Form 10-Q was filed with the U.S. Securities and Exchange Commission ("SEC"). Except as required by the federal securities laws, the Company does not have any obligation, and it specifically disclaims any undertaking or intention, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or otherwise. New factors emerge from time to time, and it is not possible for the Company to predict all such factors. Furthermore, it may not be possible to assess the impact of any such factor on the Company's businesses, either viewed independently or together, or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. The foregoing factors should not be construed as exhaustive.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Balance Sheets (Unaudited)
(In millions, except share and per share data)

	June 30, 2024	December 31, 2023
ASSETS		
Property, plant and equipment	$ 33,364	$ 32,189
Accumulated depreciation	(6,832)	(6,751)
Property, plant and equipment, net	26,532	25,438
Current assets:		
Cash and cash equivalents	48	330
Restricted funds	50	34
Accounts receivable, net of allowance for uncollectible accounts of $48 and $51, respectively	393	339
Income tax receivable	17	86
Unbilled revenues	337	302
Materials and supplies	111	112
Other	209	186
Total current assets	1,165	1,389
Regulatory and other long-term assets:		
Regulatory assets	1,138	1,106
Secured seller promissory note from the sale of the Homeowner Services Group	795	720
Operating lease right-of-use assets	90	86
Goodwill	1,143	1,143
Other	352	416
Total regulatory and other long-term assets	3,518	3,471
Total assets	$ 31,215	$ 30,298

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Balance Sheets (Unaudited)
(In millions, except share and per share data)

	June 30, 2024	December 31, 2023
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock ($0.01 par value; 500,000,000 shares authorized; 200,314,008 and 200,144,968 shares issued, respectively)	$ 2	$ 2
Paid-in-capital	8,578	8,550
Retained earnings	1,971	1,659
Accumulated other comprehensive loss	(7)	(26)
Treasury stock, at cost (5,451,187 and 5,414,867 shares, respectively)	(392)	(388)
Total common shareholders' equity	10,152	9,797
Long-term debt	12,553	11,715
Redeemable preferred stock at redemption value	3	3
Total long-term debt	12,556	11,718
Total capitalization	22,708	21,515
Current liabilities:		
Short-term debt	—	179
Current portion of long-term debt	575	475
Accounts payable	215	294
Accrued liabilities	607	791
Accrued taxes	108	67
Accrued interest	113	93
Other	207	252
Total current liabilities	1,825	2,151
Regulatory and other long-term liabilities:		
Advances for construction	379	352
Deferred income taxes and investment tax credits	2,780	2,717
Regulatory liabilities	1,434	1,481
Operating lease liabilities	78	73
Accrued pension expense	251	262
Other	200	196
Total regulatory and other long-term liabilities	5,122	5,081
Contributions in aid of construction	1,560	1,551
Commitments and contingencies (See Note 11)		
Total capitalization and liabilities	$ 31,215	$ 30,298

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Operations (Unaudited)
(In millions, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Operating revenues	$ 1,149	$ 1,097	$ 2,160	$ 2,035
Operating expenses:				
Operation and maintenance	427	419	843	812
Depreciation and amortization	193	174	381	346
General taxes	81	73	162	151
Other	(1)	(1)	(1)	(1)
Total operating expenses, net	700	665	1,385	1,308
Operating income	449	432	775	727
Other (expense) income:				
Interest expense	(131)	(110)	(255)	(225)
Interest income	25	15	49	29
Non-operating benefit costs, net	7	8	16	17
Other, net	11	12	18	23
Total other (expense) income	(88)	(75)	(172)	(156)
Income before income taxes	361	357	603	571
Provision for income taxes	84	77	141	121
Net income attributable to common shareholders	$ 277	$ 280	$ 462	$ 450
Basic earnings per share:				
Net income attributable to common shareholders	$ 1.42	$ 1.44	$ 2.37	$ 2.37
Diluted earnings per share:				
Net income attributable to common shareholders	$ 1.42	$ 1.44	$ 2.37	$ 2.37
Weighted-average common shares outstanding:				
Basic	195	195	195	190
Diluted	195	195	195	190

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Comprehensive Income (Unaudited)
(In millions)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Net income attributable to common shareholders	$ 277	$ 280	$ 462	$ 450
Other comprehensive income, net of tax:				
Defined benefit pension plan actuarial loss, net of tax of $0 for the three months ended June 30, 2024 and 2023, and $0 for the six months ended June 30, 2024 and 2023	1	—	1	—
Unrealized gain on cash flow hedges, net of tax of $0 for the three months ended June 30, 2024 and 2023, and $3 and $0 for the six months ended June 30, 2024 and 2023, respectively	—	2	19	—
Unrealized (loss) gain on available-for-sale fixed-income securities, net of tax of $0 for the three months ended June 30, 2024 and 2023, and $1 and $0 for the six months ended June 30, 2024 and 2023, respectively	—	(1)	(1)	1
Net other comprehensive income	1	1	19	1
Comprehensive income attributable to common shareholders	$ 278	$ 281	$ 481	$ 451

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Cash Flows (Unaudited)
(In millions)

	For the Six Months Ended June 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 462	$ 450
Adjustments to reconcile to net cash flows provided by operating activities:		
Depreciation and amortization	381	346
Deferred income taxes and amortization of investment tax credits	37	74
Provision for losses on accounts receivable	8	9
Pension and non-pension postretirement benefits	(1)	(3)
Other non-cash, net	(27)	(40)
Changes in assets and liabilities:		
Receivables and unbilled revenues	(96)	(83)
Income tax receivable	69	40
Pension contributions	(22)	(20)
Accounts payable and accrued liabilities	(79)	(22)
Accrued taxes	45	19
Other assets and liabilities, net	(50)	(56)
Net cash provided by operating activities	727	714
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(1,279)	(1,153)
Acquisitions, net of cash acquired	(119)	(33)
Removal costs from property, plant and equipment retirements, net	(73)	(78)
Net cash used in investing activities	(1,471)	(1,264)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt, net of discount	1,403	1,160
Repayments of long-term debt	(466)	(170)
Net proceeds from common stock financing	—	1,688
Net short-term repayments with maturities less than three months	(179)	(1,175)
Advances and contributions in aid of construction, net of refunds of $16 and $16 for the six months ended June 30, 2024 and 2023, respectively	18	28
Debt issuance costs	(13)	(13)
Dividends paid	(287)	(257)
Other, net	2	(4)
Net cash provided by financing activities	478	1,257
Net (decrease) increase in cash, cash equivalents and restricted funds	(266)	707
Cash, cash equivalents and restricted funds at beginning of period	364	117
Cash, cash equivalents and restricted funds at end of period	$ 98	$ 824
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid as of the end of period	$ 375	$ 343

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
(In millions)

	Common Stock					Treasury Stock		Total Shareholders' Equity
	Shares	Par Value	Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Shares	At Cost	
Balance as of December 31, 2023	200.1	$ 2	$ 8,550	$ 1,659	$ (26)	(5.5)	$ (388)	$ 9,797
Net income attributable to common shareholders	—	—	—	185	—	—	—	185
Common stock issuances (a)	0.2	—	11	—	—	—	(4)	7
Net other comprehensive income	—	—	—	—	18	—	—	18
Balance as of March 31, 2024	200.3	$ 2	$ 8,561	$ 1,844	$ (8)	(5.5)	$ (392)	$ 10,007
Net income attributable to common shareholders	—	—	—	277	—	—	—	277
Common stock issuances (a)	—	—	17	—	—	—	—	17
Net other comprehensive income	—	—	—	—	1	—	—	1
Dividends ($0.7650 declared per common share)	—	—	—	(150)	—	—	—	(150)
Balance as of June 30, 2024	200.3	$ 2	$ 8,578	$ 1,971	$ (7)	(5.5)	$ (392)	$ 10,152

(a) Includes stock-based compensation, employee stock purchase plan and dividend reinvestment and direct stock purchase plan activity.

	Common Stock					Treasury Stock		Total Shareholders' Equity
	Shares	Par Value	Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Shares	At Cost	
Balance as of December 31, 2022	187.4	$ 2	$ 6,824	$ 1,267	$ (23)	(5.4)	$ (377)	$ 7,693
Net income attributable to common shareholders	—	—	—	170	—	—	—	170
Common stock issuances (a)	12.7	—	1,695	—	—	—	(11)	1,684
Balance as of March 31, 2023	200.1	$ 2	$ 8,519	$ 1,437	$ (23)	(5.4)	$ (388)	$ 9,547
Net income attributable to common shareholders	—	—	—	280	—	—	—	280
Common stock issuances (a)	—	—	10	—	—	—	—	10
Net other comprehensive income	—	—	—	—	1	—	—	1
Dividends ($0.7075 declared per common share)	—	—	—	(137)	—	—	—	(137)
Balance as of June 30, 2023	200.1	$ 2	$ 8,529	$ 1,580	$ (22)	(5.4)	$ (388)	$ 9,701

(a) Includes stock-based compensation, employee stock purchase plan and dividend reinvestment and direct stock purchase plan activity.

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Notes to Consolidated Financial Statements (Unaudited)
(Unless otherwise noted, in millions, except per share data)

Note 1: Basis of Presentation

The unaudited Consolidated Financial Statements included in this report include the accounts of American Water Works Company, Inc. and all of its subsidiaries (the "Company" or "American Water"), in which a controlling interest is maintained after the elimination of intercompany balances and transactions. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial reporting, and the rules and regulations for reporting on Quarterly Reports on Form 10-Q ("Form 10-Q"). Accordingly, they do not contain certain information and disclosures required by GAAP for comprehensive financial statements. In the opinion of management, all adjustments necessary for a fair statement of the financial position as of June 30, 2024, and the results of operations and cash flows for all periods presented, have been made. All adjustments are of a normal, recurring nature, except as otherwise disclosed.

The unaudited Consolidated Financial Statements and Notes included in this report should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2023 ("Form 10-K"), which provides a more complete discussion of the Company's accounting policies, financial position, operating results and other matters. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year, primarily due to the seasonality of the Company's operations.

Note 2: Significant Accounting Policies

New Accounting Standards

Presented in the table below are recently issued accounting standards that have not yet been adopted by the Company as of June 30, 2024:

Standard	Description	Date of Adoption	Application	Effect on the Consolidated Financial Statements
Segment Reporting	The guidance in this standard expands reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. Additionally, the guidance enhances interim disclosure requirements, clarifies circumstances in which an entity can disclose multiple segment measures of profit and loss, provides new segment disclosure requirements for entities with a single reportable segment, and other disclosure requirements.	Fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024	Retrospective	The Company is evaluating the impact on its Consolidated Financial Statements.
Income Taxes	The guidance in this standard requires disclosure of a tax rate reconciliation table, in both percentages and reporting currency amounts, which includes additional categories of information about federal, state, and foreign income taxes and provides further details about reconciling items in certain categories that meet a quantitative threshold. The guidance also requires an annual disclosure of income taxes paid, net of refunds, disaggregated by federal, state, and foreign taxes paid, and further disaggregated by jurisdiction based on a quantitative threshold. The standard includes other disclosure requirements and eliminates certain existing disclosure requirements.	January 1, 2025	Prospective, with retrospective application also permitted	The Company is evaluating the impact on its Consolidated Financial Statements and the timing of adoption.

Property, Plant and Equipment

The New Jersey Economic Development Authority ("NJEDA") determined that the Company was qualified to receive $161 million in tax credits in connection with its capital investment in its corporate headquarters in Camden, New Jersey. The Company was qualified to receive the tax credits over a 10-year period commencing in 2019.

In the first quarters of 2024 and 2023, the NJEDA issued the utilization certificates for the 2021 and 2020 tax credits, respectively, to the Company in the amount of $16 million each. The Company sold these tax credits to an external party for $15 million each. As of June 30, 2024, the Company had assets of $15 million in other current assets and $90 million in other long-term assets on the Consolidated Balance Sheets for the 2022 through 2028 tax credits. As of December 31, 2023, the Company had assets of $32 million in other current assets and $90 million in other long-term assets on the Consolidated Balance Sheets for the 2021 through 2028 tax credits. The Company has made the necessary annual filing for the years ended December 31, 2023 and 2022. The submitted filings are under review by the NJEDA and it is expected that the Company will receive final NJEDA approval and monetize the 2022 tax credits in 2024 and the 2023 tax credits in 2025.

Allowance for Uncollectible Accounts

Allowances for uncollectible accounts are maintained for estimated probable losses resulting from the Company's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due, previous loss history, current economic and societal conditions and reasonable and supportable forecasts that affect the collectability of receivables from customers. The Company generally writes off accounts when they become uncollectible or are over a certain number of days outstanding.

Presented in the table below are the changes in the allowance for uncollectible accounts for the six months ended June 30:

	2024	2023
Balance as of January 1	$ (51)	$ (60)
Amounts charged to expense	(8)	(9)
Amounts written off	12	13
Other, net (a)	(1)	4
Balance as of June 30	$ (48)	$ (52)

(a) This portion of the allowance for uncollectible accounts is primarily related to COVID-19 related regulatory asset activity.

Reclassifications

Certain reclassifications have been made to prior periods in the Consolidated Financial Statements and Notes to conform to the current presentation.

Note 3: Regulatory Matters

General Rate Cases

Presented in the table below are annualized incremental revenues, including reductions for the amortization of the excess accumulated deferred income taxes ("EADIT") that are generally offset in income tax expense, assuming a constant sales volume and customer count, resulting from general rate case authorizations that are effective during 2024:

	Effective Date	Amount
General rate cases by state:		
Pennsylvania	August 7, 2024	$ 99
Indiana, Step Increases	(a)	48
Kentucky	May 3, 2024 (b)	11
West Virginia	February 25, 2024	18
Total general rate case authorizations		$ 176

(a) In 2024, $23 million was effective May 10 and $25 million was effective February 21.

(b) Interim rates were effective February 6, 2024, and the difference between interim and final approved rates are subject to refund.

On July 22, 2024, the Pennsylvania Public Utility Commission (the "PaPUC") released an order approving the adjustment of base rates requested in a general rate case filed by the Company's Pennsylvania subsidiary on November 8, 2023. The PaPUC approved a $99 million annualized increase in the Pennsylvania subsidiary's water and wastewater system revenues, excluding previously recovered infrastructure surcharges of $20 million, based on (i) an authorized return on equity of 9.45%, (ii) an authorized rate base of $5.8 billion, which reflects, as requested and included in the general rate case, approximately $1.0 billion in capital investments to be made through mid-2025, (iii) a common equity ratio of 55.30%, and (iv) a long-term debt ratio of 44.70%. Certain acquisitions that remain pending, including the acquisition of the wastewater collection and treatment system of the Butler Area Sewer Authority, were excluded from authorized base rates. The new rates will take effect on August 7, 2024, except that new wastewater rates for two recently acquired systems, including the City of York, will take effect during the first half of 2025 in accordance with the terms of the relevant acquisition agreements. As part of its approval of this rate adjustment, the PaPUC initiated an investigation into certain reported water service and water quality issues in the Pennsylvania subsidiary's Northeastern service territory, which reports had been provided during public input hearings convened in the general rate case.

On May 3, 2024, the Kentucky Public Service Commission (the "KPSC") issued an order approving the adjustment of base rates requested in a rate case filed on June 30, 2023, by the Company's Kentucky subsidiary. The general rate case order approved an $11 million annualized increase in water revenues, excluding infrastructure surcharge revenues of $10 million which continue to be recovered in the Kentucky subsidiary's approved infrastructure mechanism. The annualized increase is based upon an authorized return on equity of 9.70%, authorized rate base of $489 million, which reflects capital investments through January 31, 2025, and a capital structure with a common equity ratio of 52.22%. Interim rates in this proceeding were effective on February 6, 2024, and the order required that the difference between interim and final approved rates is subject to refund no later than August 26, 2024. On May 16, 2024, the Kentucky subsidiary filed with the KPSC a petition for rehearing of the KPSC's order, seeking clarification and/or correction of certain computational inconsistencies that the Kentucky subsidiary believes are reflected in the KPSC's order with respect to the authorized amount of annualized revenues to be received by the Kentucky subsidiary. The petition for rehearing also requested that any revisions become effective February 6, 2024, with any difference between the adjusted amount and initial approved rates subject to refund or collection. On May 28, 2024, the KPSC granted the request for rehearing, and the Kentucky subsidiary expects resolution of this proceeding later in 2024.

On February 23, 2024, the West Virginia Public Service Commission issued an order approving the adjustment of base rates requested in a rate case filed on May 1, 2023, by the Company's West Virginia subsidiary. The general rate case order approved an $18 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges of $7 million, based on an authorized return on equity of 9.80%, authorized rate base of $886 million, which reflects capital investments through February 2024, a common equity ratio of 50.10% and a long-term debt ratio of 49.90%. The increased water and wastewater revenues related to the base rate adjustment are being driven primarily by (i) $220 million of related water and wastewater system capital investments made since the completion of the West Virginia subsidiary's previous rate case, (ii) higher pension and other postretirement benefit costs, and (iii) increases in production costs, including chemicals, fuel and power costs.

On February 14, 2024, the Indiana Utility Regulatory Commission issued an order approving the adjustment of base rates requested in a rate case filed on March 31, 2023, by the Company's Indiana subsidiary. The general rate case order approved a $66 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges, based on an authorized return on equity of 9.65%, authorized rate base of $1.8 billion, a common equity ratio of 56.15% and a debt ratio of 43.85%. For purposes of determining rates, the adjustment is based on an equity component of 48.19% due to the regulatory practice in Indiana of including certain zero-cost items or tax credit balances in the capital structure calculation. The annualized revenue increase will include three step increases, with $25 million of the increase to be included in rates in February 2024, $23 million in May 2024, and $18 million in May 2025. The increases are being driven primarily by (i) over $875 million of water and wastewater system capital investments since the completion of the Indiana subsidiary's last rate case and through April 30, 2025, (ii) higher pension and other postretirement benefit costs, and (iii) increases in production costs, including chemicals, fuel and power costs.

Pending General Rate Case Filings

On July 1, 2024, the Company's Missouri subsidiary filed a general rate case requesting approximately $148 million in annualized incremental revenues. The request is based on a return on equity of 10.75% and a capital structure with an equity component of 50.54% and a long-term debt component of 49.46%. The requested annualized incremental revenue is driven primarily by $1.5 billion of incremental capital investments completed and planned by the Missouri subsidiary from January 2023 through May 2026. The Missouri subsidiary anticipates that the general rate case proceeding will be completed by mid-2025.

On May 1, 2024, the Company's Iowa subsidiary filed a general rate case requesting approximately $21 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 52.57% and debt component of 47.43%. The requested annualized revenue increase is driven primarily by approximately $157 million in capital investments made and to be made by the Iowa subsidiary through March 2026. Interim rates became effective May 11, 2024, with the difference between interim and final approved rates subject to refund.

On May 1, 2024, the Company's Tennessee subsidiary filed a general rate case requesting approximately $14 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 54.52% and debt component of 45.48%. The requested annualized revenue increase is driven primarily by approximately $173 million in capital investments made and to be made by the Tennessee subsidiary through December 2025.

On January 25, 2024, the Company's Illinois subsidiary filed tariffs for new water and wastewater rates. The request seeks a two-step rate increase consisting of aggregate annualized incremental revenue, based on a proposed return on equity of 10.75%, of (i) approximately $132 million, excluding infrastructure surcharges of $5 million, effective January 1, 2025, based on a future test year through December 31, 2025, with average rate base and a capital structure with an equity component of 52.27% and a debt component of 47.73%, and (ii) approximately $16 million effective January 1, 2026, based on a future test year to include end of period rate base and a capital structure with an equity component of 54.43% and a debt component of 45.57%. The requested increases are driven primarily by an estimated $557 million in capital investments to be made by the Illinois subsidiary from January 2024 through December 2025. The request also proposes a treatment and compliance rider to address recovery of future environmental compliance investments, and a modification to the existing volume balancing account mechanism to include full production cost recovery. The requested increase was subsequently updated in the Illinois subsidiary's June 20, 2024, rebuttal filing, with the first step request adjusted to $140 million in additional annualized revenues.

On January 19, 2024, the Company's New Jersey subsidiary filed a general rate case requesting approximately $162 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 56.30% and a debt component of 43.70%. The requested annualized revenue increase is driven primarily by approximately $1.3 billion in capital investments made and to be made by the New Jersey subsidiary through December 2024. The request also proposes a revenue decoupling mechanism and seeks a deferral of certain production cost adjustments.

On December 15, 2023, the Company's California subsidiary submitted a request to delay by one year its cost of capital filing and maintain its current authorized cost of capital through 2025. On February 2, 2024, the California Public Utilities Commission ("CPUC") granted the request for a one-year extension of the cost of capital filing to May 1, 2025, to set its authorized cost of capital beginning January 1, 2026.

On November 1, 2023, the Company's Virginia subsidiary filed a general rate case requesting $20 million in additional annualized revenues. The request is based on a proposed return on equity of 10.95% and a capital structure with an equity component of 45.67% and a debt and other component of 54.33%. The requested increase is driven by approximately $110 million in capital investments between May 2023 and April 2025. The request also proposed a revenue decoupling mechanism and seeks deferral of certain production cost adjustments. Interim rates became effective May 1, 2024, with the difference between interim and final approved rates subject to refund.

On July 1, 2022, the Company's California subsidiary filed a general rate case requesting an increase in 2024 revenue of $56 million and a total increase in revenue over the 2024 to 2026 period of $95 million, all as compared to 2022 revenues. The Company updated its filing in January 2023 to capture the authorized step increase effective January 1, 2023. The filing was also updated to incorporate a decoupling proposal and a revision to the Company's sales and associated variable expense forecast. The revised filing requested additional annualized revenues for the test year 2024 of $37 million, compared to 2023 revenues. This excludes the proposed step rate and attrition rate increase for 2025 and 2026 of $20 million and $19 million, respectively. The total revenue requirement request for the three-year rate case cycle, incorporating updates to present rate revenues and forecasted demand, is $76 million. On November 17, 2023, the California subsidiary filed with the CPUC a partial settlement agreement reached with the CPUC's Public Advocates Office, which would determine the amount of incremental annualized water and wastewater revenue to be received by the California subsidiary to be $20 million in the 2024 test year, $16 million in the 2025 escalation year, and $15 million in the 2026 attrition year. The partial settlement agreement addresses the California subsidiary's revenue requirement request but does not address rate design or certain other matters, such as the requested inclusion and implementation of a revenue stability mechanism to separate the California subsidiary's revenue and water sales. New rates would be implemented retroactively to January 1, 2024, upon a final decision issued by the CPUC approving the partial settlement agreement and resolving the other issues not addressed by the partial settlement agreement, which is expected to occur in the second half of 2024.

Infrastructure Surcharges

A number of states have authorized the use of regulatory mechanisms that permit rates to be adjusted outside of a general rate case for certain costs and investments, such as infrastructure surcharge mechanisms that permit recovery of capital investments to replace aging infrastructure. Presented in the table below are annualized incremental revenues, assuming a constant sales volume and customer count, resulting from infrastructure surcharge authorizations that became effective during 2024:

	Effective Date	Amount
Infrastructure surcharges by state:		
Missouri	(b)	$ 47
Pennsylvania	(c)	21
New Jersey	April 30, 2024	9
Iowa	March 1, 2024	1
West Virginia (a)	March 1, 2024	7
Illinois	January 1, 2024	5
Total infrastructure surcharge authorizations		$ 90

(a) On March 5, 2024, the West Virginia Public Service Commission directed the Company's West Virginia subsidiary to interpret the distribution system improvement charge ("DSIC") Order as having included within the DSIC the three-year amortization of a prior authorized deferral associated with a large treatment plant project. The inclusion of this deferral increased the net incremental revenue by $0.7 million to a total of $6.6 million effective March 1, 2024.

(b) In 2024, $21 million was effective July 11 and $26 million was effective January 20.

(c) In 2024, $14 million was effective July 1 and $7 million was effective April 1.

Pending Infrastructure Surcharge Filings

On June 28, 2024, the Company's West Virginia subsidiary filed an infrastructure surcharge proceeding requesting $4 million in additional annualized revenues.

Other Regulatory Matters

In September 2020, the CPUC released a decision under its Low-Income Rate Payer Assistance program rulemaking that required the Company's California subsidiary to file a proposal to alter its water revenue adjustment mechanism in its next general rate case filing in 2022, which would have become effective upon receiving an order in the current pending rate case. On October 5, 2020, the Company's California subsidiary filed an application for rehearing of the decision and following the CPUC's denial of its rehearing application in September 2021, the Company's California subsidiary filed a petition for writ of review with the California Supreme Court on October 27, 2021. On May 18, 2022, the California Supreme Court issued a writ of review for the California subsidiary's petition and the petitions filed by other entities challenging the decision. On July 8, 2024, the California Supreme Court issued a unanimous opinion concluding that the CPUC did not regularly seek to exercise its authority when it prohibited water utilities from proposing to continue their water revenue adjustment mechanisms. Accordingly, the California Supreme Court vacated the portion of the CPUC's 2020 decision relating to this prohibition against continuation of such water revenue adjustment mechanisms.

Independent of the judicial challenge, California passed Senate Bill 1469, which allows the CPUC to consider and authorize the implementation of a mechanism that separates the water corporation's revenue and its water sales. Legislation was signed by the Governor on September 30, 2022, and became effective on January 1, 2023. In response to the legislation, on January 27, 2023, the Company's California subsidiary filed an updated application requesting the CPUC to consider a Water Resources Sustainability Plan decoupling mechanism in its pending 2022 general rate case, which, if adopted, will become effective upon receiving an order in the current pending rate case.

Note 4: Revenue Recognition

Disaggregated Revenues

The Company's primary business involves the ownership of utilities that provide water and wastewater services to residential, commercial, industrial, public authority, fire service and sale for resale customers, collectively presented as the "Regulated Businesses." The Company also operates other businesses that provide water and wastewater services to the U.S. government on military installations, as well as municipalities, collectively presented throughout this Form 10-Q within "Other."

Presented in the table below are operating revenues disaggregated for the three months ended June 30, 2024:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 579	$ 1	$ 580
Commercial	216	1	217
Fire service	41	—	41
Industrial	46	—	46
Public and other	68	—	68
Total water services	950	2	952
Wastewater services:			
Residential	60	—	60
Commercial	16	—	16
Industrial	3	—	3
Public and other	9	—	9
Total wastewater services	88	—	88
Miscellaneous utility charges	10	—	10
Alternative revenue programs	—	5	5
Lease contract revenue	—	2	2
Total Regulated Businesses	1,048	9	1,057
Other	92	—	92
Total operating revenues	$ 1,140	$ 9	$ 1,149

(a) Includes revenues associated with provisional rates, alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of Accounting Standards Codification Topic 606, *Revenue From Contracts With Customers* ("ASC 606"), and accounted for under other existing GAAP.

Presented in the table below are operating revenues disaggregated for the three months ended June 30, 2023:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 554	$ —	$ 554
Commercial	198	—	198
Fire service	39	—	39
Industrial	38	—	38
Public and other	75	—	75
Total water services	904	—	904
Wastewater services:			
Residential	57	—	57
Commercial	16	—	16
Industrial	2	—	2
Public and other	7	—	7
Total wastewater services	82	—	82
Miscellaneous utility charges	9	—	9
Alternative revenue programs	—	8	8
Lease contract revenue	—	2	2
Total Regulated Businesses	995	10	1,005
Other	93	(1)	92
Total operating revenues	$ 1,088	$ 9	$ 1,097

(a) Includes revenues associated with alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of ASC 606, and accounted for under other existing GAAP.

Presented in the table below are operating revenues disaggregated for the six months ended June 30, 2024:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 1,083	$ 1	$ 1,084
Commercial	403	1	404
Fire service	82	—	82
Industrial	88	—	88
Public and other	124	—	124
Total water services	1,780	2	1,782
Wastewater services:			
Residential	119	—	119
Commercial	32	—	32
Industrial	5	—	5
Public and other	17	—	17
Total wastewater services	173	—	173
Miscellaneous utility charges	19	—	19
Alternative revenue programs	—	7	7
Lease contract revenue	—	4	4
Total Regulated Businesses	1,972	13	1,985
Other	175	—	175
Total operating revenues	$ 2,147	$ 13	$ 2,160

(a) Includes revenues associated with provisional rates, alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of ASC 606, and accounted for under other existing GAAP.

Presented in the table below are operating revenues disaggregated for the six months ended June 30, 2023:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 1,015	$ —	$ 1,015
Commercial	369	—	369
Fire service	78	—	78
Industrial	76	—	76
Public and other	131	—	131
Total water services	1,669	—	1,669
Wastewater services:			
Residential	111	—	111
Commercial	30	—	30
Industrial	4	—	4
Public and other	13	—	13
Total wastewater services	158	—	158
Miscellaneous utility charges	17	—	17
Alternative revenue programs	—	17	17
Lease contract revenue	—	4	4
Total Regulated Businesses	1,844	21	1,865
Other	171	(1)	170
Total operating revenues	$ 2,015	$ 20	$ 2,035

(a) Includes revenues associated with alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of ASC 606, and accounted for under other existing GAAP.

Contract Balances

Contract assets and contract liabilities are the result of timing differences between revenue recognition, billings, and cash collections. In the Company's Military Services Group ("MSG"), certain contracts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Contract assets are recorded when billing occurs subsequent to revenue recognition and are reclassified to accounts receivable when billed and the right to consideration becomes unconditional. Contract liabilities are recorded when the Company receives advances from customers prior to satisfying contractual performance obligations, particularly for construction contracts, and are recognized as revenue when the associated performance obligations are satisfied.

Contract assets of $93 million and $95 million are included in unbilled revenues on the Consolidated Balance Sheets as of June 30, 2024, and December 31, 2023, respectively. Also, contract assets of $28 million are included in other long-term assets on the Consolidated Balance Sheets as of June 30, 2024, and there were no contract assets in other long-term assets on the Consolidated Balance Sheets as of December 31, 2023. Contract liabilities of $55 million and $63 million are included in other current liabilities on the Consolidated Balance Sheets as of June 30, 2024, and December 31, 2023, respectively. Revenues recognized for the six months ended June 30, 2024 and 2023, from amounts included in contract liabilities were $49 million and $68 million, respectively.

Remaining Performance Obligations

Remaining performance obligations ("RPOs") represent revenues the Company expects to recognize in the future from contracts that are in progress. The Company enters into agreements for the provision of services to water and wastewater facilities for the U.S. military, municipalities and other customers. As of June 30, 2024, the Company's operation and maintenance ("O&M") and capital improvement contracts have RPOs. Contracts with the U.S. government for work on various military installations expire between 2051 and 2073 and have RPOs of $7.2 billion as of June 30, 2024, as measured by estimated remaining contract revenue. Such contracts are subject to customary termination provisions held by the U.S. government, prior to the agreed-upon contract expiration. Contracts with municipalities and commercial customers expire between 2026 and 2038 and have RPOs of $638 million as of June 30, 2024, as measured by estimated remaining contract revenue. Some of the Company's long-term contracts to operate and maintain the federal government's, a municipality's or other party's water or wastewater treatment and delivery facilities include responsibility for certain maintenance for some of those facilities, in exchange for an annual fee. Unless specifically required to perform certain maintenance activities, the maintenance costs are recognized when the maintenance is performed.

Note 5: Acquisitions and Divestitures

Regulated Businesses

Closed Acquisitions

On March 11, 2024, the Company's Illinois subsidiary completed the acquisition of a wastewater treatment plant and related assets from Granite City for a cash purchase price of $86 million, which added approximately 26,000 wastewater customers, including 15,500 customers indirectly in surrounding communities. Assets acquired from this acquisition, principally utility plant, totaled $91 million and liabilities assumed totaled $5 million. This acquisition was accounted for as a business combination and the preliminary purchase price allocation will be finalized once the valuation of assets acquired has been completed, no later than one year after the acquisition date.

In addition to the acquisition of the Granite City wastewater treatment plant and related assets noted above, during the six months ended June 30, 2024, the Company closed on four acquisitions of various regulated water and wastewater systems for a total aggregate purchase price of $33 million, which added approximately 7,400 water and wastewater customers. Assets acquired from these acquisitions consisted principally of utility plant. All four of these acquisitions were accounted for as a business combination and the preliminary purchase price allocation will be finalized once the valuation of assets acquired has been completed, no later than one year after the acquisition date.

The pro forma impact of the Company's acquisitions was not material to the Consolidated Statements of Operations for the periods ended June 30, 2024 and 2023.

Pending Acquisitions

Effective March 24, 2023, the Company's Pennsylvania subsidiary acquired the rights to buy the wastewater system assets of the Township of Towamencin, for an aggregate purchase price of $104 million, subject to adjustment as provided in the asset purchase agreement. This system provides wastewater services to approximately 6,300 customer connections in seven townships in Montgomery County, Pennsylvania. The Company expects to close this acquisition upon final regulatory approval.

On October 11, 2022, the Company's Pennsylvania subsidiary entered into an agreement to acquire the public wastewater collection and treatment system assets (the "System Assets") from the Butler Area Sewer Authority. On November 9, 2023, the Pennsylvania Public Utility Commission (the "PaPUC") approved a settlement agreement without modification with respect to the Company's Pennsylvania subsidiary's application to acquire the System Assets from the Butler Area Sewer Authority for a purchase price of $230 million, subject to adjustment as provided for in the asset purchase agreement. This system provides wastewater service for approximately 15,000 customer connections. On December 14, 2023, Center Township and Summit Township filed appeals with the Pennsylvania Commonwealth Court seeking to reverse the order entered by the PaPUC approving the sale of the System Assets. On December 29, 2023, the Company's Pennsylvania subsidiary filed applications with the Commonwealth Court seeking to dismiss the appeals and requesting expedited consideration. By order dated February 1, 2024, the Commonwealth Court deferred deciding the application to dismiss the appeals and directed that the issues raised by the applications to dismiss are to be considered as part of the merits of the appeals and that the disposition of the appeals was to be expedited. The Company awaits a decision from the Commonwealth Court to proceed with closing.

Sale of Homeowner Services Group

On December 9, 2021 (the "Closing Date"), the Company sold all of the equity interests in subsidiaries that comprised the Homeowner Services Group ("HOS") to a wholly owned subsidiary (the "Buyer") of funds advised by Apax Partners LLP, a global private equity advisory firm, for total consideration of approximately $1.275 billion. The consideration at closing was comprised of $480 million in cash, a secured seller promissory note payable in cash and issued by the Buyer in the principal amount of $720 million, with an interest rate of 7.00% per year, and a contingent cash payment of $75 million payable upon satisfaction of certain conditions on or before December 31, 2023.

On February 2, 2024, the secured seller note was amended to increase the principal amount from $720 million to $795 million, in full satisfaction of the $75 million contingent cash payment payable under the HOS sale agreement. In addition, the interest rate payable on the secured seller note has increased from 7.00% per year to 10.00% per year until maturity. The Company recognized $20 million and $12 million of interest income during the three months ended June 30, 2024 and 2023, respectively, and $37 million and $25 million of interest income during the six months ended June 30, 2024 and 2023, respectively, from the secured seller note. The secured seller note requires compliance with affirmative and negative covenants (subject to certain conditions, limitations and exceptions), including a covenant limiting the incurrence by the Buyer and certain affiliates of additional indebtedness in excess of certain thresholds, but does not include any financial maintenance covenants. Certain of these covenants have been amended, including to provide for annual reductions of specified debt incurrence ratios. Furthermore, the amendment to the secured seller note eliminated the conditional right, beginning December 9, 2024, to require a repayment, without premium or penalty, of 100% of the outstanding principal amount in full in cash together with all accrued and unpaid interest and other obligations thereunder. The final maturity date of the secured seller note remains December 9, 2026. The repayment obligations of the Buyer under the seller note are secured by a first priority security interest in certain property of the Buyer and the former HOS subsidiaries, including their cash and securities accounts, as well as a pledge of the equity interests in each of those subsidiaries, subject to certain limitations and exceptions.

The secured seller note may not be prepaid at the Buyer's election except in certain limited circumstances before the fourth anniversary of the Closing Date. If the Buyer seeks to repay the secured seller note in breach of this non-call provision, an event of default will occur under the secured seller note and the Company may, among other actions, demand repayment in full together with a premium ranging from 105.5% to 107.5% of the outstanding principal amount of the loan and a customary "make-whole" payment.

Note 6: Shareholders' Equity

Accumulated Other Comprehensive Loss

Presented in the table below are the changes in accumulated other comprehensive loss by component, net of tax, for the six months ended June 30, 2024 and 2023, respectively:

	Defined Benefit Pension Plans					
	Employee Benefit Plan Funded Status	Amortization of Prior Service Cost	Amortization of Actuarial Loss	Gain (Loss) on Cash Flow Hedges	Gain on Fixed-Income Securities	Accumulated Other Comprehensive Loss
Balance as of December 31, 2023	$ (96)	$ 1	$ 74	$ (9)	$ 4	$ (26)
Other comprehensive income before reclassifications	—	—	—	19	(1)	18
Amounts reclassified from accumulated other comprehensive loss	—	—	1	—	—	1
Net other comprehensive income	—	—	1	19	(1)	19
Balance as of June 30, 2024	$ (96)	$ 1	$ 75	$ 10	$ 3	$ (7)
Balance as of December 31, 2022	$ (93)	$ 1	$ 70	$ (1)	$ —	$ (23)
Other comprehensive income before reclassifications	—	—	—	—	1	1
Net other comprehensive income	—	—	—	—	1	1
Balance as of June 30, 2023	$ (93)	$ 1	$ 70	$ (1)	$ 1	$ (22)

The Company does not reclassify the amortization of defined benefit pension cost components from accumulated other comprehensive loss directly to net income in its entirety, as a portion of these costs have been deferred as a regulatory asset. These accumulated other comprehensive loss components are included in the computation of net periodic pension cost.

The amortization of the gain (loss) on cash flow hedges is reclassified to net income during the period incurred and is included in Interest expense in the accompanying Consolidated Statements of Operations.

An unrealized gain (loss) on available-for-sale fixed-income securities is reclassified to net income upon sale of the securities as a realized gain or loss and is included in Other, net in the accompanying Consolidated Statements of Operations.

Dividends

On June 3, 2024, the Company paid a quarterly cash dividend of $0.7650 per share to shareholders of record as of May 14, 2024.

On July 31, 2024, the Company's Board of Directors declared a quarterly cash dividend payment of $0.7650 per share, payable on September 4, 2024, to shareholders of record as of August 13, 2024. Future dividends, when and as declared at the discretion of the Board of Directors, will be dependent upon future earnings and cash flows, compliance with various regulatory, financial and legal requirements, and other factors. See Note 9—Shareholders' Equity in the Notes to Consolidated Financial Statements in the Company's Form 10-K for additional information regarding the payment of dividends on the Company's common stock.

Note 7: Long-Term Debt

On February 23, 2024, American Water Capital Corp. ("AWCC") completed a $1.4 billion debt offering, which included the sale of $700 million aggregate principal amount of its 5.150% senior notes due 2034 and $700 million aggregate principal amount of its 5.450% senior notes due 2054. At the closing of this offering, AWCC received, after deduction of underwriting discounts and before deduction of offering expenses, net proceeds of approximately $1,381 million. AWCC used the net proceeds of the offering (1) to lend funds to American Water and the Regulated Businesses; (2) to repay at maturity AWCC's 3.850% Senior Notes due 2024; (3) to repay AWCC's commercial paper obligations; and (4) for general corporate purposes.

In addition to the notes issued by AWCC as described above, during the six months ended June 30, 2024, AWCC and the Company's regulated subsidiaries issued in the aggregate $12 million of private activity bonds and government funded debt in multiple transactions with annual interest rates ranging from 0.00% to 1.75%, a weighted average interest rate of 0.02%, and maturity dates ranging from 2025 through 2061. $11 million of the private activity bonds and government funded debt issued by the Company's regulated subsidiaries during the six months ended June 30, 2024, were collateralized. During the six months ended June 30, 2024, AWCC and the Company's regulated subsidiaries made sinking fund payments for, or repaid at maturity, $466 million in aggregate principal amount of outstanding long-term debt, with annual interest rates ranging from 0.00% to 7.17%, a weighted average interest rate of 4.24%, and maturity dates ranging from 2024 to 2061.

The Company had entered into 15 treasury lock agreements through February 2024, with notional amounts totaling $825 million. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss. In February 2024, the Company terminated the treasury lock agreements realizing a pre-tax net gain of $14 million, to be amortized through Interest expense over a 10-year period or 30-year period, in accordance with the tenor of the notes issued on February 23, 2024.

No ineffectiveness was recognized on hedging instruments for the three and six months ended June 30, 2024 or 2023.

On June 29, 2023, AWCC issued $1,035 million aggregate principal amount of 3.625% Exchangeable Senior Notes due 2026 (the "Notes"). AWCC received net proceeds of approximately $1,022 million, after deduction of underwriting discounts and commissions but before deduction of offering expenses payable by AWCC. A portion of the net proceeds was used to repay AWCC's commercial paper obligations and the remainder was used for general corporate purposes. The Notes are senior unsecured obligations of AWCC and have the benefit of a support agreement from parent company, which serves as the functional equivalent of a guarantee by parent company of the obligations of AWCC under the Notes. The Notes will mature on June 15, 2026 (the "Maturity Date"), unless earlier exchanged or repurchased.

The Notes are exchangeable at an initial exchange rate of 5.8213 shares of parent company's common stock per $1,000 principal amount of Notes (equivalent to an initial exchange price of approximately $171.78 per share of common stock). The initial exchange rate of the Notes is subject to adjustment as provided in the indenture pursuant to which the Notes were issued (the "Note Indenture"). Prior to the close of business on the business day immediately preceding March 15, 2026, the Notes are exchangeable at the option of the noteholders only upon the satisfaction of specified conditions and during certain periods described in the Note Indenture. On or after March 15, 2026, until the close of business on the business day immediately preceding the Maturity Date, the Notes will be exchangeable at the option of the noteholders at any time regardless of these conditions or periods. Upon any exchange of the Notes, AWCC will (1) pay cash up to the aggregate principal amount of the Notes and (2) pay or deliver (or cause to be delivered), as the case may be, cash, shares of parent company's common stock, or a combination of cash and shares of such common stock, at AWCC's election, in respect of the remainder, if any, of AWCC's exchange obligation in excess of the aggregate principal amount of the Notes being exchanged.

AWCC may not redeem the Notes prior to the Maturity Date, and no sinking fund is provided for the Notes. Subject to certain conditions, holders of the Notes will have the right to require AWCC to repurchase all or a portion of their Notes upon the occurrence of a fundamental change, as defined in the Note Indenture, at a repurchase price of 100% of their principal amount plus any accrued and unpaid interest.

Note 8: Short-Term Debt

Liquidity needs for capital investment, working capital and other financial commitments are generally funded through cash flows from operations, public and private debt offerings, commercial paper markets and, if and to the extent necessary, borrowings under the AWCC revolving credit facility, and, in the future, issuances of equity. AWCC maintains an unsecured revolving credit facility which provides $2.75 billion in aggregate total commitments from a diversified group of financial institutions. The termination date of the credit agreement with respect to AWCC's revolving credit facility is October 26, 2028. The revolving credit facility is used principally to support AWCC's commercial paper program, to provide additional liquidity support and to provide a sub-limit for the issuance of up to $150 million in letters of credit. Subject to satisfying certain conditions, the credit agreement permits AWCC to increase the maximum commitment under the facility by up to an aggregate of $500 million and to request extensions of its expiration date for up to two one-year periods, as to which one such extension request remains. As of June 30, 2024, and December 31, 2023, there were no borrowings under the revolving credit facility. As of June 30, 2024, and December 31, 2023, there were $75 million of outstanding letters of credit under the revolving credit facility.

At June 30, 2024, there was no outstanding short-term debt. At December 31, 2023, short-term debt consisting of commercial paper borrowings totaled $180 million, or net of discount $179 million. The weighted-average interest rate on AWCC's outstanding short-term borrowings was approximately 5.51% and there were no commercial paper borrowings outstanding with maturities greater than three months.

Presented in the tables below is the aggregate credit facility commitments, commercial paper limit and letter of credit availability under the revolving credit facility, as well as the available capacity for each:

	As of June 30, 2024		
	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	—	(75)	(75)
Remaining availability as of June 30, 2024	$ 2,600	$ 75	$ 2,675

(a) Total remaining availability of $2.7 billion as of June 30, 2024, was accessible through revolver draws.

	As of December 31, 2023		
	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	(180)	(75)	(255)
Remaining availability as of December 31, 2023	$ 2,420	$ 75	$ 2,495

(a) Total remaining availability of $2.5 billion as of December 31, 2023, was accessible through revolver draws.

Presented in the table below is the Company's total available liquidity as of June 30, 2024, and December 31, 2023, respectively:

	Cash and Cash Equivalents	Availability on Revolving Credit Facility	Total Available Liquidity
Available liquidity as of June 30, 2024	$ 48	$ 2,675	$ 2,723
Available liquidity as of December 31, 2023	$ 330	$ 2,495	$ 2,825

Note 9: Income Taxes

The Company's effective income tax rate was 23.3% and 21.6% for the three months ended June 30, 2024 and 2023, respectively, and 23.4% and 21.2% for the six months ended June 30, 2024 and 2023, respectively. The increase in the Company's effective income tax rate for the three and six months ended June 30, 2024, was primarily due to the decrease in the amortization of EADIT pursuant to regulatory orders and a decrease in deductions related to payments of stock-based compensation benefits.

On August 16, 2022, the Inflation Reduction Act of 2022 (the "IRA") was signed into law. The IRA contains a 15% Corporate Alternative Minimum Tax ("CAMT") provision on applicable corporations effective January 1, 2023. To determine if a company is considered an applicable corporation subject to CAMT, the company's average adjusted financial statement income ("AFSI") for the three consecutive years preceding the tax year must exceed $1.0 billion. An applicable corporation must make several adjustments to net income when determining AFSI. A corporation paying CAMT is eligible for a future tax credit, which can be utilized when regular tax exceeds CAMT. Based on current guidance, the Company is an applicable corporation subject to CAMT beginning in 2024 and expects to owe CAMT in excess of the regular tax liability. On June 13, 2024, the Internal Revenue Service ("IRS") and the U.S. Treasury issued Notice 2024-47, allowing corporate taxpayers to exclude amounts attributable to the CAMT liability, without penalty, from estimated tax payments due on or before August 15, 2024. In the absence of a similar extension, the Company will include the CAMT liability in its estimated tax payments starting in the third quarter of 2024. The Company will continue to assess the impacts of the IRA as the U.S. Treasury and the IRS provide further guidance.

Note 10: Pension and Other Postretirement Benefits

Presented in the table below are the components of net periodic benefit costs:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Components of net periodic pension benefit cost:				
Service cost	$ 4	$ 4	$ 9	$ 8
Interest cost	21	21	42	43
Expected return on plan assets	(23)	(23)	(47)	(46)
Amortization of prior service credit	(1)	(1)	(2)	(2)
Amortization of actuarial loss	6	3	12	7
Net periodic pension benefit cost	$ 7	$ 4	$ 14	$ 10
Components of net periodic other postretirement benefit credit:				
Service cost	$ —	$ —	$ 1	$ 1
Interest cost	3	3	6	7
Expected return on plan assets	(3)	(3)	(6)	(6)
Amortization of prior service credit	(8)	(8)	(16)	(16)
Amortization of actuarial loss	—	—	—	1
Net periodic other postretirement benefit credit	$ (8)	$ (8)	$ (15)	$ (13)

The Company contributed $11 million and $22 million for the funding of its defined benefit pension plans for the three and six months ended June 30, 2024, respectively, and contributed $10 million and $20 million for the funding of its defined benefit pension plans for the three and six months ended June 30, 2023, respectively. The Company expects to make additional pension contributions to the plan trusts of $22 million during the remainder of 2024.

Note 11: Commitments and Contingencies

Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. As of June 30, 2024, the Company has accrued approximately $7 million of probable loss contingencies and has estimated that the maximum amount of loss associated with reasonably possible loss contingencies arising out of such legal actions, which can be reasonably estimated, is $3 million. For certain legal actions, the Company is unable to estimate possible losses. The Company believes that damages or settlements, if any, recovered by plaintiffs in such legal actions, other than as described in this Note 11 —Commitments and Contingencies, will not have a material adverse effect on the Company.

Dunbar, West Virginia Water Main Break Class Action Litigation

On the evening of June 23, 2015, a 36-inch pre-stressed concrete transmission water main, installed in the early 1970s, failed. The water main is part of the West Relay pumping station located in the City of Dunbar, West Virginia and owned by the Company's West Virginia subsidiary ("WVAWC"). The failure of the main caused water outages and low pressure for up to approximately 25,000 WVAWC customers. In the early morning hours of June 25, 2015, crews completed a repair, but that same day, the repair developed a leak. On June 26, 2015, a second repair was completed, and service was restored that day to approximately 80% of the impacted customers, and to the remaining approximately 20% by the next morning. The second repair showed signs of leaking, but the water main was usable until June 29, 2015, to allow tanks to refill. The system was reconfigured to maintain service to all but approximately 3,000 customers while a final repair was being completed safely on June 30, 2015. Water service was fully restored by July 1, 2015, to all customers affected by this event.

On June 2, 2017, a complaint captioned *Jeffries, et al. v. West Virginia-American Water Company* was filed in West Virginia Circuit Court in Kanawha County on behalf of an alleged class of residents and business owners who lost water service or pressure as a result of the Dunbar main break. The complaint alleges breach of contract by WVAWC for failure to supply water, violation of West Virginia law regarding the sufficiency of WVAWC's facilities and negligence by WVAWC in the design, maintenance and operation of the water system. The *Jeffries* plaintiffs seek unspecified alleged damages on behalf of the class for lost profits, annoyance and inconvenience, and loss of use, as well as punitive damages for willful, reckless and wanton behavior in not addressing the risk of pipe failure and a large outage.

In February 2020, the *Jeffries* plaintiffs filed a motion seeking class certification on the issues of breach of contract and negligence, and to determine the applicability of punitive damages and a multiplier for those damages if imposed. In July 2020, the Circuit Court entered an order granting the *Jeffries* plaintiffs' motion for certification of a class regarding certain liability issues but denying certification of a class to determine a punitive damages multiplier. In August 2020, WVAWC filed a Petition for Writ of Prohibition in the Supreme Court of Appeals of West Virginia seeking to vacate or remand the Circuit Court's order certifying the issues class. In January 2021, the Supreme Court of Appeals remanded the case back to the Circuit Court for further consideration in light of a decision issued in another case relating to the class certification issues raised on appeal. In July 2022, the Circuit Court entered an order again certifying a class to address at trial certain liability issues but not to consider damages. In August 2022, WVAWC filed another Petition for Writ of Prohibition in the Supreme Court of Appeals of West Virginia challenging the West Virginia Circuit Court's July 2022 order, which petition was denied on June 8, 2023. By order dated June 28, 2024, the Circuit Court set a new date of December 3, 2024, for a class trial on issues relating to duty and breach of that duty. This trial will not find class-wide or punitive damages. Mediation is scheduled to take place in August 2024.

The Company and WVAWC believe that WVAWC has valid, meritorious defenses to the claims raised in this class action complaint. WVAWC is vigorously defending itself against these allegations. Given the current stage of this proceeding, the Company cannot reasonably estimate the amount of any reasonably possible loss or a range of loss related to this proceeding.

Chattanooga, Tennessee Water Main Break Class Action Litigation

On September 12, 2019, the Company's Tennessee subsidiary ("TAWC"), experienced a leak in a 36-inch water transmission main, which caused service fluctuations or interruptions to TAWC customers and the issuance of a boil water notice. TAWC repaired the main by early morning on September 14, 2019, and restored full water service by the afternoon of September 15, 2019, with the boil water notice lifted for all customers on September 16, 2019.

On September 17, 2019, a complaint captioned *Bruce, et al. v. American Water Works Company, Inc., et al.* was filed in the Circuit Court of Hamilton County, Tennessee against TAWC, the Company and American Water Works Service Company, Inc. ("Service Company" and, together with TAWC and the Company, collectively, the "Tennessee-American Water Defendants"), on behalf of a proposed class of individuals or entities who lost water service or suffered monetary losses as a result of the Chattanooga incident (the "Tennessee Plaintiffs"). The complaint alleged breach of contract and negligence against the Tennessee-American Water Defendants, as well as an equitable remedy of piercing the corporate veil. In the complaint as originally filed, the Tennessee Plaintiffs were seeking an award of unspecified alleged damages for wage losses, business and economic losses, out-of-pocket expenses, loss of use and enjoyment of property and annoyance and inconvenience, as well as punitive damages, attorneys' fees and pre- and post-judgment interest.

In September 2020, the court dismissed all of the Tennessee Plaintiffs' claims in their complaint, except for the breach of contract claims against TAWC, which remain pending. In October 2020, TAWC answered the complaint, and the parties have been engaging in discovery. On January 12, 2023, after hearing oral argument, the court issued an oral ruling denying the Tennessee Plaintiffs' motion for class certification. On February 9, 2023, the Tennessee Plaintiffs sought reconsideration of the ruling by the court, and any final ruling is appealable to the Tennessee Court of Appeals, as allowed under Tennessee law. On September 21, 2023, the court upheld its prior ruling but gave the Tennessee Plaintiffs the option to file an amended class definition. On October 12, 2023, the Tennessee Plaintiffs filed an amended class definition seeking certification of a business customer-only class. On December 1, 2023, TAWC filed a memorandum in opposition to the amended class definition. On January 18, 2024, and April 19, 2024, the court heard oral argument on the motions. On June 14, 2024, the court issued its written order denying the amended class and incorporating its denial of the original class. On June 21, 2024, the Tennessee Plaintiffs appealed both of the court's orders denying class certification.

The Company and TAWC believe that TAWC has valid, meritorious defenses to the claims raised in this class action complaint. TAWC is vigorously defending itself against these allegations. Given the current stage of this proceeding, the Company cannot currently determine the likelihood of a loss, if any, or estimate the amount of any loss or a range of loss related to this proceeding.

Mountaineer Gas Company Main Break

During the afternoon of November 10, 2023, WVAWC was informed that an 8-inch ductile iron water main owned by WVAWC, located on the West Side of Charleston, West Virginia and originally installed in approximately 1989, experienced a leak. In the early morning hours of November 11, 2023, WVAWC crews successfully completed a repair to the water main. A precautionary boil water advisory was issued the same day to approximately 300 WVAWC customers and ultimately lifted on November 12, 2023.

On November 10, 2023, a break was reported in a low-pressure natural gas main located near the affected WVAWC water main, and an inflow of water into the natural gas main and associated delivery pipelines occurred. The natural gas main and pipelines are owned by Mountaineer Gas Company, a regulated natural gas distribution company serving over 220,000 customers in West Virginia ("Mountaineer Gas"). The resulting inflow of water into the natural gas main and related pipelines resulted in a loss of natural gas service to approximately 1,500 Mountaineer Gas customers, as well as water entering customer service lines and certain natural gas appliances owned or used by some of the affected Mountaineer Gas customers. Mountaineer Gas reported that restoration of natural gas service to all affected gas mains occurred on November 24, 2023. The timing, order and causation of both the WVAWC water main break and Mountaineer Gas's main break are currently unknown and under investigation.

To date, a total of four pending lawsuits have been filed against Mountaineer Gas and WVAWC purportedly on behalf of customers in Charleston, West Virginia related to these incidents. On November 14, 2023, a complaint captioned *Ruffin et al. v. Mountaineer Gas Company and West Virginia-American Water Company* was filed in West Virginia Circuit Court in Kanawha County on behalf of an alleged class of Mountaineer Gas residential and business customers and other households and businesses supplied with natural gas in Kanawha County, which lost natural gas service on November 10, 2023, as a result of these events. The complaint alleges, among other things, breach of contract by Mountaineer Gas, trespass by WVAWC, nuisance by WVAWC, violation of statutory obligations by Mountaineer Gas and WVAWC, and negligence by Mountaineer Gas and WVAWC. The complaint seeks class-wide damages against Mountaineer Gas and WVAWC for loss of use of natural gas, annoyance, inconvenience and lost profits, as well as punitive damages.

On November 15, 2023, a complaint captioned *Toliver et al. v. West Virginia-American Water Company and Mountaineer Gas Company* was filed in West Virginia Circuit Court in Kanawha County on behalf of an alleged class of all natural persons or entities who are citizens of the State of West Virginia and who are customers of WVAWC and/or Mountaineer Gas in the affected areas. The complaint alleges against Mountaineer Gas and WVAWC, among other things, negligence, nuisance, trespass and strict liability, as well as breach of contract against Mountaineer Gas. The complaint seeks class-wide damages against Mountaineer Gas and WVAWC for property damage, loss of use and enjoyment of property, annoyance and inconvenience and business losses, as well as punitive damages.

On November 16, 2023, a complaint captioned *Dodson et al. v. West Virginia American Water and Mountaineer Gas Company* was filed in West Virginia Circuit Court in Kanawha County on behalf of an alleged class of all West Virginia citizens living between Pennsylvania Avenue south of Washington Street, and Iowa Street, who are customers of Mountaineer Gas. The complaint alleges against Mountaineer Gas and WVAWC, among other things, negligence, nuisance, trespass, statutory code violations and unfair or deceptive business practices. The complaint seeks class-wide damages against Mountaineer Gas and WVAWC for property loss and damage, loss of use and enjoyment of property, mental and emotional distress, and aggravation and inconvenience, as well as punitive damages.

On January 4, 2024, a fourth complaint, captioned *Thomas v. West Virginia-American Water Company and Mountaineer Gas Company*, was filed in West Virginia Circuit Court in Kanawha County asserting similar allegations as those included in the *Ruffin*, *Toliver* and *Dodson* lawsuits, with the addition of counts alleging unjust enrichment and violations of the West Virginia Human Rights Act and the West Virginia Consumer Credit and Protection Act.

On November 17, 2023, the *Ruffin* plaintiff filed a motion to consolidate the class action lawsuits before a single judge in Kanawha County Circuit Court. On June 14, 2024, the judge in the *Ruffin* case partially granted the motion by transferring all of the four class action lawsuits to her court but deferring as premature consolidation of the cases.

On December 5, 2023, a complaint captioned *Mountaineer Gas Company v. West Virginia-American Water Company* was filed in West Virginia Circuit Court in Kanawha County seeking damages under theories of trespass, negligence and implied indemnity. The damages being sought related to the incident include, among other things, repair and response costs incurred by Mountaineer Gas and attorneys' fees and expenses incurred by Mountaineer Gas. On December 14, 2023, Mountaineer Gas filed a motion with the Supreme Court of West Virginia to transfer this case to the West Virginia Business Court. On December 29, 2023, WVAWC filed a joinder in the motion to transfer the case. WVAWC has also filed a partial motion to dismiss this lawsuit. On March 6, 2024, the motion to transfer the complaint captioned *Mountaineer Gas Company v. West Virginia-American Water Company* to the West Virginia Business Court was granted and trial and resolution judges were assigned. Mountaineer Gas voluntarily dismissed its implied indemnity count against WVAWC, rendering moot WVAWC's partial motion to dismiss, and on May 31, 2024, WVAWC answered the complaint.

On December 20, 2023, Mountaineer Gas filed answers to each of the first three class action lawsuits, which included cross-claims against WVAWC alleging that Mountaineer Gas is without fault for the claims and damages alleged in the lawsuits and WVAWC should be required to indemnify Mountaineer Gas for any damages and for attorneys' fees and expenses incurred by Mountaineer Gas in the lawsuits. WVAWC has filed a partial motion to dismiss certain claims in the *Ruffin, Toliver, Dodson* and *Thomas* lawsuits and a motion to dismiss the cross-claims asserted against WVAWC therein by Mountaineer Gas. Mountaineer Gas subsequently voluntarily dismissed its cross-claims. On January 30, 2024, a motion was filed with the West Virginia Supreme Court on behalf of the *Toliver* plaintiff to refer the four class action complaints and the *Mountaineer Gas* complaint to the West Virginia Mass Litigation Panel. On February 7, 2024, WVAWC filed a motion joining in that referral request. On February 19, 2024, Mountaineer Gas filed a motion opposing the referral of the four class action complaints and the *Mountaineer Gas* complaint to the West Virginia Mass Litigation Panel. On March 28, 2024, the Kanawha County Circuit Court trial judge filed a memorandum opposing the referral. On May 31, 2024, the West Virginia Supreme Court denied the motion seeking referral. The Kanawha County Circuit Court has set a trial date of February 2, 2026, for the class action complaints.

On December 6, 2023, WVAWC initiated a process whereby Mountaineer Gas customers could file claims with WVAWC and seek payment from WVAWC of up to $2,000 in damages per affected household for the inconvenience arising from a loss of use of their appliances and documented out-of-pocket expenses as a result of the natural gas outage. In light of the diminishing number of new claims being filed, the claims process was concluded on March 8, 2024. As of June 30, 2024, a total of 589 Mountaineer Gas customers completed this claims process, and each of those customers has been paid by WVAWC an average of approximately $1,500. In return, these customers were required to execute a partial release of liability in favor of WVAWC.

On November 16, 2023, the Public Service Commission of West Virginia (the "WVPSC") issued an order initiating a general investigation into both the water main break and natural gas outages occurring in this incident to determine the cause or causes thereof, as well as breaks and outages generally throughout the systems of WVAWC and Mountaineer Gas and the utility practices of both utilities. Following a series of disagreements among the parties regarding the scope of discovery, the WVPSC closed the general investigation into both utilities and ordered a separate general investigation for each utility. The WVPSC focused the two general investigations away from the cause of the events and instead on the maintenance practices of each utility during and after the main breaks. On January 29, 2024, the Consumer Advocate Division of the WVPSC filed a motion to intervene in the WVAWC general investigation. WVAWC is cooperating with its general investigation.

On March 1, 2024, the staff of the WVPSC issued an initial memorandum in each separate general investigation for Mountaineer Gas and WVAWC. On April 24, 2024, the staff issued a final joint memorandum in the Mountaineer Gas general investigation stating its view that Mountaineer Gas responded appropriately, reasonably and according to Mountaineer Gas's written procedures. The staff is making no recommendations for improvements to Mountaineer Gas and is recommending that the Mountaineer Gas general investigation be closed. On July 24, 2024, the staff issued a final joint memorandum in the WVAWC general investigation finding no indication of systematic failure by WVAWC and concluding WVAWC's maintenance and operating procedures were adequate to ensure safe and reliable service, subject to the implementation by WVAWC of three recommended operational improvements. Both general investigations remain pending.

The Company and WVAWC believe that the causes of action and other claims asserted against WVAWC in the class action complaints and the lawsuit filed by Mountaineer Gas are without merit and that WVAWC has meritorious defenses to such claims, and WVAWC is defending itself vigorously in these litigation proceedings. Given the current stage of these proceedings and the general investigation, the Company and WVAWC are currently unable to predict the outcome of any of the proceedings described above, and the Company cannot currently determine the likelihood of a loss, if any, or estimate the amount of any loss or a range of loss related to this proceeding.

Alternative Water Supply in Lieu of Carmel River Diversions

Compliance with Orders to Reduce Carmel River Diversions—Monterey Peninsula Water Supply Project

Under a 2009 order (the "2009 Order") of the State Water Resources Control Board (the "SWRCB"), the Company's California subsidiary ("Cal Am") is required to decrease significantly its yearly diversions of water from the Carmel River according to a set reduction schedule. In 2016, the SWRCB issued an order (the "2016 Order," and, together with the 2009 Order, the "Orders") approving a deadline of December 31, 2021, for Cal Am's compliance with these prior orders.

Cal Am is currently involved in developing the Monterey Peninsula Water Supply Project (the "Water Supply Project"), which includes the construction of a desalination plant, to be owned by Cal Am, and the construction of wells that would supply water to the desalination plant. In addition, the Water Supply Project also includes Cal Am's purchase of water from a groundwater replenishment project (the "GWR Project") between Monterey One Water and the Monterey Peninsula Water Management District (the "MPWMD"). The Water Supply Project is intended, among other things, to fulfill Cal Am's obligations under the Orders.

Cal Am's ability to move forward on the Water Supply Project is subject to administrative review by the CPUC and other government agencies, obtaining necessary permits, and intervention from other parties. In September 2016, the CPUC unanimously approved a final decision to authorize Cal Am to enter into a water purchase agreement for the GWR Project and to construct a pipeline and pump station facilities and recover up to $50 million in associated incurred costs, plus an allowance for funds used during construction ("AFUDC"), subject to meeting certain criteria.

In September 2018, the CPUC unanimously approved another final decision finding that the Water Supply Project meets the CPUC's requirements for a certificate of public convenience and necessity and an additional procedural phase was not necessary to consider alternative projects. The CPUC's 2018 decision concludes that the Water Supply Project is the best project to address estimated future water demands in Monterey, and, in addition to the cost recovery approved in its 2016 decision, adopts Cal Am's cost estimates for the Water Supply Project, which amounted to an aggregate of $279 million plus AFUDC at a rate representative of Cal Am's actual financing costs. The 2018 final decision specifies the procedures for recovery of all of Cal Am's prudently incurred costs associated with the Water Supply Project upon its completion, subject to the frameworks included in the final decision related to cost caps, operation and maintenance costs, financing, ratemaking and contingency matters. The reasonableness of the Water Supply Project costs will be reviewed by the CPUC when Cal Am seeks cost recovery for the Water Supply Project. Cal Am is also required to implement mitigation measures to avoid, minimize or offset significant environmental impacts from the construction and operation of the Water Supply Project and comply with a mitigation monitoring and reporting program, a reimbursement agreement for CPUC costs associated with that program, and reporting requirements on plant operations following placement of the Water Supply Project in service. Cal Am has incurred $255 million in aggregate costs as of June 30, 2024, related to the Water Supply Project, which includes $80 million in AFUDC.

In September 2021, Cal Am, Monterey One Water and the MPWMD reached an agreement on Cal Am's purchase of additional water from an expansion to the GWR Project. On December 5, 2022, the CPUC issued a final decision that authorized Cal Am to enter into the amended water purchase agreement, and specifically to increase pumping capacity and reliability of groundwater extraction from the Seaside Groundwater Basin. The final decision sets the cost cap for the proposed facilities at approximately $62 million. Cal Am may seek recovery of amounts above the cost cap in a subsequent rate filing or general rate case. Additionally, the final decision authorizes AFUDC at Cal Am's actual weighted average cost of debt for most of the facilities. On December 30, 2022, Cal Am filed with the CPUC an application for rehearing of the CPUC's December 5, 2022, final decision, and on March 30, 2023, the CPUC issued a decision denying Cal Am's application for rehearing, but adopting its proposed AFUDC for already incurred and future costs. This decision also provided Cal Am the opportunity to serve supplemental testimony to increase its cost cap for certain of the Water Supply Project's extraction wells. The amended water purchase agreement and a memorandum of understanding to negotiate certain milestones related to the expansion of the GWR Project have been signed by the relevant parties. Further hearings were scheduled in a Phase 2 to this CPUC proceeding to focus on updated supply and demand estimates for the Water Supply Project, and Phase 2 testimony was completed in September 2022. On October 23, 2023, a status conference was held to determine procedural steps to conclude the proceeding, and further evidentiary hearings were held in March 2024.

While Cal Am believes that its expenditures to date have been prudent and necessary to comply with the Orders, as well as relevant final decisions of the CPUC related thereto, Cal Am cannot currently predict its ability to recover all of its costs and expenses associated with the Water Supply Project and there can be no assurance that Cal Am will be able to recover all of such costs and expenses in excess of the $112 million in aggregate construction costs, plus applicable AFUDC, previously approved by the CPUC in its 2016 final decision and its December 2022 final decision, as amended by its March 30, 2023, rehearing decision.

Coastal Development Permit Application

In 2018, Cal Am submitted a coastal development permit application (the "Marina Application") to the City of Marina (the "City") for those project components of the Water Supply Project located within the City's coastal zone. Members of the City's Planning Commission, as well as City councilpersons, have publicly expressed opposition to the Water Supply Project. In May 2019, the City issued a notice of final local action based upon the denial by the Planning Commission of the Marina Application. Thereafter, Cal Am appealed this decision to the Coastal Commission, as permitted under the City's code and the California Coastal Act. At the same time, Cal Am submitted an application (the "Original Jurisdiction Application") to the Coastal Commission for a coastal development permit for those project components located within the Coastal Commission's original jurisdiction. After Coastal Commission staff issued reports recommending denial of the Original Jurisdiction Application, noting potential impacts on environmentally sensitive habitat areas and wetlands and possible disproportionate impacts to communities of concern, in September 2020, Cal Am withdrew the Original Jurisdiction Application in order to address the staff's environmental justice concerns. In November 2020, Cal Am refiled the Original Jurisdiction Application.

In October 2022, Cal Am announced a phasing plan for the proposed desalination plant component of the Water Supply Project. The desalination plant and slant wells originally approved by the CPUC would produce up to 6.4 million gallons of desalinated water per day. Under the phased approach, the facilities would initially be constructed to produce up to 4.8 million gallons per day of desalinated water, enough to meet anticipated demand through about 2030, and would limit the number of slant wells initially constructed. As demand increases in the future, desalination facilities would be expanded to meet the additional demand. The phased approach seeks to meet near-term demand by allowing for additional supply as it becomes needed, while also providing an opportunity for regional future public participation and was developed by Cal Am based on feedback received from the community.

In November 2022, the Coastal Commission approved the Marina Application and the Original Jurisdiction Application with respect to the phased development of the proposed desalination plant, subject to compliance with a number of conditions, all of which Cal Am expects to satisfy. In December 2022, the City, Marina Coast Water District ("MCWD"), MCWD's groundwater sustainability agency, and the MPWMD jointly filed a petition for writ of mandate in Monterey County Superior Court against the Coastal Commission, alleging that the Coastal Commission violated the California Coastal Act and the California Environmental Quality Act ("CEQA") in issuing a coastal development permit to Cal Am for construction of the slant wells. Cal Am is named as a real party in interest. On April 24, 2024, the court granted defendants' motion for judgment on the pleadings and dismissed one of four causes of action in the petition. The three remaining claims challenge the Coastal Commission's substantive compliance with certain provisions of CEQA, the California Coastal Act, and due process requirements in considering Cal Am's application. Trial in this matter has been set for November 13, 2024.

Following the issuance of the coastal development permit, Cal Am continues to work constructively with all appropriate agencies to provide necessary information in connection with obtaining the remaining required permits for the Water Supply Project. However, there can be no assurance that the Water Supply Project in its current configuration will be completed on a timely basis, if ever. For the year ended December 31, 2023, Cal Am has complied with the diversion limitations contained in the 2016 Order. Continued compliance with the diversion limitations in 2024 and future years may be impacted by a number of factors, including, without limitation, potential recurrence of drought conditions in California and the exhaustion of water supply reserves, and will require successful development of alternate water supply sources sufficient to meet customer demand. The Orders remain in effect until Cal Am certifies to the SWRCB, and the SWRCB concurs, that Cal Am has obtained a permanent supply of water to substitute for past unauthorized Carmel River diversions. While the Company cannot currently predict the likelihood or result of any adverse outcome associated with these matters, further attempts to comply with the Orders may result in material additional costs and obligations to Cal Am, including fines and penalties against Cal Am in the event of noncompliance with the Orders.

Cal Am's Action for Damages Following Termination of Regional Desalination Project ("RDP")

In 2010, the CPUC had approved the RDP, which was a precursor to the current Water Supply Project and called for the construction of a desalination facility in the City of Marina. The RDP was to be implemented through a Water Purchase Agreement and ancillary agreements (collectively, the "Agreements") among MCWD, Cal Am and the Monterey County Water Resources Agency ("MCWRA"). In 2011, due to a conflict of interest concerning a former member of MCWRA's Board of Directors, MCWRA stated that the Agreements were void, and, as a result, Cal Am terminated the Agreements. In ensuing litigation filed by Cal Am in 2012 to resolve the termination of the RDP, the court in 2015 entered a final judgment agreeing with Cal Am's position that four of the five Agreements are void, and one, the credit line agreement, is not void. As a result of this litigation, Cal Am was permitted to institute further proceedings, discussed below, to determine the amount of damages that may be awarded to Cal Am as a result of the failure of the RDP.

In 2015, Cal Am and MCWRA filed a complaint in San Francisco County Superior Court against MCWD and RMC Water and Environment, a private engineering consulting firm ("RMC"), seeking to recover compensatory, consequential and incidental damages associated with the failure of the RDP, as well as punitive and treble damages, statutory penalties and attorneys' fees. In 2019, MCWD was granted a motion for summary judgment related to the tort claims in the complaint. A settlement as to the non-tort claims was finalized and entered into in March 2020. In July 2020, Cal Am appealed the grant of summary judgment on MCWD's tort claims, and in December 2022, the trial court's decision was reversed with instructions to vacate its prior orders granting MCWD's motions for summary judgment and to enter new orders denying the motions. In February 2023, MCWD filed a petition for review of the appellate decision with the California Supreme Court, which was denied in March 2023. A hearing on MCWD's motion for judgment on the pleadings is scheduled for August 16, 2024. The trial date of August 5, 2024, has been vacated, and will be rescheduled at a later date.

Proposed Acquisition of Monterey System Assets — MPWMD Condemnation Action

Local Agency Formation Commission Litigation

The water system assets of Cal Am located in Monterey, California (the "Monterey system assets") are the subject of a condemnation action by the MPWMD stemming from a November 2018 public ballot initiative. In 2019, the MPWMD issued a preliminary valuation and cost of service analysis report, finding in part that (1) an estimate of the Monterey system assets' total value plus adjustments would be approximately $513 million, (2) the cost of service modeling results indicate significant annual reductions in revenue requirements and projected monthly water bills, and (3) the acquisition of the Monterey system assets by the MPWMD would be economically feasible. In 2020, the MPWMD certified a final environmental impact report, analyzing the environmental impacts of the MPWMD's project to (1) acquire the Monterey system assets through the power of eminent domain, if necessary, and (2) expand its geographic boundaries to include all parts of this system.

In February 2021, the MPWMD filed an application with the Local Agency Formation Commission of Monterey County ("LAFCO") seeking approval to become a retail water provider and annex approximately 58 parcels of land into the MPWMD's boundaries. In June 2021, LAFCO's commissioners voted to require a third-party independent financial study as to the feasibility of an acquisition by the MPWMD of the Monterey system assets. In December 2021, LAFCO's commissioners denied the MPWMD's application to become a retail water provider, determining that the MPWMD does not have the authority to proceed with a condemnation of the Monterey system assets. In April 2022, the MPWMD filed a lawsuit against LAFCO challenging its decision to deny the MPWMD's application seeking approval to become a retail water provider. In June 2022, the court granted, with conditions, a motion by Cal Am to intervene in the MPWMD's lawsuit against LAFCO. In December 2022, the court sustained in part, and denied in part, demurrers that had been filed by LAFCO seeking to dismiss the MPWMD's lawsuit.

On December 11, 2023, the Monterey County Superior Court issued a writ of mandate directing LAFCO to vacate and set aside its original denial of the MPWMD's application to serve as a retail water provider (in conjunction with its effort to acquire the Monterey system assets) and, if requested, to re-hear the application in compliance with all applicable law. The court held that LAFCO incorrectly applied two statutory standards and noted a lack of sufficient evidence to support certain of LAFCO's factual findings. As a result, the LAFCO denial has been nullified and LAFCO will be required to hold another hearing on the MPWMD's application. On February 8, 2024, and February 9, 2024, respectively, Cal Am and LAFCO each filed a notice of appeal with the California Court of Appeal regarding the Monterey County Superior Court's decision to issue the writ of mandate. The MPWMD filed a notice of cross-appeal on February 15, 2024. Cal Am is evaluating potential additional actions to seek to uphold LAFCO's denial of the MPWMD's application, including filing other challenges and/or making suitable presentations at a subsequent LAFCO rehearing.

MPWMD Condemnation Actions

Separate from the proceedings related to the MPWMD's application with LAFCO, by letter dated October 3, 2022, the MPWMD notified Cal Am of a decision to appraise the Monterey system assets and requesting access to a number of Cal Am's properties and documents to assist the MPWMD with such an appraisal. Cal Am responded by letter on October 24, 2022, denying the request for access, stating that the MPWMD does not have the right to appraise Cal Am's system without LAFCO approval to become a retail water provider. On April 28, 2023, Cal Am rejected an offer by the MPWMD to purchase the Monterey system assets for $448.8 million. Over the written and oral objections of Cal Am, at a hearing held on October 10, 2023, the MPWMD adopted a resolution of necessity to authorize it to file an eminent domain lawsuit with respect to the Monterey system assets. On December 15, 2023, the MPWMD filed a lawsuit in Monterey County Superior Court seeking to condemn the Monterey system assets. On February 26, 2024, Cal Am filed a motion requesting the Monterey County Superior Court dismiss the MPWMD's lawsuit seeking to condemn Cal Am's Monterey system assets. Cal Am's motion asserts that the MPWMD lacks legal authorization from both the California legislature and LAFCO to become a retail water provider and the lawsuit improperly seeks to effect a taking of property outside the boundaries of the MPWMD's territory. An initial hearing on Cal Am's motion to dismiss was held on May 3, 2024, and a subsequent hearing is scheduled for August 23, 2024.

While the Company cannot currently predict the outcome of the MPWMD's eminent domain lawsuit, the Company believes that, given existing legal precedent related to similar attempts by public agencies in California to take over water systems and its other defenses, Cal Am should be able to defend itself successfully against this lawsuit.

West Virginia Elk River Freedom Industries Chemical Spill

On June 8, 2018, the U.S. District Court for the Southern District of West Virginia granted final approval of a settlement class and global class action settlement (the "Settlement") for all claims and potential claims by all class members (collectively, the "West Virginia Plaintiffs") arising out of the January 2014 Freedom Industries, Inc. chemical spill in West Virginia. The effective date of the Settlement was July 16, 2018. Under the terms and conditions of the Settlement, WVAWC and certain other Company affiliated entities did not admit, and will not admit, any fault or liability for any of the allegations made by the West Virginia Plaintiffs in any of the actions that were resolved.

As of June 30, 2024, $0.5 million of the aggregate Settlement amount of $126 million remains reflected in accrued liabilities, and $0.5 million in an offsetting insurance receivable remains reflected in other current assets on the Consolidated Balance Sheets pending resolution of all asserted actual or potential claims associated with this matter. The amount reflected in accrued liabilities reflects the status of the liability and the offsetting insurance receivable reflected in other current assets, each as of June 30, 2024.

Note 12: Earnings per Common Share

Presented in the table below is a reconciliation of the numerator and denominator for the basic and diluted earnings per share ("EPS") calculations:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Numerator:				
Net income attributable to common shareholders	$ 277	$ 280	$ 462	$ 450
Denominator:				
Weighted-average common shares outstanding—Basic	195	195	195	190
Effect of dilutive common stock equivalents	—	—	—	—
Weighted-average common shares outstanding—Diluted	195	195	195	190

The effect of dilutive common stock equivalents is related to outstanding restricted stock units ("RSUs") and performance stock units ("PSUs") granted under the Company's 2007 Omnibus Equity Compensation Plan and outstanding RSUs and PSUs granted under the Company's 2017 Omnibus Equity Compensation Plan, as well as estimated shares to be purchased under the Company's 2017 Nonqualified Employee Stock Purchase Plan. Less than one million share-based awards were excluded from the computation of diluted EPS for the three and six months ended June 30, 2024 and 2023, because their effect would have been anti-dilutive under the treasury stock method.

The if-converted method is applied to the Notes issued in June 2023 for computing diluted EPS. For both periods presented, there was no dilution resulting from the Notes. See Note 7—Long-Term Debt for additional information relating to the Notes.

Note 13: Fair Value of Financial Information

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Current assets and current liabilities—The carrying amounts reported on the Consolidated Balance Sheets for current assets and current liabilities, including revolving credit debt, due to the short-term maturities and variable interest rates, approximate their fair values.

Secured seller promissory note from the sale of the Homeowner Services Group—The carrying amount reported on the Consolidated Balance Sheets for the secured seller promissory note, included as part of the consideration from the sale of HOS, is $795 million and $720 million as of June 30, 2024, and December 31, 2023, respectively. On February 2, 2024, the secured seller promissory note from the sale of HOS was amended to increase the principal amount, in full satisfaction of a $75 million contingent cash payment, see Note 5—Acquisitions and Divestitures for additional information. This amount represents the principal amount owed under the secured seller promissory note, for which the Company expects to receive full payment. The accounting fair value measurement of the secured seller promissory note approximated $787 million and $704 million as of June 30, 2024, and December 31, 2023, respectively. The accounting fair value measurement is an estimate that is reflective of changes in benchmark interest rates. The secured seller promissory note is classified as Level 3 within the fair value hierarchy.

Preferred stock with mandatory redemption requirements and long-term debt—The fair values of preferred stock with mandatory redemption requirements and long-term debt are categorized within the fair value hierarchy based on the inputs that are used to value each instrument. The fair value of long-term debt classified as Level 1 is calculated using quoted prices in active markets. Level 2 instruments are valued using observable inputs and Level 3 instruments are valued using observable and unobservable inputs.

Presented in the tables below are the carrying amounts, including fair value adjustments previously recognized in acquisition purchase accounting, and the fair values of the Company's financial instruments:

	As of June 30, 2024				
		At Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 3	$ —	$ —	$ 3	$ 3
Long-term debt	13,128	10,153	1,033	634	11,820

	As of December 31, 2023				
		At Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 3	$ —	$ —	$ 3	$ 3
Long-term debt	12,190	9,575	1,044	757	11,376

Recurring Fair Value Measurements

Presented in the tables below are assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy:

	As of June 30, 2024			
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	$ 50	$ —	$ —	$ 50
Rabbi trust investments	25	—	—	25
Deposits	6	—	—	6
Other investments:				
Money market and other	28	—	—	28
Fixed-income securities	119	6	—	125
Total assets	228	6	—	234
Liabilities:				
Deferred compensation obligations	30	—	—	30
Total liabilities	30	—	—	30
Total assets	$ 198	$ 6	$ —	$ 204

	As of December 31, 2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	$ 34	$ —	$ —	$ 34
Rabbi trust investments	22	—	—	22
Deposits	8	—	—	8
Other investments:				
Money market and other	26	—	—	26
Fixed-income securities	140	6	—	146
Total assets	230	6	—	236
Liabilities:				
Deferred compensation obligations	27	—	—	27
Mark-to-market derivative liability	—	8	—	8
Total liabilities	27	8	—	35
Total assets (liabilities)	$ 203	$ (2)	$ —	$ 201

Restricted funds—The Company's restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operation, maintenance and repair projects.

Rabbi trust investments—The Company's rabbi trust investments consist of equity and index funds from which supplemental executive retirement plan benefits and deferred compensation obligations can be paid. The Company includes these assets in other long-term assets on the Consolidated Balance Sheets.

Deposits—Deposits include escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets on the Consolidated Balance Sheets.

Deferred compensation obligations—The Company's deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. The Company includes such plans in other long-term liabilities on the Consolidated Balance Sheets. The value of the Company's deferred compensation obligations is based on the market value of the participants' notional investment accounts. The notional investments are comprised primarily of mutual funds, which are based on quoted prices for identical assets in active markets.

Mark-to-market derivative assets and liabilities—The Company employs derivative financial instruments in the form of treasury lock agreements, classified as cash flow hedges, in order to fix the interest cost on existing or forecasted debt. The Company uses a calculation of future cash inflows and estimated future outflows, which are discounted, to determine the current fair value. Additional inputs to the present value calculation include the contract terms, counterparty credit risk, interest rates and market volatility.

Other investments—The Company maintains a Voluntary Employees' Beneficiary Association trust for purposes of paying active union employee medical benefits ("Active VEBA"). The investments in the Active VEBA trust primarily consist of money market funds and available-for-sale fixed income securities.

The money market and other investments have original maturities of three months or less when purchased. The fair value measurement of the money market and other investments is based on quoted prices for identical assets in active markets and therefore included in the recurring fair value measurements hierarchy as Level 1.

The available-for-sale fixed income securities are primarily investments in U.S. Treasury securities and government bonds. The majority of U.S. Treasury securities and government bonds have been categorized as Level 1 because they trade in highly-liquid and transparent markets. Certain U.S. Treasury securities are based on prices that reflect observable market information, such as actual trade information of similar securities, and are therefore categorized as Level 2, because the valuations are calculated using models which utilize actively traded market data that the Company can corroborate.

The Company includes other investments measured and recorded at fair value on the Consolidated Balance Sheets of $76 million and $62 million in other current assets, as of June 30, 2024, and December 31, 2023, respectively, and $78 million and $111 million in other long-term assets, as of June 30, 2024, and December 31, 2023, respectively. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income until realized.

The following tables summarize the unrealized positions for available-for-sale fixed income securities as of June 30, 2024, and December 31, 2023:

	As of June 30, 2024			
	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale fixed-income securities	$ 122	$ 7	$ 4	$ 125

	As of December 31, 2023			
	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale fixed-income securities	$ 143	$ 6	$ 3	$ 146

The fair value of the Company's available-for-sale fixed income securities, summarized by contractual maturities, as of June 30, 2024, is as follows:

	Amount
Other investments - Available-for-sale fixed-income securities	
Less than one year	$ 82
1 year - 5 years	31
5 years - 10 years	5
Greater than 10 years	7
Total	$ 125

Note 14: Leases

The Company has operating and finance leases involving real property, including facilities, utility assets, vehicles, and equipment. Certain operating leases have renewal options ranging from one year to 60 years. The exercise of lease renewal options is at the Company's sole discretion. Renewal options that the Company was reasonably certain to exercise are included in the Company's right-of-use ("ROU") assets. Certain operating leases contain the option to purchase the leased property. The operating leases for real property, vehicles and equipment will expire over the next 41 years, five years, and five years, respectively.

The Company participates in a number of arrangements with various public entities ("Partners") in West Virginia. Under these arrangements, the Company transferred a portion of its utility plant to the Partners in exchange for an equal principal amount of Industrial Development Bonds ("IDBs") issued by the Partners under the Industrial Development and Commercial Development Bond Act. The Company leased back the utility plant under agreements for a period of 30 to 40 years. The Company has recorded these agreements as finance leases in property, plant and equipment, as ownership of the assets will revert back to the Company at the end of the lease term. The carrying value of the finance lease assets was $144 million as of June 30, 2024, and December 31, 2023. The Company determined that the finance lease obligations and the investments in IDBs meet the conditions for offsetting, and as such, are reported net on the Consolidated Balance Sheets and are excluded from the lease disclosure presented below.

The Company also enters into O&M agreements with the Partners. The Company pays an annual fee for use of the Partners' assets in performing under the O&M agreements. The O&M agreements are recorded as operating leases, and future annual use fees of $2 million in 2024, $4 million in 2025 through 2028, and $41 million thereafter, are included in operating lease ROU assets and operating lease liabilities on the Consolidated Balance Sheets.

Rental expenses under operating leases were $3 million for each of the three months ended June 30, 2024 and 2023, and $6 million for each of the six months ended June 30, 2024 and 2023.

For the three and six months ended June 30, 2024, cash paid for amounts in lease liabilities, which includes operating cash flows from operating leases, was $2 million and $5 million, respectively. For the six months ended June 30, 2024, there were ROU assets obtained in exchange for new operating lease liabilities of $8 million.

As of June 30, 2024, the weighted-average remaining lease term of the operating leases was 18 years, and the weighted-average discount rate of the operating leases was 5%.

The future maturities of lease liabilities as of June 30, 2024, were $6 million in 2024, $11 million in 2025, $10 million in 2026, $9 million in 2027, $7 million in 2028, and $92 million thereafter. As of June 30, 2024, imputed interest was $49 million.

Note 15: Segment Information

The Company's operating segments are comprised of its businesses which generate revenue, incur expense and have separate financial information which is regularly used by management to make operating decisions, assess performance and allocate resources. The Company operates primarily through one reportable segment, the Regulated Businesses segment. The Regulated Businesses segment also includes inter-segment revenues, costs and interest which are eliminated to reconcile to the Consolidated Statements of Operations.

The Company also operates other businesses, primarily MSG, that do not meet the criteria of a reportable segment in accordance with GAAP and are collectively presented throughout this Form 10-Q within "Other," which is consistent with how management assesses the results of these businesses. Other also includes corporate costs that are not allocated to the Company's Regulated Businesses, interest income related to the secured seller promissory note from the sale of HOS, income from assets not associated with the Regulated Businesses, eliminations of inter-segment transactions and fair value adjustments related to acquisitions that have not been allocated to the Regulated Businesses segment. The adjustments related to the acquisitions are reported in Other as they are excluded from segment performance measures evaluated by management.

Presented in the tables below is summarized segment information:

	As of or for the Three Months Ended June 30, 2024		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 1,057	$ 92	$ 1,149
Depreciation and amortization	189	4	193
Total operating expenses, net	621	79	700
Interest expense	(102)	(29)	(131)
Interest income	5	20	25
Provision for income taxes	78	6	84
Net income attributable to common shareholders	274	3	277
Total assets	28,843	2,372	31,215
Cash paid for capital expenditures	668	2	670

	As of or for the Three Months Ended June 30, 2023		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 1,005	$ 92	$ 1,097
Depreciation and amortization	172	2	174
Total operating expenses, net	584	81	665
Interest expense	(90)	(20)	(110)
Interest income	6	9	15
Provision for income taxes	73	4	77
Net income attributable to common shareholders	278	2	280
Total assets	26,243	3,253	29,496
Cash paid for capital expenditures	622	5	627

	As of or for the Six Months Ended June 30, 2024		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 1,985	$ 175	$ 2,160
Depreciation and amortization	373	8	381
Total operating expenses, net	1,232	153	1,385
Interest expense	(199)	(56)	(255)
Interest income	8	41	49
Provision for income taxes	131	10	141
Net income attributable to common shareholders	459	3	462
Total assets	28,843	2,372	31,215
Cash paid for capital expenditures	1,271	8	1,279

	As of or for the Six Months Ended June 30, 2023		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 1,865	$ 170	$ 2,035
Depreciation and amortization	341	5	346
Total operating expenses, net	1,156	152	1,308
Interest expense	(177)	(48)	(225)
Interest income	7	22	29
Provision for income taxes	119	2	121
Net income (loss) attributable to common shareholders	452	(2)	450
Total assets	26,243	3,253	29,496
Cash paid for capital expenditures	1,146	7	1,153

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with the unaudited Consolidated Financial Statements and the Notes thereto included elsewhere in this Form 10-Q, and in the Company's Form 10-K for the year ended December 31, 2023. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about the Company's business, operations and financial performance. The cautionary statements made in this Form 10-Q should be read as applying to all related forward-looking statements whenever they appear in this Form 10-Q. The Company's actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those that are discussed under "Forward-Looking Statements" and elsewhere in this Form 10-Q. The Company has a disclosure committee consisting of members of senior management and other key employees involved in the preparation of the Company's SEC reports. The disclosure committee is actively involved in the review and discussion of the Company's SEC filings.

Overview

American Water is the largest and most geographically diverse, publicly traded water and wastewater utility company in the United States, as measured by both operating revenues and population served. The Company's primary business involves the ownership of utilities that provide water and wastewater services to residential, commercial, industrial, public authority, fire service and sale for resale customers, collectively presented as the "Regulated Businesses." Services provided by the Company's utilities are subject to regulation by multiple state utility commissions or other entities engaged in utility regulation, collectively referred to as public utility commissions ("PUCs"). The Company also operates other businesses not subject to economic regulation by state PUCs that provide water and wastewater services to the U.S. government on military installations, as well as municipalities, collectively presented throughout this Form 10-Q within "Other." See Part I, Item 1—Business in the Company's Form 10-K for additional information.

Financial Results

For the three and six months ended June 30, 2024, diluted earnings per share, prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), were $1.42 and $2.37, respectively, compared to $1.44 and $2.37 per share in the same periods in 2023. Results for the three and six months ended June 30, 2024, include the implementation of new rates in the Regulated Businesses from its capital and acquisition investments. Results also reflect some increased production and employee related costs and higher financing costs to fund the current capital investment plan. Results for the three and six months ended June 30, 2024, compared to the same periods in 2023, reflect a net unfavorable impact of weather of $0.04 per share, including an estimated $0.03 and $0.07 per share, respectively, of impact due to warm, dry weather in the second quarter of 2024, primarily in New Jersey, and in the second quarter of 2023 in the Northeast and Midwest. Results for the three and six months ended June 30, 2024, include additional interest income of $0.02 and $0.04 per share, respectively, resulting from the early 2024 amendment to the secured seller note from the sale of the former HOS business.

Growth Through Capital Investment in Infrastructure and Regulated Acquisitions

The Company continues to grow its businesses, with the substantial majority of its growth to be achieved in the Regulated Businesses through (i) continued capital investment in the Company's infrastructure to provide safe, clean, reliable and affordable water and wastewater services to its customers, (ii) regulated acquisitions to expand the Company's services to new customers and (iii) the addition of approximately 9,600 new customers through organic growth in existing systems. The Company plans to invest approximately $3.1 billion in these growth strategies in 2024. During the first six months of 2024, the Company invested $1.4 billion, in the Regulated Businesses, as discussed below.

- $1.3 billion capital investment in the Regulated Businesses for infrastructure improvements and replacements; and
- $119 million to fund acquisitions in the Regulated Businesses, which added approximately 33,400 customers. This includes the acquisition by the Company's Illinois subsidiary of a wastewater treatment plant and related assets from Granite City on March 11, 2024, for a cash purchase price of $86 million, which added approximately 26,000 wastewater customers, including 15,500 customers indirectly in surrounding communities.

Effective March 24, 2023, the Company's Pennsylvania subsidiary acquired the rights to buy the wastewater system assets of the Township of Towamencin, for an aggregate purchase price of $104 million, subject to adjustment as provided in the asset purchase agreement. This system provides wastewater services to approximately 6,300 customer connections in seven townships in Montgomery County, Pennsylvania. The Company expects to close this acquisition upon final regulatory approval.

On October 11, 2022, the Company's Pennsylvania subsidiary entered into an agreement to acquire the public wastewater collection and treatment system assets (the "System Assets") from the Butler Area Sewer Authority. On November 9, 2023, the Pennsylvania Public Utility Commission (the "PaPUC") approved a settlement agreement without modification with respect to the Company's Pennsylvania subsidiary's application to acquire the System Assets from the Butler Area Sewer Authority for a purchase price of $230 million, subject to adjustment as provided for in the asset purchase agreement. This system provides wastewater service for approximately 15,000 customer connections. On December 14, 2023, Center Township and Summit Township filed appeals with the Pennsylvania Commonwealth Court seeking to reverse the order entered by the PaPUC approving the sale of the System Assets. On December 29, 2023, the Company's Pennsylvania subsidiary filed applications with the Commonwealth Court seeking to dismiss the appeals and requesting expedited consideration. By order dated February 1, 2024, the Commonwealth Court deferred deciding the application to dismiss the appeals and directed that the issues raised by the applications to dismiss are to be considered as part of the merits of the appeals and that the disposition of the appeals was to be expedited. The Company awaits a decision from the Commonwealth Court to proceed with closing.

In December 2020, the Company's Pennsylvania subsidiary entered into an agreement (an acquisition intended to comply with Act 12 (discussed below)) to acquire the wastewater collection system assets of Brentwood Borough ("Brentwood") for a purchase price of approximately $19 million. On February 22, 2024, the PaPUC denied the Pennsylvania subsidiary's application to acquire Brentwood. On April 3, 2024, the Pennsylvania subsidiary filed an appeal of the decision with the Pennsylvania Commonwealth Court, asserting, among other things, the PaPUC did not apply the correct legal standard in its decision. The Company cannot currently predict the outcome of this appeal, and the matter remains pending.

As of June 30, 2024, the Company had entered into 22 agreements with a total aggregate purchase price of $483 million for pending acquisitions in the Regulated Businesses, including the agreements discussed above, to add approximately 59,000 additional customers. Two of these 22 agreements, representing an aggregate purchase price of $236 million (including Butler Area Sewer Authority, discussed above) and serving approximately 16,000 customers, have received commission approval. The remaining pending acquisitions, including 13,400 customers under Act 12, require regulatory approval to complete.

On February 7, 2024, the PaPUC proposed the Tentative Supplemental Implementation Order ("TSIO") which seeks to make certain changes to the process by which the PaPUC considers and decides applications to acquire water and wastewater assets under Pennsylvania's existing utility valuation law, known as Act 12 of 2016 ("Act 12"). The TSIO proposes, among other things, a reasonableness review ratio that would be applied to help guide the determination on the overall prudency of the transaction and reasonableness of the purchase price. On July 2, 2024, the PaPUC issued the Final Supplemental Implementation Order ("FSIO") which largely adopts the provisions in the TSIO. The provisions of the FSIO are not retroactive and apply to acquisition applications filed after July 2, 2024. Separately, legislation has also been introduced in the Pennsylvania House of Representatives that would amend Act 12 and establish new guidelines for evaluating applicable acquisitions. The proposed bills were reported out of committee but have not yet been considered by the full House of Representatives. The Company cannot currently predict the outcome of these or other legislative initiatives, or their impacts, but the Company intends to continue to support outcomes that allow for consolidation and investment in water and wastewater infrastructure in Pennsylvania and in its other regulated jurisdictions.

Other Matters

Environmental, Health and Safety, and Water Quality Regulation

On April 10, 2024, the U.S. Environmental Protection Agency ("EPA") announced a final National Primary Drinking Water Regulation ("NPDWR") for six PFAS, including perfluorooctanoic acid ("PFOA"), perfluorooctane sulfonic acid ("PFOS"), perfluorononanoic acid ("PFNA"), hexafluoropropylene oxide dimer acid ("HFPO-DA", commonly known as "GenX Chemicals"), perfluorohexane sulfonic acid ("PFHxS"), and perfluorobutane sulfonic acid ("PFBS"). The NPDWR establishes legally enforceable levels, called Maximum Contaminant Levels ("MCLs"), for PFAS in drinking water. Utilities will be required to complete their initial monitoring for PFAS by 2027, followed by ongoing compliance monitoring. Utilities will be required to comply with the new MCLs by April 2029, implementing solutions to reduce PFAS levels where needed. Beginning in April 2029, utilities that exceed any of the PFAS MCLs will be required to provide notification to the public of the violation.

As previously disclosed, the Company estimates an investment of approximately $1.0 billion of capital expenditures to install additional treatment facilities over a five-year period in order to comply with the new regulations. Additionally, the Company estimates that it will incur annual operating expenses of up to approximately $50 million related to testing and treatment, with the majority of the operating expenses beginning after the April 2029 compliance deadline. The actual expenses may differ from these estimates and will be dependent upon market dynamics upon implementation of solutions to comply with the NPDWR.

The Company supports sound policies and compliance with the NPDWR by all water utilities, while protecting customers and communities from the costly burden of monitoring and mitigating PFAS contamination in water systems. The Company continues to advocate for policies that hold polluters accountable and is participating in the multi-district litigation and other lawsuits filed against certain PFAS manufacturers seeking damages and reimbursement of costs incurred and continuing to be incurred to address contamination of public water supply systems by PFAS. For more information on the PFAS multi-district litigation, see Part II, Item 1—Legal Proceedings—PFAS Multi-District Litigation.

On April 19, 2024, the EPA issued a final rule to designate PFOA and PFOS as hazardous substances under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"). American Water is evaluating the final rule. The Company, along with a coalition (Water Coalition Against PFAS) of many other water and wastewater organizations, is actively advocating for and supporting bipartisan legislation that would provide PFAS liability protections under CERCLA for water and wastewater systems, as passive receivers of PFAS, and to hold polluters, and not the public or customers, accountable for PFAS related liability.

Regulatory Matters

General Rate Cases

Presented in the table below are annualized incremental revenues, including reductions for the amortization of the excess accumulated deferred income taxes ("EADIT") that are generally offset in income tax expense, assuming a constant sales volume and customer count, resulting from general rate case authorizations that are effective during 2024:

(In millions)	Effective Date	Amount
General rate cases by state:		
Pennsylvania	August 7, 2024	$ 99
Indiana, Step Increases	(a)	48
Kentucky	May 3, 2024 (b)	11
West Virginia	February 25, 2024	18
Total general rate case authorizations		$ 176

(a) In 2024, $23 million was effective May 10 and $25 million was effective February 21.

(b) Interim rates were effective February 6, 2024, and the difference between interim and final approved rates are subject to refund.

On July 22, 2024, the PaPUC released an order approving the adjustment of base rates requested in a general rate case filed by the Company's Pennsylvania subsidiary on November 8, 2023. The PaPUC approved a $99 million annualized increase in the Pennsylvania subsidiary's water and wastewater system revenues, excluding previously recovered infrastructure surcharges of $20 million, based on (i) an authorized return on equity of 9.45%, (ii) an authorized rate base of $5.8 billion, which reflects, as requested and included in the general rate case, approximately $1.0 billion in capital investments to be made through mid-2025, (iii) a common equity ratio of 55.30%, and (iv) a long-term debt ratio of 44.70%. Certain acquisitions that remain pending, including the acquisition of the wastewater collection and treatment system of the Butler Area Sewer Authority, were excluded from authorized base rates. The new rates will take effect on August 7, 2024, except that new wastewater rates for two recently acquired systems, including the City of York, will take effect during the first half of 2025 in accordance with the terms of the relevant acquisition agreements. As part of its approval of this rate adjustment, the PaPUC initiated an investigation into certain reported water service and water quality issues in the Pennsylvania subsidiary's Northeastern service territory, which reports had been provided during public input hearings convened in the general rate case.

On May 3, 2024, the Kentucky Public Service Commission (the "KPSC") issued an order approving the adjustment of base rates requested in a rate case filed on June 30, 2023, by the Company's Kentucky subsidiary. The general rate case order approved an $11 million annualized increase in water revenues, excluding infrastructure surcharge revenues of $10 million which continue to be recovered in the Kentucky subsidiary's approved infrastructure mechanism. The annualized increase is based upon an authorized return on equity of 9.70%, authorized rate base of $489 million, which reflects capital investments through January 31, 2025, and a capital structure with a common equity ratio of 52.22%. Interim rates in this proceeding were effective on February 6, 2024, and the order required that the difference between interim and final approved rates is subject to refund no later than August 26, 2024. On May 16, 2024, the Kentucky subsidiary filed with the KPSC a petition for rehearing of the KPSC's order, seeking clarification and/or correction of certain computational inconsistencies that the Kentucky subsidiary believes are reflected in the KPSC's order with respect to the authorized amount of annualized revenues to be received by the Kentucky subsidiary. The petition for rehearing also requested that any revisions become effective February 6, 2024, with any difference between the adjusted amount and initial approved rates subject to refund or collection. On May 28, 2024, the KPSC granted the request for rehearing, and the Kentucky subsidiary expects resolution of this proceeding later in 2024.

On February 23, 2024, the West Virginia Public Service Commission issued an order approving the adjustment of base rates requested in a rate case filed on May 1, 2023, by the Company's West Virginia subsidiary. The general rate case order approved an $18 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges of $7 million, based on an authorized return on equity of 9.80%, authorized rate base of $886 million, which reflects capital investments through February 2024, a common equity ratio of 50.10% and a long-term debt ratio of 49.90%. The increased water and wastewater revenues related to the base rate adjustment are being driven primarily by (i) $220 million of related water and wastewater system capital investments made since the completion of the West Virginia subsidiary's previous rate case, (ii) higher pension and other postretirement benefit costs, and (iii) increases in production costs, including chemicals, fuel and power costs.

On February 14, 2024, the Indiana Utility Regulatory Commission ("IURC") issued an order approving the adjustment of base rates requested in a rate case filed on March 31, 2023, by the Company's Indiana subsidiary. The general rate case order approved a $66 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges, based on an authorized return on equity of 9.65%, authorized rate base of $1.8 billion, a common equity ratio of 56.15% and a debt ratio of 43.85%. For purposes of determining rates, the adjustment is based on an equity component of 48.19% due to the regulatory practice in Indiana of including certain zero-cost items or tax credit balances in the capital structure calculation. The annualized revenue increase will include three step increases, with $25 million of the increase to be included in rates in February 2024, $23 million in May 2024, and $18 million in May 2025. The increases are being driven primarily by (i) over $875 million of water and wastewater system capital investments since the completion of the Indiana subsidiary's last rate case and through April 30, 2025, (ii) higher pension and other postretirement benefit costs, and (iii) increases in production costs, including chemicals, fuel and power costs.

Pending General Rate Case Filings

On July 1, 2024, the Company's Missouri subsidiary filed a general rate case requesting approximately $148 million in annualized incremental revenues. The request is based on a return on equity of 10.75% and a capital structure with an equity component of 50.54% and a long-term debt component of 49.46%. The requested annualized incremental revenue is driven primarily by $1.5 billion of incremental capital investments completed and planned by the Missouri subsidiary from January 2023 through May 2026. The Missouri subsidiary anticipates that the general rate case proceeding will be completed by mid-2025.

On May 1, 2024, the Company's Iowa subsidiary filed a general rate case requesting approximately $21 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 52.57% and debt component of 47.43%. The requested annualized revenue increase is driven primarily by approximately $157 million in capital investments made and to be made by the Iowa subsidiary through March 2026. Interim rates became effective May 11, 2024, with the difference between interim and final approved rates subject to refund.

On May 1, 2024, the Company's Tennessee subsidiary filed a general rate case requesting approximately $14 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 54.52% and debt component of 45.48%. The requested annualized revenue increase is driven primarily by approximately $173 million in capital investments made and to be made by the Tennessee subsidiary through December 2025.

On January 25, 2024, the Company's Illinois subsidiary filed tariffs for new water and wastewater rates. The request seeks a two-step rate increase consisting of aggregate annualized incremental revenue, based on a proposed return on equity of 10.75%, of (i) approximately $132 million, excluding infrastructure surcharges of $5 million, effective January 1, 2025, based on a future test year through December 31, 2025, with average rate base and a capital structure with an equity component of 52.27% and a debt component of 47.73%, and (ii) approximately $16 million effective January 1, 2026, based on a future test year to include end of period rate base and a capital structure with an equity component of 54.43% and a debt component of 45.57%. The requested increases are driven primarily by an estimated $557 million in capital investments to be made by the Illinois subsidiary from January 2024 through December 2025. The request also proposes a treatment and compliance rider to address recovery of future environmental compliance investments, and a modification to the existing volume balancing account mechanism to include full production cost recovery. The requested increase was subsequently updated in the Illinois subsidiary's June 20, 2024, rebuttal filing, with the first step request adjusted to $140 million in additional annualized revenues.

On January 19, 2024, the Company's New Jersey subsidiary filed a general rate case requesting approximately $162 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 56.30% and a debt component of 43.70%. The requested annualized revenue increase is driven primarily by approximately $1.3 billion in capital investments made and to be made by the New Jersey subsidiary through December 2024. The request also proposes a revenue decoupling mechanism and seeks a deferral of certain production cost adjustments.

On December 15, 2023, the Company's California subsidiary submitted a request to delay by one year its cost of capital filing and maintain its current authorized cost of capital through 2025. On February 2, 2024, the California Public Utilities Commission ("CPUC") granted the request for a one-year extension of the cost of capital filing to May 1, 2025, to set its authorized cost of capital beginning January 1, 2026.

On November 1, 2023, the Company's Virginia subsidiary filed a general rate case requesting $20 million in additional annualized revenues. The request is based on a proposed return on equity of 10.95% and a capital structure with an equity component of 45.67% and a debt and other component of 54.33%. The requested increase is driven by approximately $110 million in capital investments between May 2023 and April 2025. The request also proposed a revenue decoupling mechanism and seeks deferral of certain production cost adjustments. Interim rates became effective May 1, 2024, with the difference between interim and final approved rates subject to refund.

On July 1, 2022, the Company's California subsidiary filed a general rate case requesting an increase in 2024 revenue of $56 million and a total increase in revenue over the 2024 to 2026 period of $95 million, all as compared to 2022 revenues. The Company updated its filing in January 2023 to capture the authorized step increase effective January 1, 2023. The filing was also updated to incorporate a decoupling proposal and a revision to the Company's sales and associated variable expense forecast. The revised filing requested additional annualized revenues for the test year 2024 of $37 million, compared to 2023 revenues. This excludes the proposed step rate and attrition rate increase for 2025 and 2026 of $20 million and $19 million, respectively. The total revenue requirement request for the three-year rate case cycle, incorporating updates to present rate revenues and forecasted demand, is $76 million. On November 17, 2023, the California subsidiary filed with the CPUC a partial settlement agreement reached with the CPUC's Public Advocates Office, which would determine the amount of incremental annualized water and wastewater revenue to be received by the California subsidiary to be $20 million in the 2024 test year, $16 million in the 2025 escalation year, and $15 million in the 2026 attrition year. The partial settlement agreement addresses the California subsidiary's revenue requirement request but does not address rate design or certain other matters, such as the requested inclusion and implementation of a revenue stability mechanism to separate the California subsidiary's revenue and water sales. New rates would be implemented retroactively to January 1, 2024, upon a final decision issued by the CPUC approving the partial settlement agreement and resolving the other issues not addressed by the partial settlement agreement, which is expected to occur in the second half of 2024.

Infrastructure Surcharges

A number of states have authorized the use of regulatory mechanisms that permit rates to be adjusted outside of a general rate case for certain costs and investments, such as infrastructure surcharge mechanisms that permit recovery of capital investments to replace aging infrastructure. Presented in the table below are annualized incremental revenues, assuming a constant sales volume and customer count, resulting from infrastructure surcharge authorizations that became effective during 2024:

(In millions)	Effective Date	Amount
Infrastructure surcharges by state:		
Missouri	(b)	$ 47
Pennsylvania	(c)	21
New Jersey	April 30, 2024	9
Iowa	March 1, 2024	1
West Virginia (a)	March 1, 2024	7
Illinois	January 1, 2024	5
Total infrastructure surcharge authorizations		$ 90

(a) On March 5, 2024, the West Virginia Public Service Commission directed the Company's West Virginia subsidiary to interpret the distribution system improvement charge ("DSIC") Order as having included within the DSIC the three-year amortization of a prior authorized deferral associated with a large treatment plant project. The inclusion of this deferral increased the net incremental revenue by $0.7 million to a total of $6.6 million effective March 1, 2024.

(b) In 2024, $21 million was effective July 11 and $26 million was effective January 20.

(c) In 2024, $14 million was effective July 1 and $7 million was effective April 1.

Pending Infrastructure Surcharge Filings

On June 28, 2024, the Company's West Virginia subsidiary filed an infrastructure surcharge proceeding requesting $4 million in additional annualized revenues.

Other Regulatory Matters

In September 2020, the CPUC released a decision under its Low-Income Rate Payer Assistance program rulemaking that required the Company's California subsidiary to file a proposal to alter its water revenue adjustment mechanism in its next general rate case filing in 2022, which would have become effective upon receiving an order in the current pending rate case. On October 5, 2020, the Company's California subsidiary filed an application for rehearing of the decision and following the CPUC's denial of its rehearing application in September 2021, the Company's California subsidiary filed a petition for writ of review with the California Supreme Court on October 27, 2021. On May 18, 2022, the California Supreme Court issued a writ of review for the California subsidiary's petition and the petitions filed by other entities challenging the decision. On July 8, 2024, the California Supreme Court issued a unanimous opinion concluding that the CPUC did not regularly seek to exercise its authority when it prohibited water utilities from proposing to continue their water revenue adjustment mechanisms. Accordingly, the California Supreme Court vacated the portion of the CPUC's 2020 decision relating to this prohibition against continuation of such water revenue adjustment mechanisms.

Independent of the judicial challenge, California passed Senate Bill 1469, which allows the CPUC to consider and authorize the implementation of a mechanism that separates the water corporation's revenue and its water sales. Legislation was signed by the Governor on September 30, 2022, and became effective on January 1, 2023. In response to the legislation, on January 27, 2023, the Company's California subsidiary filed an updated application requesting the CPUC to consider a Water Resources Sustainability Plan decoupling mechanism in its pending 2022 general rate case, which, if adopted, will become effective upon receiving an order in the current pending rate case.

Consolidated Results of Operations

Presented in the table below are the Company's consolidated results of operations:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(In millions)	**2024**	**2023**	**2024**	**2023**
Operating revenues	$ 1,149	$ 1,097	$ 2,160	$ 2,035
Operating expenses:				
Operation and maintenance	427	419	843	812
Depreciation and amortization	193	174	381	346
General taxes	81	73	162	151
Other	(1)	(1)	(1)	(1)
Total operating expenses, net	700	665	1,385	1,308
Operating income	449	432	775	727
Other (expense) income:				
Interest expense	(131)	(110)	(255)	(225)
Interest income	25	15	49	29
Non-operating benefit costs, net	7	8	16	17
Other, net	11	12	18	23
Total other (expense) income	(88)	(75)	(172)	(156)
Income before income taxes	361	357	603	571
Provision for income taxes	84	77	141	121
Net income attributable to common shareholders	$ 277	$ 280	$ 462	$ 450

Segment Results of Operations

The Company's operating segments are comprised of its businesses which generate revenue, incur expense and have separate financial information which is regularly used by management to make operating decisions, assess performance and allocate resources. The Company operates its business primarily through one reportable segment, the Regulated Businesses segment. Other, primarily includes MSG, which does not meet the criteria of a reportable segment in accordance with GAAP. Other also includes corporate costs that are not allocated to the Company's Regulated Businesses, interest income related to the secured seller promissory note from the sale of HOS, income from assets not associated with the Regulated Businesses, eliminations of inter-segment transactions and fair value adjustments related to acquisitions that have not been allocated to the Regulated Businesses segment. This presentation is consistent with how management assesses the results of these businesses.

Regulated Businesses Segment

Presented in the table below is financial information for the Regulated Businesses:

(In millions)	For the Three Months Ended June 30, 2024	For the Three Months Ended June 30, 2023	For the Six Months Ended June 30, 2024	For the Six Months Ended June 30, 2023
Operating revenues	$ 1,057	$ 1,005	$ 1,985	$ 1,865
Operation and maintenance	356	345	707	675
Depreciation and amortization	189	172	373	341
General taxes	77	68	153	141
Other	(1)	(1)	(1)	(1)
Other expenses	(84)	(70)	(163)	(138)
Provision for income taxes	78	73	131	119
Net income attributable to common shareholders	$ 274	$ 278	$ 459	$ 452

Operating Revenues

Presented in the tables below is information regarding the main components of the Regulated Businesses' operating revenues:

(In millions)	For the Three Months Ended June 30, 2024	For the Three Months Ended June 30, 2023	For the Six Months Ended June 30, 2024	For the Six Months Ended June 30, 2023
Water services:				
Residential	$ 580	$ 554	$ 1,084	$ 1,015
Commercial	217	198	404	369
Fire service	41	39	82	78
Industrial	46	38	88	76
Public and other	73	83	131	148
Total water services	957	912	1,789	1,686
Wastewater services:				
Residential	60	57	119	111
Commercial	16	16	32	30
Industrial	3	2	5	4
Public and other	9	7	17	13
Total wastewater services	88	82	173	158
Other (a)	12	11	23	21
Total operating revenues	$ 1,057	$ 1,005	$ 1,985	$ 1,865

(a) Includes other operating revenues consisting primarily of miscellaneous utility charges, fees and rents.

(Gallons in millions)	For the Three Months Ended June 30, 2024	For the Three Months Ended June 30, 2023	For the Six Months Ended June 30, 2024	For the Six Months Ended June 30, 2023
Billed water services volumes:				
Residential	38,201	40,267	72,615	74,075
Commercial	19,291	18,712	36,582	35,548
Industrial	9,710	8,615	18,047	17,455
Fire service, public and other	13,698	13,594	24,814	25,282
Total billed water services volumes	80,900	81,188	152,058	152,360

For the three and six months ended June 30, 2024, operating revenues increased $52 million and $120 million, respectively, primarily due to increases of $42 million and $100 million, respectively, from authorized rate increases, including infrastructure surcharges, principally to recover infrastructure investment in various states. In addition, operating revenues increased $10 million and $18 million for the three and six months ended June 30, 2024, respectively, from water and wastewater acquisitions, as well as organic growth in existing systems. Also, operating revenues were $5 million and $10 million higher for the three and six months ended June 30, 2024, respectively, as a result of reduced amortization of EADIT, primarily in the Company's Missouri subsidiary. These increases were partially offset by a $10 million estimated net decrease for the three and six months ended June 30, 2024, due to warm, dry weather in the second quarter of 2023.

Operation and Maintenance

Presented in the table below is information regarding the main components of the Regulated Businesses' operation and maintenance expense:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(In millions)	**2024**	**2023**	**2024**	**2023**
Employee-related costs	$ 136	$ 130	$ 271	$ 259
Production costs	109	106	211	199
Operating supplies and services	61	57	124	114
Maintenance materials and supplies	19	21	41	43
Customer billing and accounting	14	16	28	29
Other	17	15	32	31
Total operation and maintenance expense	$ 356	$ 345	$ 707	$ 675

For the three and six months ended June 30, 2024, operation and maintenance expense increased $11 million and $32 million, respectively, due to increased production costs from higher purchased water cost and usage, increased employee related costs to support growth and increases in other operating expenses.

Depreciation and Amortization

For the three and six months ended June 30, 2024, depreciation and amortization increased $17 million and $32 million, respectively, primarily due to additional utility plant placed in service from capital infrastructure investments.

General Taxes

For the three and six months ended June 30, 2024, general taxes increased $9 million and $12 million, respectively, primarily due to incremental property taxes and New Jersey Gross Receipts Tax.

Other Expenses

For the three and six months ended June 30, 2024, other expenses increased $14 million and $25 million, respectively, primarily due to higher interest expense from the issuance of incremental long-term debt in June 2023 and February 2024. These increases were partially offset by decreases in interest expense as a result of lower average commercial paper borrowings and from the repayment of AWCC's 3.850% Senior Notes in March 2024.

Provision for Income Taxes

For the three and six months ended June 30, 2024, the Regulated Businesses' provision for income taxes increased $5 million and $12 million, respectively. The Regulated Businesses' effective income tax rate was 22.2% for the three and six months ended June 30, 2024, and 20.8% for the three and six months ended June 30, 2023. The increase was primarily due to the decrease in the amortization of EADIT pursuant to regulatory orders.

Other

Presented in the table below is information for Other:

(In millions)	For the Three Months Ended June 30, 2024	For the Three Months Ended June 30, 2023	For the Six Months Ended June 30, 2024	For the Six Months Ended June 30, 2023
Operating revenues	$ 92	$ 92	$ 175	$ 170
Operation and maintenance	71	74	136	137
Depreciation and amortization	4	2	8	5
General taxes	4	5	9	10
Interest expense	(29)	(20)	(56)	(48)
Interest income	20	9	41	22
Other income	5	6	6	8
Provision for income taxes	6	4	10	2
Net income (loss) attributable to common shareholders	$ 3	$ 2	$ 3	$ (2)

Interest income

For the three and six months ended June 30, 2024, interest income increased $11 million and $19 million, respectively, primarily due to the increased interest rate on the amended secured seller promissory note from the sale of HOS. See Note 5—Acquisitions and Divestitures in the Notes to Consolidated Financial Statements for additional information.

Legislative Updates

During 2024, the Company's regulatory jurisdictions enacted the following legislation that has been approved and is effective as of July 31, 2024:

- New Jersey passed Assembly Bill 4791, establishing the "Resiliency and Environmental System Investment Charge Program," which creates a regulatory mechanism that enables water and wastewater utilities to recover the costs of investment in certain non-revenue producing utility system components that enhance water and wastewater system resiliency, environmental compliance such as existing and proposed requirements for PFAS, safety, and public health. Legislation was signed by the Governor and became effective on January 12, 2024.
- Indiana passed Senate Bill 5, which provides access to a property by a water utility to replace lead service lines when a landowner does not enroll in the offered lead service line replacement program, does not personally replace the customer owned portion of the lead service line following notice and a 45-day waiting period, or is non-responsive to attempted communication after the 45-day waiting period. Legislation was signed by the Governor and became effective on March 11, 2024.
- Iowa passed House File 207, which modifies property tax assessments to exempt property owned or operated by a public or private utility and is directly and primarily used for furnishing sanitary sewage or storm water drainage disposal by a piped collection system to the public for compensation. Legislation was signed by the Governor and became effective on May 2, 2024.
- West Virginia passed House Bill 5617, which adopts standards and authorizes the Public Service Commission to promulgate rules, and also allows for rate recovery, on maintenance, flushing, flow testing and marking of fire hydrants owned by water utilities. Legislation was signed by the Governor and became effective on June 4, 2024.
- Iowa passed House File 2101, which increases the threshold amount required for approval by the Iowa Utilities Commission for water and wastewater utility acquisition filings from $0.5 million to $3 million. Legislation was signed by the Governor and became effective on July 1, 2024.
- Indiana passed Senate Bill 247, which establishes a 30-day filing with the IURC by a utility for an acquisition of a utility with an appraised value and purchase price of less than $3 million. Legislation was signed by the Governor became effective on July 1, 2024.

Condemnation and Eminent Domain

All or portions of the Regulated Businesses' utility assets could be acquired by state, municipal or other government entities through one or more of the following methods: (i) eminent domain (also known as condemnation); (ii) the right of purchase given or reserved by a municipality or political subdivision when the original certificate of public convenience and necessity ("CPCN") was granted; and (iii) the right of purchase given or reserved under the law of the state in which the utility subsidiary was incorporated or from which it received its CPCN. The acquisition consideration related to such a proceeding initiated by a local government may be determined consistent with applicable eminent domain law or may be negotiated or fixed by appraisers as prescribed by the law of the state or the jurisdiction of the particular CPCN.

As such, the Regulated Businesses are periodically subject to condemnation proceedings in the ordinary course of business. For example, the Monterey water service system assets (the "Monterey system assets") of the Company's California subsidiary ("Cal Am") are the subject of a potential condemnation action by the Monterey Peninsula Water Management District (the "MPWMD") stemming from a November 2018 public ballot initiative. For more information on this matter, see Part II, Item 1—Legal Proceedings—Proposed Acquisition of Monterey System Assets — MPWMD Condemnation Action and Note 11—Commitments and Contingencies in the Notes to Consolidated Financial Statements.

Furthermore, the law in certain jurisdictions in which the Regulated Businesses operate provides for eminent domain rights allowing private property owners to file a lawsuit to seek just compensation against a public utility, if a public utility's infrastructure has been determined to be a substantial cause of damage to that property. In these actions, the plaintiff would not have to prove that the public utility acted negligently. In California, for example, lawsuits have been filed in connection with large-scale natural events such as wildfires. Some of these lawsuits have included allegations that infrastructure of certain utilities triggered the natural event that resulted in damage to the property. In some cases, the PUC has allowed certain costs or losses incurred by the utility to be recovered from customers in rates, but in other cases such recovery in rates has been disallowed. Also, the utility may have obtained insurance that could respond to some or all of such losses, although the utility would be at risk for any losses not ultimately subject to rate or insurance recovery or losses that exceed the limits of such insurance.

Tax Matters

On August 16, 2022, the Inflation Reduction Act of 2022 (the "IRA") was signed into law. The IRA contains a 15% Corporate Alternative Minimum Tax ("CAMT") provision on applicable corporations effective January 1, 2023. To determine if a company is considered an applicable corporation subject to CAMT, the company's average adjusted financial statement income ("AFSI") for the three consecutive years preceding the tax year must exceed $1.0 billion. An applicable corporation must make several adjustments to net income when determining AFSI. A corporation paying CAMT is eligible for a future tax credit, which can be utilized when regular tax exceeds CAMT. Based on current guidance, the Company is an applicable corporation subject to CAMT beginning in 2024 and expects to owe CAMT in excess of the regular tax liability. On June 13, 2024, the Internal Revenue Service ("IRS") and the U.S. Treasury issued Notice 2024-47, allowing corporate taxpayers to exclude amounts attributable to the CAMT liability, without penalty, from estimated tax payments due on or before August 15, 2024. In the absence of a similar extension, the Company will include the CAMT liability in its estimated tax payments starting in the third quarter of 2024. The Company will continue to assess the impacts of the IRA as the U.S. Treasury and the IRS provide further guidance.

Liquidity and Capital Resources

For a general overview of the sources and uses of capital resources, see the introductory discussion in Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources in the Company's Form 10-K.

Liquidity needs for capital investment, working capital and other financial commitments are generally funded through cash flows from operations, public and private debt offerings, commercial paper markets, future issuances of equity, and, if and to the extent necessary, borrowings under American Water Capital Corp.'s ("AWCC") revolving credit facility.

The Company expects to fund future maturities of long-term debt through a combination of external debt and, to the extent available, cash flows from operations. Since the Company expects its capital investments over the next few years to be greater than its cash flows from operating activities, the Company currently plans to fund the excess of its capital investments over its cash flows from operating activities for the next five years through a combination of long-term debt and equity issuances, in addition to the remaining proceeds from the sale of HOS. The remaining proceeds from the sale of HOS include receipt of payments under a secured seller promissory note, plus interest. If necessary, the Company may delay certain capital investments or other funding requirements or pursue financing from other sources to preserve liquidity. In this event, the Company believes it can rely upon cash flows from operations to meet its obligations and fund its minimum required capital investments for an extended period of time.

On February 23, 2024, AWCC completed a $1.4 billion debt offering, which included the sale of $700 million aggregate principal amount of its 5.150% senior notes due 2034 and $700 million aggregate principal amount of its 5.450% senior notes due 2054. At the closing of this offering, AWCC received, after deduction of underwriting discounts and before deduction of offering expenses, net proceeds of approximately $1,381 million. AWCC used the net proceeds of the offering (1) to lend funds to American Water and the Regulated Businesses; (2) to repay at maturity AWCC's 3.850% Senior Notes due 2024; (3) to repay AWCC's commercial paper obligations; and (4) for general corporate purposes.

AWCC's revolving credit facility provides $2.75 billion in aggregate total commitments from a diversified group of financial institutions. The revolving credit facility is used principally to support AWCC's commercial paper program, to provide additional liquidity support, and to provide a sub limit for the issuance of up to $150 million in letters of credit. The maximum aggregate principal amount of short-term borrowings authorized for issuance under AWCC's commercial paper program is $2.6 billion. The termination date of the credit agreement with respect to AWCC's revolving credit facility is October 26, 2028. Subject to satisfying certain conditions, the credit agreement permits AWCC to increase the maximum commitment by up to an aggregate of $500 million and to request extensions of its expiration date for up to two one-year periods, as to which one such extension request remains. As of June 30, 2024, and December 31, 2023, there were no borrowings under the revolving credit facility. As of June 30, 2024, and December 31, 2023, there were $75 million of outstanding letters of credit under the revolving credit facility.

Presented in the tables below is the aggregate credit facility commitments, commercial paper limit and letter of credit availability under the revolving credit facility, as well as the available capacity for each:

	As of June 30, 2024		
(In millions)	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	—	(75)	(75)
Remaining availability as of June 30, 2024	$ 2,600	$ 75	$ 2,675

(a) Total remaining availability of $2.7 billion as of June 30, 2024, was accessible through revolver draws.

	As of December 31, 2023		
(In millions)	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	(180)	(75)	(255)
Remaining availability as of December 31, 2023	$ 2,420	$ 75	$ 2,495

(a) Total remaining availability of $2.5 billion as of December 31, 2023, was accessible through revolver draws.

Presented in the table below is the Company's total available liquidity:

(In millions)	Cash and Cash Equivalents	Availability on Revolving Credit Facility	Total Available Liquidity
Available liquidity as of June 30, 2024	$ 48	$ 2,675	$ 2,723
Available liquidity as of December 31, 2023	$ 330	$ 2,495	$ 2,825

The weighted-average interest rate on AWCC's outstanding short-term borrowings was approximately 5.51% at December 31, 2023.

The Company believes that its ability to access the debt and equity capital markets, the revolving credit facility and cash flows from operations will generate sufficient cash to fund the Company's short-term requirements. The Company believes it has sufficient liquidity and the ability to manage its expenditures, should there be a disruption of the capital and credit markets. However, there can be no assurance that the lenders will be able to meet existing commitments to AWCC under the revolving credit facility, or that AWCC will be able to access the commercial paper or loan markets in the future on acceptable terms or at all. See Note 8—Short-Term Debt in the Notes to Consolidated Financial Statements for additional information.

The Company had entered into 15 treasury lock agreements through February 2024, with notional amounts totaling $825 million. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss. In February 2024, the Company terminated the treasury lock agreements realizing a pre-tax net gain of $14 million, to be amortized through Interest expense over a 10-year period or 30-year period, in accordance with the tenor of the notes issued on February 23, 2024.

No ineffectiveness was recognized on hedging instruments for the three and six months ended June 30, 2024 or 2023.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the warmer months. Presented in the table below is a summary of the major items affecting the Company's cash flows from operating activities:

	For the Six Months Ended June 30,	
(In millions)	**2024**	**2023**
Net income	$ 462	$ 450
Add (less):		
Depreciation and amortization	381	346
Deferred income taxes and amortization of investment tax credits	37	74
Other non-cash activities (a)	(20)	(34)
Changes in working capital (b)	(111)	(102)
Pension contributions	(22)	(20)
Net cash provided by operating activities	$ 727	$ 714

(a) Includes provision for losses on accounts receivable, pension and non-pension postretirement benefits and other non-cash, net. Details of each component can be found on the Consolidated Statements of Cash Flows.

(b) Changes in working capital include changes to receivables and unbilled revenues, income tax receivable, accounts payable, accrued liabilities, accrued taxes and other assets and liabilities, net.

For the six months ended June 30, 2024, cash provided by operating activities increased $13 million, due to an increase in net income and other non-cash activities, partially offset by changes in deferred income taxes and working capital, which is mainly due to a decrease in accounts payable due to the timing of payments.

Cash Flows from Investing Activities

Presented in the table below is a summary of the major items affecting the Company's cash flows from investing activities:

	For the Six Months Ended June 30,	
(In millions)	**2024**	**2023**
Capital expenditures	$ (1,279)	$ (1,153)
Acquisitions, net of cash acquired	(119)	(33)
Removal costs from property, plant and equipment retirements, net	(73)	(78)
Net cash used in investing activities	$ (1,471)	$ (1,264)

For the six months ended June 30, 2024, cash used in investing activities increased $207 million, primarily due to increased payments for capital expenditures and acquisitions.

Cash Flows from Financing Activities

Presented in the table below is a summary of the major items affecting the Company's cash flows from financing activities:

(In millions)	For the Six Months Ended June 30, 2024	2023
Proceeds from long-term debt, net of discount	$ 1,403	$ 1,160
Repayments of long-term debt	(466)	(170)
Net proceeds from common stock financing	—	1,688
Net short-term repayments with maturities less than three months	(179)	(1,175)
Debt issuance costs	(13)	(13)
Dividends paid	(287)	(257)
Other financing activities, net (a)	20	24
Net cash provided by financing activities	$ 478	$ 1,257

(a) Includes proceeds from issuances of common stock under various employee stock plans and the Company's dividend reinvestment and direct stock purchase plan, net of taxes paid, and advances and contributions in aid of construction, net of refunds.

For the six months ended June 30, 2024, cash provided by financing activities decreased $779 million, primarily due to the repayment of long-term debt in the current period and the proceeds from the common stock financing in March 2023. These decreases were partially offset by a higher issuance of long-term debt and lower repayments of short-term commercial paper borrowings compared to the prior period.

Debt Covenants

The Company's debt agreements contain financial and non-financial covenants. To the extent that the Company is not in compliance with these covenants, an event of default may occur under one or more debt agreements and the Company, or its subsidiaries, may be restricted in its ability to pay dividends, issue new debt or access the revolving credit facility. The long-term debt indentures contain a number of covenants that, among other things, prohibit or restrict the Company from issuing debt secured by the Company's assets, subject to certain exceptions. Failure to comply with any of these covenants could accelerate repayment obligations.

Covenants in certain long-term notes and the revolving credit facility require the Company to maintain a ratio of consolidated debt to consolidated capitalization (as defined in the relevant documents) of not more than 0.70 to 1.00. On June 30, 2024, the Company's ratio was 0.56 to 1.00 and therefore the Company was in compliance with the covenants.

Security Ratings

Presented in the table below are long-term and short-term credit ratings and rating outlooks as of July 31, 2024, as issued by Moody's Investors Service on January 29, 2024, and S&P Global Ratings on March 4, 2024:

Securities	Moody's Investors Service	S&P Global Ratings
Rating outlook	Stable	Stable
Senior unsecured debt	Baa1	A
Commercial paper	P-2	A-1

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon the ability to generate cash flows in an amount sufficient to service debt and meet investment plans. The Company can provide no assurances that its ability to generate cash flows is sufficient to maintain its existing ratings. The Company does not have any material borrowings that are subject to default or prepayment as a result of the downgrading of these security ratings, although such a downgrading could increase fees and interest charges under its credit facility.

As part of its normal course of business, the Company routinely enters into contracts for the purchase and sale of water, power and other fuel, chemicals and other services. These contracts either contain express provisions or otherwise permit the Company and its counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if the Company is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that the Company must provide collateral to secure its obligations. The Company does not expect to post any collateral which will have a material adverse impact on the Company's results of operations, financial position or cash flows.

Access to the capital markets, including the commercial paper market, and respective financing costs in those markets, may be directly affected by the Company's securities ratings. The Company primarily accesses the debt capital markets, including the commercial paper market, through AWCC. However, the Company has also issued debt through its regulated subsidiaries, primarily in the form of mortgage bonds and tax-exempt securities or borrowings under state revolving funds, to lower the overall cost of debt.

Dividends

For discussion of the Company's dividends, see Note 6—Shareholders' Equity in the Notes to Consolidated Financial Statements for additional information.

Application of Critical Accounting Policies and Estimates

The financial condition of the Company, results of operations and cash flows, as reflected in the Company's Consolidated Financial statements, are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. See Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates in the Company's Form 10-K for a discussion of its critical accounting policies. Additionally, see Note 2—Significant Accounting Policies in the Notes to Consolidated Financial Statements for updates, if any, to the significant accounting policies previously disclosed in the Company's Form 10-K.

Recent Accounting Standards

See Note 2—Significant Accounting Policies in the Notes to Consolidated Financial Statements for a description of new accounting standards recently adopted or pending adoption.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk in the normal course of business, including changes in commodity prices, equity prices and interest rates. For further discussion of its exposure to market risk, see Part II, Item 7A—Quantitative and Qualitative Disclosures about Market Risk in the Company's Form 10-K. As of June 30, 2024, there were no treasury lock agreements outstanding as the Company terminated the treasury lock agreements in February 2024. There have been no other significant changes to the Company's exposure to market risk since December 31, 2023.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

American Water maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective.

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of June 30, 2024.

Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of June 30, 2024, the Company's disclosure controls and procedures were effective at a reasonable level of assurance.

Changes in Internal Control over Financial Reporting

The Company concluded that there have been no changes in internal control over financial reporting that occurred during the three months ended June 30, 2024, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following information updates and amends the information provided in the Company's Form 10-K in Item 3—Legal Proceedings, and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, in Part II, Item 1—Legal Proceedings. Capitalized terms used but not otherwise defined herein have the meanings set forth in the Company's Form 10-K and Form 10-Q. In accordance with the SEC's disclosure rules, the Company has elected to disclose environmental proceedings involving the Company and a governmental authority if the amount of potential monetary sanctions, exclusive of interest and costs, that the Company reasonably believes will result from such proceeding is $1 million or more.

Alternative Water Supply in Lieu of Carmel River Diversions

Monterey Peninsula Water Supply Project

Coastal Development Permit Application

On April 24, 2024, the court granted defendants' motion for judgment on the pleadings and dismissed one of MCWD's four causes of action in its petition challenging the issuance of a coastal development permit for the Water Supply Project. The three remaining claims challenge the Coastal Commission's substantive compliance with certain provisions of the California Environmental Quality Act, the California Coastal Act, and due process requirements in considering Cal Am's application. Trial has been set for November 13, 2024.

Water Supply Project Land Acquisition and Slant Well Site Use

The July 15, 2024, trial date previously set by the Monterey County Superior Court for the City's May 2020 lawsuit has been vacated pending receipt of the SWRCB's expert advisory opinion. The court scheduled a status and trial setting conference for September 24, 2024.

Cal Am's Action for Damages Following Termination of Regional Desalination Project ("RDP")

A hearing on MCWD's motion for judgment on the pleadings is scheduled for August 16, 2024. The trial date of August 5, 2024, has been vacated, and will be rescheduled at a later date.

Proposed Acquisition of Monterey System Assets — MPWMD Condemnation Action

MPWMD Condemnation Action

On February 26, 2024, Cal Am filed a motion requesting the Monterey County Superior Court dismiss the MPWMD's eminent domain lawsuit seeking to condemn Cal Am's Monterey system assets. An initial hearing on the motion was held on May 3, 2024, and a subsequent hearing is scheduled for August 23, 2024.

Dunbar, West Virginia Water Main Break Class Action Litigation

By order dated June 28, 2024, the Circuit Court set a new date of December 3, 2024, for a class trial on issues relating to duty and breach of that duty. This trial will not find class-wide or punitive damages. Mediation is scheduled to take place in August 2024.

Chattanooga, Tennessee Class Action Litigation

On June 14, 2024, the court issued its written order denying the Tennessee Plaintiffs' motion to certify an amended business customer-only class and incorporating the court's original November 6, 2023, denial of certification of a residential class. On June 21, 2024, the Tennessee Plaintiffs appealed both of the court's orders denying class certification.

Mountaineer Gas Company Main Break

On May 31, 2024, the West Virginia Supreme Court denied the motion seeking referral of the four class action complaints and the *Mountaineer Gas* complaint to the West Virginia Mass Litigation Panel. The Kanawha County Circuit Court has set a trial date of February 2, 2026, for the four class action complaints.

On June 14, 2024, the judge in the *Ruffin* case partially granted the *Ruffin* plaintiff's motion to consolidate the class action lawsuits before a single judge in Kanawha County Circuit Court by transferring all of the four class action lawsuits to her court but deferring as premature consolidation of the cases.

WVAWC's motion to dismiss in part the complaint captioned *Mountaineer Gas Company v. West Virginia-American Water Company* was rendered moot after Mountaineer Gas voluntarily dismissed its implied indemnity count against WVAWC. On May 31, 2024, WVAWC answered the complaint.

On December 6, 2023, WVAWC initiated a process whereby Mountaineer Gas customers could file claims with WVAWC and seek payment from WVAWC of up to $2,000 in damages per affected household for the inconvenience arising from a loss of use of their appliances and documented out-of-pocket expenses as a result of the natural gas outage. In light of the diminishing number of new claims being filed, the claims process was concluded on March 8, 2024. As of June 30, 2024, a total of 589 Mountaineer Gas customers completed this claims process, and each of those customers has been paid by WVAWC an average of approximately $1,500. In return, these customers were required to execute a partial release of liability in favor of WVAWC.

On March 1, 2024, the staff of the WVPSC issued an initial memorandum in each separate general investigation for Mountaineer Gas and WVAWC. On April 24, 2024, the staff issued a final joint memorandum in the Mountaineer Gas general investigation stating its view that Mountaineer Gas responded appropriately, reasonably and according to Mountaineer Gas's written procedures. The staff is making no recommendations for improvements to Mountaineer Gas and is recommending that the Mountaineer Gas general investigation be closed. On July 24, 2024, the staff issued a final joint memorandum in the WVAWC general investigation finding no indication of systematic failure by WVAWC and concluding WVAWC's maintenance and operating procedures were adequate to ensure safe and reliable service, subject to the implementation by WVAWC of three recommended operational improvements. Both general investigations remain pending.

PFAS Multi-District Litigation

The Company has timely submitted to the PFAS MDL its Phase One claims forms under the 3M and DuPont settlements prior to the due date, which was extended by the MDL court to July 26, 2024.

On April 26, 2024, a potential class action settlement involving defendant Tyco Fire Products LP was filed with the MDL court to resolve claims brought in the MDL against this defendant by public water systems. On June 13, 2024, the MDL court granted preliminary approval to this settlement. Final approval by the MDL court of the settlement is required, and a final fairness hearing has been scheduled for November 1, 2024.

On May 21, 2024, an agreement in principle for a potential class action settlement with BASF Corporation was announced, which if approved would resolve claims brought in the MDL against this defendant by public water systems. The MDL court granted preliminary approval of the settlement on July 3, 2024, and set the matter for a fairness hearing on November 1, 2024. Final approval of the settlement by the MDL court is required after the fairness hearing, among other conditions to the settlement.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, readers should carefully consider the factors discussed in Item 1A—Risk Factors in the Form 10-K, and in the Company's other filings with the SEC, which could materially affect the Company's business, financial condition, cash flows or future results. There have been no material changes from the risk factors previously disclosed in Item 1A—Risk Factors in the Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In February 2015, the Board of Directors authorized an anti-dilutive stock repurchase program to mitigate the dilutive effect of shares issued through the Company's dividend reinvestment and direct stock purchase plan and employee stock purchase and executive compensation activities. The program allows the Company to purchase up to 10 million shares of its outstanding common stock over an unrestricted period of time in the open market or through privately negotiated transactions. The program is conducted in accordance with Rule 10b-18 of the Exchange Act, and, to facilitate these repurchases, the Company enters into Rule 10b5-1 stock repurchase plans with a third-party broker, which allow the Company to repurchase shares of its common stock at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Subject to applicable regulations, the Company may elect to amend or cancel the program or the stock repurchase parameters at its discretion to manage dilution.

The Company did not repurchase shares of common stock during the three months ended June 30, 2024. From April 1, 2015, the date repurchases under the anti-dilutive stock repurchase program commenced, through June 30, 2024, the Company repurchased an aggregate of 4,860,000 shares of common stock under the program, leaving an aggregate of 5,140,000 shares available for repurchase under this program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
2.1#	Membership Interest Purchase Agreement, dated as of October 28, 2021, by and among American Water Enterprises, LLC, American Water (USA), LLC, American Water Resources, LLC, Pivotal Home Solutions, LLC, American Water Resources Holdings, LLC, American Water Works Company, Inc. and Lakehouse Buyer Inc. (incorporated by reference to Exhibit 2.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed October 29, 2021).
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed November 6, 2008).
3.2	Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, File No. 001-34028, filed December 8, 2022).
4.1	Indenture, dated as of December 4, 2009, between American Water Capital Corp. and Computershare Trust Company, N.A., as successor to Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed December 3, 2010).
4.2	Officers' Certificate of American Water Capital Corp., dated February 23, 2024, establishing the 5.150% Senior Notes due 2034 (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed February 23, 2024).
4.3	Officers' Certificate of American Water Capital Corp., dated February 23, 2024, establishing the 5.450% Senior Notes due 2054 (incorporated by reference to Exhibit 4.2 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed February 23, 2024).
*10.1	American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Stock Unit Grant Form for Non-Employee Directors.
10.2#	Amendment No. 1 to Secured Seller Note Agreement, dated as of February 2, 2024, by and among Lakehouse Bidco Inc., Lakehouse Buyer Inc., American Water Resources, LLC, Pivotal Home Solutions, LLC, American Water Resources Holdings, LLC, American Water Resources of Texas, LLC, American Water Resources of Florida, LLC, and American Water Enterprises, LLC (incorporated by reference to Exhibit 10.1.2 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed February 5, 2024).
*31.1	Certification of M. Susan Hardwick, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
*31.2	Certification of John C. Griffith, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
**32.1	Certification of M. Susan Hardwick, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
**32.2	Certification of John C. Griffith, Executive Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101).

Certain schedules and exhibits to this agreement have been omitted as permitted by rules or regulations of the SEC. The Company will furnish the omitted schedules and exhibits to the SEC upon request.

* Filed herewith.

** Furnished herewith.

The Membership Interest Purchase Agreement filed as Exhibit 2.1 and the Amendment to Secured Seller Note Agreement filed as Exhibit 10.2 to this Quarterly Report on Form 10-Q have been included to provide investors and security holders with information regarding the terms of the respective agreements. The filing of these agreements is not intended to provide any other factual information about the parties thereto, or any of their respective subsidiaries or affiliates. The representations, warranties and covenants contained in the respective agreements (i) were made by the parties thereto only for purposes of that respective agreement and as of specific dates; (ii) were made solely for the benefit of the parties to the respective agreement; (iii) may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures exchanged between the parties in connection with the execution of the respective agreement (such disclosures include information that has been included in public disclosures, as well as additional non-public information); (iv) may have been made for the purposes of allocating contractual risk between the parties to the respective agreements instead of establishing these matters as facts; and (v) may be subject to standards of materiality applicable to the contracting parties to the respective agreements that differ from those applicable to investors.

Investors should not rely on the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or condition of the parties to the respective agreements thereto, or any of their respective subsidiaries or affiliates. Additionally, the representations, warranties, covenants, conditions and other terms of the respective agreements may be subject to subsequent waiver or modification. Moreover, information concerning the subject matter of the representations, warranties and covenants may change after the date of the respective agreement, which subsequent information may or may not be fully reflected in the Company's public disclosures. The respective agreements should not be read alone, but should instead be read in conjunction with the other information regarding the Company that is or will be contained in, or incorporated by reference into, the reports and other documents that are filed by the Company with the SEC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 31st day of July, 2024.

AMERICAN WATER WORKS COMPANY, INC.
(REGISTRANT)

By /s/ M. SUSAN HARDWICK
M. Susan Hardwick
President and Chief Executive Officer
(Principal Executive Officer)

By /s/ JOHN C. GRIFFITH
John C. Griffith
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

By /s/ MELISSA K. WIKLE
Melissa K. Wikle
Senior Vice President, Chief Accounting Officer
(Principal Accounting Officer)

Exhibit 10.1

AMERICAN WATER WORKS COMPANY, INC.

2017 OMNIBUS EQUITY COMPENSATION PLAN

STOCK UNIT GRANT

This STOCK UNIT GRANT, dated as of May 15, 2024 (the "Date of Grant"), is delivered by American Water Works Company, Inc. (the "Company") to _____ (the "Participant").

RECITALS

WHEREAS, the Board of Directors of the Company (the "Board") has determined to grant each non-employee director of the Company on the date of the Company's 2024 Annual Meeting of Shareholders a stock unit grant that will be immediately converted to shares of common stock of the Company, par value $0.01 per share, (the "Company Stock");

WHEREAS, the Participant is a non-employee director on the Board; and

WHEREAS, the Board has determined that the stock unit grant granted to the Participant shall be issued under the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan") and the terms and conditions thereof shall be memorialized in this grant (the "Grant").

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant _____ units (the "Stock Units"). Each Stock Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable distribution date, as described in Paragraph 4 below.

2. Stock Unit Account. The Company shall establish and maintain a Stock Unit account as a bookkeeping account on its records (the "Stock Unit Account") for the Participant and shall record in such Stock Unit Account the number of Stock Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Stock Unit Account established for the Participant.

3. Vesting. The Participant shall be fully vested in the Stock Units credited to the Participant's Stock Unit Account pursuant to this Grant on the Date of Grant.

4. Distribution. The Stock Units shall be converted to shares of Company Stock on the Date of Grant and such shares of stock shall be distributed by the Company within thirty (30) days after the Date of Grant.

5. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law. The Participant also hereby agrees to be bound by the terms and conditions of the Plan and this Grant. The Participant further agrees to be bound by the determinations and decisions of the Board with respect to this Grant and the Plan and the Participant's rights to benefits under this Grant and the Plan, and agrees that all such determinations and decisions of the Board shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

6. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) The obligation of the Company to deliver shares of Company Stock upon the distribution of the Stock Units shall be subject to the condition that shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board. The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(b) As a condition to receive any shares of Company Stock upon conversion of the Stock Units, the Participant agrees:

(i) to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and its Personal Securities Trading and Preclearance Practice; and

(ii) that the shares of Company Stock obtained by the Participant upon the distribution of the Stock Units shall not be transferred or disposed of by any means until the Participant owns enough shares of Company Stock, or shares underlying stock units convertible into shares of Company Stock, or time-based restricted Company Stock, to meet or exceed five (5) times the Participant's annual cash retainer, which ownership requirement must be satisfied by the fifth (5th) anniversary of the Participant's commencement of service as a director on the Board.

7. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Board in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Board shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder and the Participant's acceptance of this Grant is the Participant's agreement to be bound by the interpretations and decisions of the Board with respect to this Grant and the Plan.

8. No Rights to Continued Service. This Grant shall not confer upon the Participant any right to be retained in the service of the Employer (as defined in the Plan) and shall not interfere in any way with the right to terminate the Participant's service at any time.

9. Assignment and Transfers. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

10. Withholding. To the extent required by applicable law, the Participant shall be required to pay to the Company, or make other arrangements satisfactory to the Company to provide for the payment of, any federal, state, local or other taxes that the Company is required to withhold with respect to the Grant, vesting or distribution of the Stock Units.

11. Effect on Other Benefits. The value of shares of Company Stock distributed with respect to the Stock Units shall not be considered eligible earnings for purposes of any other plans maintained by the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

12. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

13. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the records of the Company, or to such other address as the Participant may designate to the Company in writing. Any notice shall be delivered by hand, sent by facsimile, e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means), or enclosed in a properly sealed envelope addressed as stated

above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: M. Susan Hardwick

Its: President and CEO

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, M. Susan Hardwick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2024

By: /s/ M. SUSAN HARDWICK

M. Susan Hardwick
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, John C. Griffith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2024

By: /s/ JOHN C. GRIFFITH

John C. Griffith
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Susan Hardwick, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ M. SUSAN HARDWICK

M. Susan Hardwick
President and Chief Executive Officer
(Principal Executive Officer)
July 31, 2024

Exhibit 32.2

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John C. Griffith, Executive Vice President and Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JOHN C. GRIFFITH

John C. Griffith
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
July 31, 2024

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2024

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 001-34028

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**51-0063696**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 Water Street, Camden, NJ 08102-1658
(Address of principal executive offices) (Zip Code)

(856) 955-4001
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock, par value $0.01 per share	**AWK**	**New York Stock Exchange**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.). ☐ Yes ☒ No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Shares Outstanding as of October 21, 2024
Common Stock, par value $0.01 per share	**194,893,889**

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* * *

Throughout this Quarterly Report on Form 10-Q ("Form 10-Q"), unless the context otherwise requires, references to the "Company" and "American Water" mean American Water Works Company, Inc. and all of its subsidiaries, taken together as a whole. References to the "parent company" mean American Water Works Company, Inc., without its subsidiaries.

The Company maintains a website at *https://amwater.com*, an Investor Relations website at *https://ir.amwater.com*, a Sustainability website at *https://ir.amwater.com/sustainability* and a Diversity and Inclusion website at *https://diversityataw.com*. Information contained on the Company's websites, including its Sustainability Report, its Inclusion, Diversity and Equity Report, and other reports or documents, shall not be deemed incorporated into, or to be a part of, this report, and any website references included herein are not intended to be made through active hyperlinks.

FORWARD-LOOKING STATEMENTS

Statements included in Part I, Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations and in other sections of this Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995. In some cases, these forward-looking statements can be identified by words with prospective meanings such as "intend," "plan," "estimate," "believe," "anticipate," "expect," "predict," "project," "propose," "assume," "forecast," "likely," "uncertain," "outlook," "future," "pending," "goal," "objective," "potential," "continue," "seek to," "may," "can," "should," "will" and "could" or the negative of such terms or other variations or similar expressions. Forward-looking statements may relate to, among other things: the Company's future financial performance, liquidity and cash flows; the timing and amount of rate and revenue adjustments, including through general rate case filings, filings for infrastructure surcharges and other governmental agency authorizations and proceedings, and filings to address regulatory lag; the Company's ability to execute its current and long-term business, operational, capital expenditures and growth plans and strategies; the timing and outcome of pending or future acquisition activity, and the ability to achieve organic customer growth; the ability of the Company's California subsidiary to obtain adequate alternative water supplies in lieu of diversions from the Carmel River; the amount, allocation and timing of projected capital expenditures and related funding requirements; the Company's ability to repay or refinance debt; the future impacts of increased or increasing financing costs, inflation and interest rates; the Company's ability to finance current and projected operations, capital expenditure needs and growth initiatives by accessing the debt and equity capital markets and sources of short-term liquidity; the outcome and impact on the Company of governmental and regulatory investigations and proceedings and related potential fines, penalties and other sanctions; the Company's plans and efforts to protect and remediate its computer networks and systems following the Company's October 3, 2024 cybersecurity incident, and the impacts of such incident on the Company and/or its financial condition and results of operations; the ability to meet or exceed the Company's stated environmental and sustainability goals, including its greenhouse gas ("GHG") emission reduction, water delivery efficiency and water system resiliency goals; the ability to complete, and the timing and efficacy of, the design, development, implementation and improvement of technology and other strategic initiatives; the Company's ability to comply with new and changing environmental regulations; the ability to capitalize on existing or future utility privatization opportunities; trends in the water and wastewater industries in which the Company operates, including macro trends with respect to the Company's efforts related to customer, technology and work execution; regulatory, legislative, tax policy or legal developments; and impacts that future significant tax legislation may have on the Company and on its business, results of operations, cash flows and liquidity.

Forward-looking statements are predictions based on the Company's current expectations and assumptions regarding future events. They are not guarantees or assurances of any outcomes, financial results, levels of activity, performance or achievements, and readers are cautioned not to place undue reliance upon them. These forward-looking statements are subject to a number of estimates, assumptions, known and unknown risks, uncertainties and other factors. The Company's actual results may vary materially from those discussed in the forward-looking statements included herein as a result of the following important factors:

- the decisions of governmental and regulatory bodies, including decisions to raise or lower customer rates;
- the timeliness and outcome of regulatory commissions' and other authorities' actions concerning rates, capital structure, authorized return on equity, capital investment, system acquisitions and dispositions, taxes, permitting, water supply and management, and other decisions;
- changes in customer demand for, and patterns of use of, water and energy, such as may result from conservation efforts, or otherwise;
- limitations on the availability of the Company's water supplies or sources of water, or restrictions on its use thereof, resulting from allocation rights, governmental or regulatory requirements and restrictions, drought, overuse or other factors;
- a loss of one or more large industrial or commercial customers due to adverse economic conditions or other factors;
- present and future proposed changes in laws, governmental regulations and policies, including with respect to the environment (such as, for example, potential improvements to existing Federal regulations with respect to lead and copper service lines and galvanized steel pipe), health and safety, data and consumer privacy, security and protection, water quality and water quality accountability, contaminants of emerging concern (including without limitation per- and polyfluoroalkyl substances ("PFAS")), public utility and tax regulations and policies, and impacts resulting from U.S., state and local elections and changes in federal, state and local executive administrations;
- the Company's ability to collect, distribute, use, secure and store consumer data in compliance with current or future governmental laws, regulations and policies with respect to data and consumer privacy, security and protection;

- weather conditions and events, climate variability patterns, and natural disasters, including drought or abnormally high rainfall, prolonged and abnormal ice or freezing conditions, strong winds, coastal and intercoastal flooding, pandemics (including COVID-19) and epidemics, earthquakes, landslides, hurricanes, tornadoes, wildfires, electrical storms, sinkholes and solar flares;
- the outcome of litigation and similar governmental and regulatory proceedings, investigations or actions;
- the risks associated with the Company's aging infrastructure, and its ability to appropriately improve the resiliency of or maintain, update, redesign and/or replace, current or future infrastructure and systems, including its technology and other assets, and manage the expansion of its businesses;
- exposure or infiltration of the Company's technology and critical infrastructure systems, including the disclosure of sensitive, personal or confidential information contained therein, through physical or cyber attacks or other means, and impacts from required or voluntary public and other disclosures related thereto, including with respect to the Company's reported October 3, 2024 cybersecurity incident;
- the Company's ability to obtain permits and other approvals for projects and construction, update, redesign and/or replacement of various water and wastewater facilities;
- changes in the Company's capital requirements;
- the Company's ability to control operating expenses and to achieve operating efficiencies, and the Company's ability to create, maintain and promote initiatives and programs that support the affordability of the Company's regulated utility services;
- the intentional or unintentional actions of a third party, including contamination of the Company's water supplies or the water provided to its customers;
- the Company's ability to obtain and have delivered adequate and cost-effective supplies of pipe, equipment (including personal protective equipment), chemicals, power and other fuel, water and other raw materials, and to address or mitigate supply chain constraints that may result in delays or shortages in, as well as increased costs of, supplies, products and materials that are critical to or used in the Company's business operations;
- the Company's ability to successfully meet its operational growth projections, either individually or in the aggregate, and capitalize on growth opportunities, including, among other things, with respect to:
  - acquiring, closing and successfully integrating regulated operations, including without limitation the Company's ability to (i) obtain required regulatory approvals for such acquisitions, (ii) prevail in litigation or other challenges related to such acquisitions, and (iii) recover in rates the fair value of assets of the acquired regulated operations;
  - the Company's Military Services Group ("MSG") entering into new military installation contracts, price redeterminations, and other agreements and contracts with the U.S. government; and
  - realizing anticipated benefits and synergies from new acquisitions;
- risks and uncertainties following the completion of the sale of the Company's Homeowner Services Group ("HOS"), including:
  - the Company's ability to receive amounts due, payable and owing to the Company under the amended secured seller note when due; and
  - the ability of the Company to redeploy successfully and timely the net proceeds of this transaction into the Company's Regulated Businesses;
- risks and uncertainties associated with contracting with the U.S. government, including ongoing compliance with applicable government procurement and security regulations;
- cost overruns relating to improvements in or the expansion of the Company's operations;
- the Company's ability to successfully develop and implement new technologies and to protect related intellectual property;
- the Company's ability to maintain safe work sites;
- the Company's exposure to liabilities related to environmental laws and regulations, including those enacted or adopted and under consideration, and the substances related thereto, including without limitation lead and galvanized steel, PFAS and other contaminants of emerging concern, and similar matters resulting from, among other things, water and wastewater service provided to customers;
- the ability of energy providers, state governments and other third parties to achieve or fulfill their GHG emission reduction goals, including without limitation through stated renewable portfolio standards and carbon transition plans;
- changes in general economic, political, business and financial market conditions;
- access to sufficient debt and/or equity capital on satisfactory terms and as needed to support operations and capital expenditures;
- fluctuations in inflation or interest rates, and the Company's ability to address or mitigate the impacts thereof;

- the ability to comply with affirmative or negative covenants in the current or future indebtedness of the Company or any of its subsidiaries, or the issuance of new or modified credit ratings or outlooks by credit rating agencies with respect to the Company or any of its subsidiaries (or any current or future indebtedness thereof), which could increase financing costs or funding requirements and affect the Company's or its subsidiaries' ability to issue, repay or redeem debt, pay dividends or make distributions;
- fluctuations in the value of, or assumptions and estimates related to, its benefit plan assets and liabilities, including with respect to its pension and other post-retirement benefit plans, that could increase expenses and plan funding requirements;
- changes in federal or state general, income and other tax laws, including (i) future significant tax legislation or regulations (including without limitation impacts related to the Corporate Alternative Minimum Tax), and (ii) the availability of, or the Company's compliance with, the terms of applicable tax credits and tax abatement programs;
- migration of customers into or out of the Company's service territories and changes in water and energy consumption resulting therefrom;
- the use by municipalities of the power of eminent domain or other authority to condemn the systems of one or more of the Company's utility subsidiaries, including without limitation litigation and other proceedings with respect to the water system assets of the Company's California subsidiary ("Cal Am") located in Monterey, California (the "Monterey system assets"), or the assertion by private landowners of similar rights against such utility subsidiaries;
- any difficulty or inability to obtain insurance for the Company, its inability to obtain insurance at acceptable rates and on acceptable terms and conditions, or its inability to obtain reimbursement under existing or future insurance programs and coverages for any losses sustained;
- the incurrence of impairment charges, changes in fair value and other adjustments related to the Company's goodwill or the value of its other assets;
- labor actions, including work stoppages and strikes;
- the Company's ability to retain and attract highly qualified and skilled employees and/or diverse talent;
- civil disturbances or unrest, or terrorist threats or acts, or public apprehension about future disturbances, unrest, or terrorist threats or acts; and
- the impact of new, and changes to existing, accounting standards.

These forward-looking statements are qualified by, and should be read together with, the risks and uncertainties set forth above, and the risk factors and other statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 (the "Form 10-K") and in this Form 10-Q, and readers should refer to such risks, uncertainties and risk factors in evaluating such forward-looking statements. Any forward-looking statements the Company makes shall speak only as of the date this Form 10-Q was filed with the U.S. Securities and Exchange Commission ("SEC"). Except as required by the federal securities laws, the Company does not have any obligation, and it specifically disclaims any undertaking or intention, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or otherwise. New factors emerge from time to time, and it is not possible for the Company to predict all such factors. Furthermore, it may not be possible to assess the impact of any such factor on the Company's businesses, either viewed independently or together, or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. The foregoing factors should not be construed as exhaustive.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Balance Sheets (Unaudited)
(In millions, except share and per share data)

	September 30, 2024	December 31, 2023
ASSETS		
Property, plant and equipment	$ 33,940	$ 32,189
Accumulated depreciation	(6,933)	(6,751)
Property, plant and equipment, net	27,007	25,438
Current assets:		
Cash and cash equivalents	127	330
Restricted funds	40	34
Accounts receivable, net of allowance for uncollectible accounts of $50 and $51, respectively	453	339
Income tax receivable	7	86
Unbilled revenues	310	302
Materials and supplies	105	112
Other	195	186
Total current assets	1,237	1,389
Regulatory and other long-term assets:		
Regulatory assets	1,119	1,106
Secured seller promissory note from the sale of the Homeowner Services Group	795	720
Operating lease right-of-use assets	89	86
Goodwill	1,143	1,143
Other	400	416
Total regulatory and other long-term assets	3,546	3,471
Total assets	$ 31,790	$ 30,298

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Balance Sheets (Unaudited)
(In millions, except share and per share data)

	September 30, 2024	December 31, 2023
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock ($0.01 par value; 500,000,000 shares authorized; 200,345,035 and 200,144,968 shares issued, respectively)	$ 2	$ 2
Paid-in-capital	8,588	8,550
Retained earnings	2,172	1,659
Accumulated other comprehensive loss	(8)	(26)
Treasury stock, at cost (5,451,216 and 5,414,867 shares, respectively)	(392)	(388)
Total common shareholders' equity	10,362	9,797
Long-term debt	12,550	11,715
Redeemable preferred stock at redemption value	3	3
Total long-term debt	12,553	11,718
Total capitalization	22,915	21,515
Current liabilities:		
Short-term debt	215	179
Current portion of long-term debt	585	475
Accounts payable	259	294
Accrued liabilities	585	791
Accrued taxes	174	67
Accrued interest	129	93
Other	185	252
Total current liabilities	2,132	2,151
Regulatory and other long-term liabilities:		
Advances for construction	379	352
Deferred income taxes and investment tax credits	2,833	2,717
Regulatory liabilities	1,403	1,481
Operating lease liabilities	77	73
Accrued pension expense	243	262
Other	239	196
Total regulatory and other long-term liabilities	5,174	5,081
Contributions in aid of construction	1,569	1,551
Commitments and contingencies (See Note 11)		
Total capitalization and liabilities	$ 31,790	$ 30,298

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Operations (Unaudited)
(In millions, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Operating revenues	$ 1,323	$ 1,167	$ 3,483	$ 3,202
Operating expenses:				
Operation and maintenance	496	436	1,339	1,248
Depreciation and amortization	200	177	581	523
General taxes	84	76	246	227
Other	—	—	(1)	(1)
Total operating expenses, net	780	689	2,165	1,997
Operating income	543	478	1,318	1,205
Other (expense) income:				
Interest expense	(132)	(117)	(387)	(342)
Interest income	22	23	71	52
Non-operating benefit costs, net	7	9	23	26
Other, net	13	14	31	37
Total other (expense) income	(90)	(71)	(262)	(227)
Income before income taxes	453	407	1,056	978
Provision for income taxes	103	84	244	205
Net income attributable to common shareholders	$ 350	$ 323	$ 812	$ 773
Basic earnings per share: (a)				
Net income attributable to common shareholders	$ 1.80	$ 1.66	$ 4.17	$ 4.03
Diluted earnings per share: (a)				
Net income attributable to common shareholders	$ 1.80	$ 1.66	$ 4.17	$ 4.03
Weighted-average common shares outstanding:				
Basic	195	195	195	192
Diluted	195	195	195	192

(a) Amounts may not calculate due to rounding.

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Comprehensive Income (Unaudited)
(In millions)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income attributable to common shareholders	$ 350	$ 323	$ 812	$ 773
Other comprehensive income, net of tax:				
Defined benefit pension plan actuarial loss, net of tax of $0 for the three months ended September 30, 2024 and 2023, and $0 for the nine months ended September 30, 2024 and 2023	—	1	1	1
Unrealized gain (loss) on cash flow hedges, net of tax of $0 and $0 for the three months ended September 30, 2024 and 2023, respectively, and $3 and $0 for the nine months ended September 30, 2024 and 2023, respectively	(2)	—	17	—
Unrealized gain (loss) on available-for-sale fixed-income securities, net of tax of $0 and $0 for the three months ended September 30, 2024 and 2023, respectively, and $0 and $0 for the nine months ended September 30, 2024 and 2023, respectively	1	(1)	—	—
Net other comprehensive income (loss)	(1)	—	18	1
Comprehensive income attributable to common shareholders	$ 349	$ 323	$ 830	$ 774

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Cash Flows (Unaudited)
(In millions)

	For the Nine Months Ended September 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 812	$ 773
Adjustments to reconcile to net cash flows provided by operating activities:		
Depreciation and amortization	581	523
Deferred income taxes and amortization of investment tax credits	84	129
Provision for losses on accounts receivable	19	17
Pension and non-pension postretirement benefits	(2)	(2)
Other non-cash, net	11	(28)
Changes in assets and liabilities:		
Receivables and unbilled revenues	(133)	(109)
Income tax receivable	79	60
Pension contributions	(33)	(34)
Accounts payable and accrued liabilities	11	18
Accrued taxes	113	37
Other assets and liabilities, net	(136)	(37)
Net cash provided by operating activities	1,406	1,347
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(1,962)	(1,779)
Acquisitions, net of cash acquired	(119)	(36)
Removal costs from property, plant and equipment retirements, net	(112)	(113)
Purchases of available-for-sale fixed-income securities	(113)	—
Proceeds from sales and maturities of available-for-sale fixed-income securities	147	—
Net cash used in investing activities	(2,159)	(1,928)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt, net of discount	1,416	1,246
Repayments of long-term debt	(474)	(263)
Net proceeds from common stock financing	—	1,688
Net short-term borrowings (repayments) with maturities less than three months	35	(1,175)
Advances and contributions in aid of construction, net of refunds of $24 and $21 for the nine months ended September 30, 2024 and 2023, respectively	33	40
Debt issuance costs	(13)	(15)
Dividends paid	(436)	(395)
Other, net	5	(1)
Net cash provided by financing activities	566	1,125
Net (decrease) increase in cash, cash equivalents and restricted funds	(187)	544
Cash, cash equivalents and restricted funds at beginning of period	364	117
Cash, cash equivalents and restricted funds at end of period	$ 177	$ 661
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid as of the end of period	$ 317	$ 348

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
(In millions)

	Common Stock					Treasury Stock		Total Shareholders' Equity
	Shares	Par Value	Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Shares	At Cost	
Balance as of December 31, 2023	200.1	$ 2	$ 8,550	$ 1,659	$ (26)	(5.5)	$ (388)	$ 9,797
Net income attributable to common shareholders	—	—	—	185	—	—	—	185
Common stock issuances (a)	0.2	—	11	—	—	—	(4)	7
Net other comprehensive income	—	—	—	—	18	—	—	18
Balance as of March 31, 2024	200.3	$ 2	$ 8,561	$ 1,844	$ (8)	(5.5)	$ (392)	$ 10,007
Net income attributable to common shareholders	—	—	—	277	—	—	—	277
Common stock issuances (a)	—	—	17	—	—	—	—	17
Net other comprehensive income	—	—	—	—	1	—	—	1
Dividends ($0.7650 declared per common share)	—	—	—	(150)	—	—	—	(150)
Balance as of June 30, 2024	200.3	$ 2	$ 8,578	$ 1,971	$ (7)	(5.5)	$ (392)	$ 10,152
Net income attributable to common shareholders	—	—	—	350	—	—	—	350
Common stock issuances (a)	—	—	10	—	—	—	—	10
Net other comprehensive loss	—	—	—	—	(1)	—	—	(1)
Dividends ($0.7650 declared per common share)	—	—	—	(149)	—	—	—	(149)
Balance as of September 30, 2024	200.3	$ 2	$ 8,588	$ 2,172	$ (8)	(5.5)	$ (392)	$ 10,362

(a) Includes stock-based compensation, employee stock purchase plan and dividend reinvestment and direct stock purchase plan activity.

	Common Stock					Treasury Stock		Total Shareholders' Equity
	Shares	Par Value	Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Shares	At Cost	
Balance as of December 31, 2022	187.4	$ 2	$ 6,824	$ 1,267	$ (23)	(5.4)	$ (377)	$ 7,693
Net income attributable to common shareholders	—	—	—	170	—	—	—	170
Common stock issuances (a)	12.7	—	1,695	—	—	—	(11)	1,684
Balance as of March 31, 2023	200.1	$ 2	$ 8,519	$ 1,437	$ (23)	(5.4)	$ (388)	$ 9,547
Net income attributable to common shareholders	—	—	—	280	—	—	—	280
Common stock issuances (a)	—	—	10	—	—	—	—	10
Net other comprehensive income	—	—	—	—	1	—	—	1
Dividends ($0.7075 declared per common share)	—	—	—	(137)	—	—	—	(137)
Balance as of June 30, 2023	200.1	$ 2	$ 8,529	$ 1,580	$ (22)	(5.4)	$ (388)	$ 9,701
Net income attributable to common shareholders	—	—	—	323	—	—	—	323
Common stock issuances (a)	—	—	12	—	—	—	—	12
Dividends ($0.7075 declared per common share)	—	—	—	(139)	—	—	—	(139)
Balance as of September 30, 2023	200.1	$ 2	$ 8,541	$ 1,764	$ (22)	(5.4)	$ (388)	$ 9,897

(a) Includes stock-based compensation, employee stock purchase plan and dividend reinvestment and direct stock purchase plan activity.

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Notes to Consolidated Financial Statements (Unaudited)
(Unless otherwise noted, in millions, except per share data)

Note 1: Basis of Presentation

The unaudited Consolidated Financial Statements included in this report include the accounts of American Water Works Company, Inc. and all of its subsidiaries (the "Company" or "American Water"), in which a controlling interest is maintained after the elimination of intercompany balances and transactions. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial reporting, and the rules and regulations for reporting on Quarterly Reports on Form 10-Q ("Form 10-Q"). Accordingly, they do not contain certain information and disclosures required by GAAP for comprehensive financial statements. In the opinion of management, all adjustments necessary for a fair statement of the financial position as of September 30, 2024, and the results of operations and cash flows for all periods presented, have been made. All adjustments are of a normal, recurring nature, except as otherwise disclosed.

The unaudited Consolidated Financial Statements and Notes included in this report should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2023 ("Form 10-K"), which provides a more complete discussion of the Company's accounting policies, financial position, operating results and other matters. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year, primarily due to the seasonality of the Company's operations.

Note 2: Significant Accounting Policies

New Accounting Standards

Presented in the table below are recently issued accounting standards that have not yet been adopted by the Company as of September 30, 2024:

Standard	Description	Date of Adoption	Application	Effect on the Consolidated Financial Statements
Segment Reporting	The guidance in this standard expands reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. Additionally, the guidance enhances interim disclosure requirements, clarifies circumstances in which an entity can disclose multiple segment measures of profit and loss, provides new segment disclosure requirements for entities with a single reportable segment, and other disclosure requirements.	Fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024	Retrospective	The Company is evaluating the impact on its Consolidated Financial Statements.
Income Taxes	The guidance in this standard requires disclosure of a tax rate reconciliation table, in both percentages and reporting currency amounts, which includes additional categories of information about federal, state, and foreign income taxes and provides further details about reconciling items in certain categories that meet a quantitative threshold. The guidance also requires an annual disclosure of income taxes paid, net of refunds, disaggregated by federal, state, and foreign taxes paid, and further disaggregated by jurisdiction based on a quantitative threshold. The standard includes other disclosure requirements and eliminates certain existing disclosure requirements.	January 1, 2025	Prospective, with retrospective application also permitted	The Company is evaluating the impact on its Consolidated Financial Statements and the timing of adoption.

Property, Plant and Equipment

The New Jersey Economic Development Authority ("NJEDA") determined that the Company was qualified to receive $161 million in tax credits in connection with its capital investment in its corporate headquarters in Camden, New Jersey. The Company was qualified to receive the tax credits over a 10-year period commencing in 2019.

In the first quarters of 2024 and 2023, the NJEDA issued the utilization certificates for the 2021 and 2020 tax credits, respectively, to the Company in the amount of $16 million each. The Company sold these tax credits to an external party for $15 million each. As of September 30, 2024, the Company had assets of $15 million in other current assets and $90 million in other long-term assets on the Consolidated Balance Sheets for the 2022 through 2028 tax credits. As of December 31, 2023, the Company had assets of $32 million in other current assets and $90 million in other long-term assets on the Consolidated Balance Sheets for the 2021 through 2028 tax credits. The Company has made the necessary annual filing for the years ended December 31, 2023 and 2022. The submitted filings are under review by the NJEDA and it is expected that the Company will receive final NJEDA approval and monetize the 2022 tax credits in 2024 and the 2023 tax credits in 2025.

Cash, Cash Equivalents and Restricted Funds

Presented in the table below is a reconciliation of the cash and cash equivalents and restricted funds amounts as presented on the Consolidated Balance Sheets to the sum of such amounts presented on the Consolidated Statements of Cash Flows for the periods ended September 30:

	2024	2023
Cash and cash equivalents	$ 127	$ 628
Restricted funds	40	33
Restricted funds included in other long-term assets	10	—
Cash, cash equivalents and restricted funds as presented on the Consolidated Statements of Cash Flows	$ 177	$ 661

Allowance for Uncollectible Accounts

Allowances for uncollectible accounts are maintained for estimated probable losses resulting from the Company's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due, previous loss history, current economic and societal conditions and reasonable and supportable forecasts that affect the collectability of receivables from customers. The Company generally writes off accounts when they become uncollectible or are over a certain number of days outstanding.

Presented in the table below are the changes in the allowance for uncollectible accounts for the nine months ended September 30:

	2024	2023
Balance as of January 1	$ (51)	$ (60)
Amounts charged to expense	(19)	(17)
Amounts written off	22	20
Other, net (a)	(2)	4
Balance as of September 30	$ (50)	$ (53)

(a) This portion of the allowance for uncollectible accounts is primarily related to COVID-19 related regulatory asset activity.

Reclassifications

Certain reclassifications have been made to prior periods in the Consolidated Financial Statements and Notes to conform to the current presentation.

Note 3: Regulatory Matters

General Rate Cases

Presented in the table below are annualized incremental revenues, including reductions for the amortization of the excess accumulated deferred income taxes ("EADIT") that are generally offset in income tax expense, assuming a constant sales volume and customer count, resulting from general rate case authorizations that are effective during 2024:

	Effective Date	Amount
General rate cases by state:		
New Jersey	September 15, 2024	$ 80
Pennsylvania	August 7, 2024	99
Indiana, Step Increases	(a)	48
Kentucky	May 3, 2024 (b)	11
West Virginia	February 25, 2024	18
Total general rate case authorizations		$ 256

(a) In 2024, $23 million was effective May 10 and $25 million was effective February 21.

(b) The Kentucky Public Service Commission issued its final order on May 3, 2024. On May 16, 2024, the Kentucky subsidiary filed a petition for rehearing.

On September 4, 2024, the New Jersey Board of Public Utilities ("NJBPU") issued an order approving without modification the stipulation of settlement of a general rate case filed on January 19, 2024, by the Company's New Jersey subsidiary. The general rate case order approved an $80 million annualized increase in the New Jersey subsidiary's water and wastewater revenues, effective September 15, 2024, based on (i) an authorized return on equity of 9.60%, (ii) an authorized rate base of $5.1 billion, (iii) a common equity ratio of 55.00%, and (iv) a long-term debt ratio of 45.00%. The annualized revenue increase is driven primarily by $1.3 billion of incremental capital investments since the New Jersey subsidiary's last general rate case. The New Jersey subsidiary will continue to defer as a regulatory asset or liability, as appropriate, until its next general rate case, the difference between its pension expense and other postretirement benefits expense and those amounts included in base rates.

On July 22, 2024, the Pennsylvania Public Utility Commission (the "PaPUC") released an order approving the adjustment of base rates requested in a general rate case filed by the Company's Pennsylvania subsidiary on November 8, 2023. The PaPUC approved a $99 million annualized increase in the Pennsylvania subsidiary's water and wastewater system revenues, excluding previously recovered infrastructure surcharges of $20 million, based on (i) an authorized return on equity of 9.45%, (ii) an authorized rate base of $5.8 billion, which reflects, as requested and included in the general rate case, approximately $1.0 billion in capital investments to be made through mid-2025, (iii) a common equity ratio of 55.30%, and (iv) a long-term debt ratio of 44.70%. Certain acquisitions that were or remain pending, including the acquisition of the wastewater collection and treatment system of the Butler Area Sewer Authority, were excluded from authorized base rates. The new rates were effective on August 7, 2024, except that new wastewater rates for two recently acquired systems, including the City of York, will take effect during the first half of 2025 in accordance with the terms of the relevant acquisition agreements. As part of its approval of this rate adjustment, the PaPUC initiated an investigation into certain reported water service and water quality issues in the Pennsylvania subsidiary's Northeastern service territory, which reports had been provided during public input hearings convened in the general rate case.

On May 3, 2024, the Kentucky Public Service Commission (the "KPSC") issued an order approving the adjustment of base rates requested in a rate case filed on June 30, 2023, by the Company's Kentucky subsidiary. The general rate case order approved an $11 million annualized increase in water revenues, excluding infrastructure surcharge revenues of $10 million which continue to be recovered in the Kentucky subsidiary's approved infrastructure mechanism. The annualized increase is based upon an authorized return on equity of 9.70%, authorized rate base of $489 million, which reflects capital investments through January 31, 2025, and a capital structure with a common equity ratio of 52.22%. Interim rates in this proceeding were effective on February 6, 2024, and the order required that the difference between interim and final approved rates be subject to refund no later than August 26, 2024. On May 16, 2024, the Kentucky subsidiary filed with the KPSC a petition for rehearing of the KPSC's order, seeking clarification and/or correction of certain computational inconsistencies that the Kentucky subsidiary believes are reflected in the KPSC's order with respect to the authorized amount of annualized revenues to be received by the Kentucky subsidiary. The petition for rehearing also requested that any revisions become effective February 6, 2024, with any difference between the adjusted amount and initial approved rates subject to refund or collection. On May 28, 2024, the KPSC granted the request for rehearing, and the Kentucky subsidiary expects resolution of this proceeding later in 2024.

On February 23, 2024, the West Virginia Public Service Commission issued an order approving the adjustment of base rates requested in a rate case filed on May 1, 2023, by the Company's West Virginia subsidiary. The general rate case order approved an $18 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges of $7 million, based on an authorized return on equity of 9.80%, authorized rate base of $886 million, which reflects capital investments through February 2024, a common equity ratio of 50.10% and a long-term debt ratio of 49.90%. The increased water and wastewater revenues related to the base rate adjustment are being driven primarily by (i) $220 million of related water and wastewater system capital investments made since the completion of the West Virginia subsidiary's previous rate case, (ii) higher pension and other postretirement benefit costs, and (iii) increases in production costs, including chemicals, fuel and power costs.

On February 14, 2024, the Indiana Utility Regulatory Commission issued an order approving the adjustment of base rates requested in a rate case filed on March 31, 2023, by the Company's Indiana subsidiary. The general rate case order approved a $66 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges, based on an authorized return on equity of 9.65%, authorized rate base of $1.8 billion, a common equity ratio of 56.15% and a debt ratio of 43.85%. For purposes of determining rates, the adjustment is based on an equity component of 48.19% due to the regulatory practice in Indiana of including certain zero-cost items or tax credit balances in the capital structure calculation. The annualized revenue increase will include three step increases, with $25 million of the increase to be included in rates in February 2024, $23 million in May 2024, and $18 million in May 2025. The increases are being driven primarily by (i) over $875 million of water and wastewater system capital investments since the completion of the Indiana subsidiary's last rate case and through April 30, 2025, (ii) higher pension and other postretirement benefit costs, and (iii) increases in production costs, including chemicals, fuel and power costs.

Pending General Rate Case Filings

On August 2, 2024, the Company's Hawaii subsidiary filed a general rate case requesting approximately $2 million in annualized incremental revenues, which is based on a proposed return on equity of 10.67% and a capital structure with an equity component of 52.11% and debt component of 47.89%. The requested annualized incremental revenue is driven primarily by approximately $41 million in capital investments made and to be made by the Hawaii subsidiary through 2025. The Hawaii subsidiary anticipates that the general rate case proceeding will be completed by mid-2025.

On July 1, 2024, the Company's Missouri subsidiary filed a general rate case requesting approximately $148 million in annualized incremental revenues. The request is based on a return on equity of 10.75% and a capital structure with an equity component of 50.54% and a long-term debt component of 49.46%. The requested annualized incremental revenue is driven primarily by $1.5 billion of incremental capital investments completed and planned by the Missouri subsidiary from January 2023 through May 2026. On July 31, 2024, the Missouri Public Service Commission issued an order establishing the test year in this case, which modified the Missouri subsidiary's original proposal for a future test year through May 2026, and instead reverted to a true-up period through December 31, 2024, with an allowance for proposed discrete adjustments subsequent to this date. On September 6, 2024, the Missouri subsidiary filed supplemental testimony to revise the request to approximately $123 million in annualized incremental revenues and define the specific discrete adjustments proposed through the rate effective period, which lowered the incremental capital investments completed and planned to $1.1 billion through May 2025. The Missouri subsidiary anticipates that the general rate case proceeding will be completed by mid-2025.

On May 1, 2024, the Company's Iowa subsidiary filed a general rate case requesting approximately $21 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 52.57% and debt component of 47.43%. The requested annualized revenue increase is driven primarily by approximately $157 million in capital investments made and to be made by the Iowa subsidiary through March 2026. Interim rates became effective May 11, 2024, with the difference between interim and final approved rates subject to refund. On August 29, 2024, the Iowa subsidiary submitted supplemental testimony consistent with the procedural schedule, which was subsequently challenged by the parties in the proceeding. On October 4, 2024, the Iowa Utilities Commission issued an order that granted the inclusion of the supplemental filing and extended the procedural schedule in the case beyond the statutory ten-month period. The Iowa subsidiary now expects resolution of this proceeding by May 2025.

On May 1, 2024, the Company's Tennessee subsidiary filed a general rate case requesting approximately $14 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 54.52% and debt component of 45.48%. The requested annualized revenue increase is driven primarily by approximately $173 million in capital investments made and to be made by the Tennessee subsidiary through December 2025.

On January 25, 2024, the Company's Illinois subsidiary filed tariffs for new water and wastewater rates. The request seeks a two-step rate increase consisting of aggregate annualized incremental revenue, based on a proposed return on equity of 10.75%, of (i) approximately $132 million, excluding infrastructure surcharges of $5 million, effective January 1, 2025, based on a future test year through December 31, 2025, with average rate base and a capital structure with an equity component of 52.27% and a debt component of 47.73%, and (ii) approximately $16 million effective January 1, 2026, based on a future test year to include end of period rate base and a capital structure with an equity component of 54.43% and a debt component of 45.57%. The requested increases are driven primarily by an estimated $557 million in capital investments to be made by the Illinois subsidiary from January 2024 through December 2025. The request also proposes a treatment and compliance rider to address recovery of future environmental compliance investments, and a modification to the existing volume balancing account mechanism to include full production cost recovery. The requested increase was subsequently updated in the Illinois subsidiary's June 20, 2024, rebuttal filing, with the first step request adjusted to $140 million in additional annualized revenues. On October 24, 2024, a proposed order was issued by the administrative law judge in the proceeding, recommending a 9.84% return on equity and a capital structure with an equity component of 49.00% and a debt component of 51.00%. In addition, the proposed order recommended against the Illinois subsidiary's second-step increase. The recommendations in the proposed order may be accepted, modified or rejected by the Illinois Commerce Commission. A final order in the case is expected no later than December 17, 2024, with new rates implemented January 1, 2025.

On December 15, 2023, the Company's California subsidiary submitted a request to delay by one year its cost of capital filing and maintain its current authorized cost of capital through 2025. On February 2, 2024, the California Public Utilities Commission ("CPUC") granted the request for a one-year extension of the cost of capital filing to May 1, 2025, to set its authorized cost of capital beginning January 1, 2026.

On November 1, 2023, the Company's Virginia subsidiary filed a general rate case requesting $20 million in additional annualized revenues. The request is based on a proposed return on equity of 10.95% and a capital structure with an equity component of 45.67% and a debt and other component of 54.33%. The requested increase is driven by approximately $110 million in capital investments between May 2023 and April 2025. The request also proposed a revenue decoupling mechanism and seeks deferral of certain production cost adjustments. Interim rates became effective May 1, 2024, with the difference between interim and final approved rates subject to refund. On September 20, 2024, the Virginia subsidiary filed with the Virginia State Corporation Commission (the "SCC") a "black box" stipulation of settlement which agreed to a $15 million annualized increase in the Virginia subsidiary's revenues. The stipulation of settlement also agreed, solely for purposes of the Virginia subsidiary's future filings requiring a stated cost of capital and/or capital structure (including its annual information and water and wastewater infrastructure surcharge filings), that its return on equity will be 9.70% and its capital structure will consist of an equity component of 45.67% and a debt and other component of 54.33%. The stipulation of settlement remains subject to SCC review and approval.

On July 1, 2022, the Company's California subsidiary filed a general rate case requesting an increase in 2024 revenue of $56 million and a total increase in revenue over the 2024 to 2026 period of $95 million, all as compared to 2022 revenues. The Company updated its filing in January 2023 to capture the authorized step increase effective January 1, 2023. The filing was also updated to incorporate a decoupling proposal and a revision to the Company's sales and associated variable expense forecast. The revised filing requested additional annualized revenues for the test year 2024 of $37 million, compared to 2023 revenues. This excludes the proposed step rate and attrition rate increase for 2025 and 2026 of $20 million and $19 million, respectively. The total revenue requirement request for the three-year rate case cycle, incorporating updates to present rate revenues and forecasted demand, is $76 million. On November 17, 2023, the California subsidiary filed with the CPUC a partial settlement agreement reached with the CPUC's Public Advocates Office, which would determine the amount of incremental annualized water and wastewater revenue to be received by the California subsidiary to be $20 million in the 2024 test year, $16 million in the 2025 escalation year, and $15 million in the 2026 attrition year. The partial settlement agreement addresses the California subsidiary's revenue requirement request but does not address rate design or certain other matters, such as the requested inclusion and implementation of a revenue stability mechanism to separate the California subsidiary's revenue and water sales. On August 27, 2024, a proposed decision was issued in the proceeding which, among other provisions, recommended adoption by the CPUC of the partial settlement agreement and recommended denial of the California subsidiary's proposed Water Resources Sustainability Plan decoupling mechanism and its currently effective Annual Consumption Adjustment Mechanism. On September 16, 2024, and September 23, 2024, the California subsidiary submitted comments in the proceeding continuing to support its position and recommending the CPUC revise the proposed decision to approve the Water Resource Sustainability Plan decoupling mechanism and maintain the Annual Consumption Adjustment Mechanism. The CPUC will consider the proposed decision and all responsive comments and will issue a final decision in the proceeding, which is currently scheduled for December 5, 2024, with new rates implemented retroactively to January 1, 2024.

Infrastructure Surcharges

A number of states have authorized the use of regulatory mechanisms that permit rates to be adjusted outside of a general rate case for certain costs and investments, such as infrastructure surcharge mechanisms that permit recovery of capital investments to replace aging infrastructure. Presented in the table below are annualized incremental revenues, assuming a constant sales volume and customer count, resulting from infrastructure surcharge authorizations that became effective during 2024:

	Effective Date	Amount
Infrastructure surcharges by state:		
Missouri	(b)	$ 47
Pennsylvania	(c)	21
New Jersey	April 30, 2024	9
Iowa	March 1, 2024	1
West Virginia (a)	March 1, 2024	7
Illinois	January 1, 2024	5
Total infrastructure surcharge authorizations		$ 90

(a) On March 5, 2024, the West Virginia Public Service Commission directed the Company's West Virginia subsidiary to interpret the distribution system improvement charge ("DSIC") Order as having included within the DSIC the three-year amortization of a prior authorized deferral associated with a large treatment plant project. The inclusion of this deferral increased the net incremental revenue by $0.7 million to a total of $6.6 million effective March 1, 2024.

(b) In 2024, $21 million was effective July 11 and $26 million was effective January 20.

(c) In 2024, $14 million was effective July 1 and $7 million was effective April 1.

Pending Infrastructure Surcharge Filings

On September 3, 2024, the Company's Missouri subsidiary filed an infrastructure surcharge proceeding requesting $17 million in additional annualized revenues.

On August 30, 2024, the Company's Kentucky subsidiary filed an infrastructure surcharge proceeding requesting $2 million in additional annualized revenues.

On June 28, 2024, the Company's West Virginia subsidiary filed an infrastructure surcharge proceeding requesting $4 million in additional annualized revenues.

Other Regulatory Matters

In September 2020, the CPUC released a decision under its Low-Income Rate Payer Assistance program rulemaking that required the Company's California subsidiary to file a proposal to alter its water revenue adjustment mechanism in its next general rate case filing in 2022, which would have become effective upon receiving an order in the current pending rate case. On October 5, 2020, the Company's California subsidiary filed an application for rehearing of the decision and following the CPUC's denial of its rehearing application in September 2021, the Company's California subsidiary filed a petition for writ of review with the California Supreme Court on October 27, 2021. On May 18, 2022, the California Supreme Court issued a writ of review for the California subsidiary's petition and the petitions filed by other entities challenging the decision. On July 8, 2024, the California Supreme Court issued a unanimous opinion concluding that the CPUC did not regularly seek to exercise its authority when it prohibited water utilities from proposing to continue their water revenue adjustment mechanisms. Accordingly, the California Supreme Court vacated the portion of the CPUC's 2020 decision relating to this prohibition against continuation of such water revenue adjustment mechanisms.

Independent of the judicial challenge, California passed Senate Bill 1469, which allows the CPUC to consider and authorize the implementation of a mechanism that separates the water corporation's revenue and its water sales. Legislation was signed by the Governor on September 30, 2022, and became effective on January 1, 2023. In response to the legislation, on January 27, 2023, the Company's California subsidiary filed an updated application requesting the CPUC to consider a Water Resources Sustainability Plan decoupling mechanism in its pending 2022 general rate case, which, if adopted, will become effective upon receiving an order in the current pending rate case, as discussed above.

Note 4: Revenue Recognition

Disaggregated Revenues

The Company's primary business involves the ownership of utilities that provide water and wastewater services to residential, commercial, industrial, public authority, fire service and sale for resale customers, collectively presented as the "Regulated Businesses." The Company also operates other businesses that provide water and wastewater services to the U.S. government on military installations, as well as municipalities, collectively presented throughout this Form 10-Q within "Other."

Presented in the table below are operating revenues disaggregated for the three months ended September 30, 2024:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 677	$ 2	$ 679
Commercial	253	2	255
Fire service	41	—	41
Industrial	49	1	50
Public and other	93	—	93
Total water services	1,113	5	1,118
Wastewater services:			
Residential	61	1	62
Commercial	20	—	20
Industrial	4	—	4
Public and other	11	—	11
Total wastewater services	96	1	97
Miscellaneous utility charges	14	—	14
Alternative revenue programs	—	(12)	(12)
Lease contract revenue	—	2	2
Total Regulated Businesses	1,223	(4)	1,219
Other	105	(1)	104
Total operating revenues	$ 1,328	$ (5)	$ 1,323

(a) Includes revenues associated with provisional rates, alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of Accounting Standards Codification Topic 606, *Revenue From Contracts With Customers* ("ASC 606"), and accounted for under other existing GAAP.

Presented in the table below are operating revenues disaggregated for the three months ended September 30, 2023:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 607	$ —	$ 607
Commercial	231	—	231
Fire service	40	—	40
Industrial	50	—	50
Public and other	77	—	77
Total water services	1,005	—	1,005
Wastewater services:			
Residential	58	—	58
Commercial	16	—	16
Industrial	2	—	2
Public and other	8	—	8
Total wastewater services	84	—	84
Miscellaneous utility charges	9	—	9
Alternative revenue programs	—	(5)	(5)
Lease contract revenue	—	2	2
Total Regulated Businesses	1,098	(3)	1,095
Other	72	—	72
Total operating revenues	$ 1,170	$ (3)	$ 1,167

(a) Includes revenues associated with alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of ASC 606, and accounted for under other existing GAAP.

Presented in the table below are operating revenues disaggregated for the nine months ended September 30, 2024:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 1,760	$ 3	$ 1,763
Commercial	656	3	659
Fire service	123	—	123
Industrial	137	1	138
Public and other	217	—	217
Total water services	2,893	7	2,900
Wastewater services:			
Residential	180	1	181
Commercial	52	—	52
Industrial	9	—	9
Public and other	28	—	28
Total wastewater services	269	1	270
Miscellaneous utility charges	33	—	33
Alternative revenue programs	—	(5)	(5)
Lease contract revenue	—	6	6
Total Regulated Businesses	3,195	9	3,204
Other	280	(1)	279
Total operating revenues	$ 3,475	$ 8	$ 3,483

(a) Includes revenues associated with provisional rates, alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of ASC 606, and accounted for under other existing GAAP.

Presented in the table below are operating revenues disaggregated for the nine months ended September 30, 2023:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 1,622	$ —	$ 1,622
Commercial	600	—	600
Fire service	118	—	118
Industrial	126	—	126
Public and other	208	—	208
Total water services	2,674	—	2,674
Wastewater services:			
Residential	169	—	169
Commercial	46	—	46
Industrial	6	—	6
Public and other	21	—	21
Total wastewater services	242	—	242
Miscellaneous utility charges	26	—	26
Alternative revenue programs	—	12	12
Lease contract revenue	—	6	6
Total Regulated Businesses	2,942	18	2,960
Other	243	(1)	242
Total operating revenues	$ 3,185	$ 17	$ 3,202

(a) Includes revenues associated with alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of ASC 606, and accounted for under other existing GAAP.

Contract Balances

Contract assets and contract liabilities are the result of timing differences between revenue recognition, billings, and cash collections. In the Company's Military Services Group ("MSG"), certain contracts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Contract assets are recorded when billing occurs subsequent to revenue recognition and are reclassified to accounts receivable when billed and the right to consideration becomes unconditional. Contract liabilities are recorded when the Company receives advances from customers prior to satisfying contractual performance obligations, particularly for construction contracts, and are recognized as revenue when the associated performance obligations are satisfied.

Contract assets of $65 million and $95 million are included in unbilled revenues on the Consolidated Balance Sheets as of September 30, 2024, and December 31, 2023, respectively. Also, contract assets of $38 million are included in other long-term assets on the Consolidated Balance Sheets as of September 30, 2024, and there were no contract assets in other long-term assets on the Consolidated Balance Sheets as of December 31, 2023. Contract liabilities of $32 million and $63 million are included in other current liabilities on the Consolidated Balance Sheets as of September 30, 2024, and December 31, 2023, respectively. Also, contract liabilities of $10 million are included in other long-term liabilities on the Consolidated Balance Sheets as of September 30, 2024, and there were no contract liabilities in other long-term liabilities on the Consolidated Balance Sheets as of December 31, 2023. Revenues recognized for the nine months ended September 30, 2024 and 2023, from amounts included in contract liabilities were $82 million and $92 million, respectively.

Remaining Performance Obligations

Remaining performance obligations ("RPOs") represent revenues the Company expects to recognize in the future from contracts that are in progress. The Company enters into agreements for the provision of services to water and wastewater facilities for the U.S. military, municipalities and other customers. As of September 30, 2024, the Company's operation and maintenance ("O&M") and capital improvement contracts have RPOs. Contracts with the U.S. government for work on various military installations expire between 2051 and 2073 and have RPOs of $7.4 billion as of September 30, 2024, as measured by estimated remaining contract revenue. Such contracts are subject to customary termination provisions held by the U.S. government, prior to the agreed-upon contract expiration. Contracts with municipalities and commercial customers expire between 2026 and 2038 and have RPOs of $631 million as of September 30, 2024, as measured by estimated remaining contract revenue.

Note 5: Acquisitions and Divestitures

Regulated Businesses

Closed Acquisitions as of September 30, 2024

On March 11, 2024, the Company's Illinois subsidiary completed the acquisition of a wastewater treatment plant and related assets from Granite City for a cash purchase price of $86 million, which added approximately 26,000 wastewater customers, including 15,500 customers indirectly in surrounding communities. Assets acquired from this acquisition, principally utility plant, totaled $91 million and liabilities assumed totaled $5 million. This acquisition was accounted for as a business combination and the preliminary purchase price allocation will be finalized once the valuation of assets acquired has been completed, no later than one year after the acquisition date.

In addition to the acquisition of the Granite City wastewater treatment plant and related assets noted above, during the nine months ended September 30, 2024, the Company closed on four acquisitions of various regulated water and wastewater systems for a total aggregate purchase price of $33 million, which added approximately 7,400 water and wastewater customers. Assets acquired from these acquisitions consisted principally of utility plant. All four of these acquisitions were accounted for as a business combination and the preliminary purchase price allocation will be finalized once the valuation of assets acquired has been completed, no later than one year after the acquisition date.

The pro forma impact of the Company's acquisitions was not material to the Consolidated Statements of Operations for the periods ended September 30, 2024 and 2023.

Closed Acquisitions - After September 30, 2024

On September 26, 2024, the Pennsylvania Commonwealth Court issued an order dismissing the appeals of Center Township and Summit Township, which sought to reverse the November 9, 2023, order entered by the PaPUC which approved a settlement agreement without modification with respect to the Company's Pennsylvania subsidiary's application to acquire the wastewater collection and treatment system assets (the "System Assets") from the Butler Area Sewer Authority. On October 29, 2024, the Pennsylvania subsidiary acquired the System Assets from the Butler Area Sewer Authority for a purchase price of $230 million, in cash. This system provides wastewater service for approximately 15,000 customer connections. The acquisition will be accounted for as a business combination in the fourth quarter of 2024 and the preliminary purchase price allocation consists primarily of utility plant.

Pending Acquisitions

Effective March 24, 2023, the Company's Pennsylvania subsidiary acquired the rights to buy the wastewater system assets of Towamencin Township, for an aggregate purchase price of $104 million. On August 28, 2024, Towamencin Township and the Company's Pennsylvania subsidiary began the process to terminate the asset purchase agreement. On October 15, 2024, the PaPUC issued a Certificate of Filing, which approves the termination of the asset purchase agreement with respect to this acquisition. As a result, the asset purchase agreement and all rights and obligations of the Company's Pennsylvania subsidiary thereunder have been terminated without penalty.

Sale of Homeowner Services Group

On December 9, 2021 (the "Closing Date"), the Company sold all of the equity interests in subsidiaries that comprised the Homeowner Services Group ("HOS") to a wholly owned subsidiary (the "Buyer") of funds advised by Apax Partners LLP, a global private equity advisory firm, for total consideration of approximately $1.275 billion. The consideration at closing was comprised of $480 million in cash, a secured seller promissory note payable in cash and issued by the Buyer in the principal amount of $720 million, with an interest rate of 7.00% per year, and a contingent cash payment of $75 million payable upon satisfaction of certain conditions on or before December 31, 2023.

On February 2, 2024, the secured seller note was amended to increase the principal amount from $720 million to $795 million, in full satisfaction of the $75 million contingent cash payment payable under the HOS sale agreement. In addition, the interest rate payable on the secured seller note has increased from 7.00% per year to 10.00% per year until maturity. The Company recognized $20 million and $13 million of interest income during the three months ended September 30, 2024 and 2023, respectively, and $57 million and $38 million of interest income during the nine months ended September 30, 2024 and 2023, respectively, from the secured seller note. The secured seller note requires compliance with affirmative and negative covenants (subject to certain conditions, limitations and exceptions), including a covenant limiting the incurrence by the Buyer and certain affiliates of additional indebtedness in excess of certain thresholds, but does not include any financial maintenance covenants. Certain of these covenants have been amended, including to provide for annual reductions of specified debt incurrence ratios. Furthermore, the amendment to the secured seller note eliminated the conditional right, beginning December 9, 2024, to require a repayment, without premium or penalty, of 100% of the outstanding principal amount in full in cash together with all accrued and unpaid interest and other obligations thereunder. The final maturity date of the secured seller note remains December 9, 2026. The repayment obligations of the Buyer under the seller note are secured by a first priority security interest in certain property of the Buyer and the former HOS subsidiaries, including their cash and securities accounts, as well as a pledge of the equity interests in each of those subsidiaries, subject to certain limitations and exceptions.

The secured seller note may not be prepaid at the Buyer's election except in certain limited circumstances before the fourth anniversary of the Closing Date. If the Buyer seeks to repay the secured seller note in breach of this non-call provision, an event of default will occur under the secured seller note and the Company may, among other actions, demand repayment in full together with a premium ranging from 105.5% to 107.5% of the outstanding principal amount of the loan and a customary "make-whole" payment.

Note 6: Shareholders' Equity

Accumulated Other Comprehensive Loss

Presented in the table below are the changes in accumulated other comprehensive loss by component, net of tax, for the nine months ended September 30, 2024 and 2023, respectively:

	Defined Benefit Pension Plans					
	Employee Benefit Plan Funded Status	Amortization of Prior Service Cost	Amortization of Actuarial Loss	Gain (Loss) on Cash Flow Hedges	Gain on Fixed-Income Securities	Accumulated Other Comprehensive Loss
Balance as of December 31, 2023	$ (96)	$ 1	$ 74	$ (9)	$ 4	$ (26)
Other comprehensive income before reclassifications	—	—	—	17	—	17
Amounts reclassified from accumulated other comprehensive loss	—	—	1	—	—	1
Net other comprehensive income	—	—	1	17	—	18
Balance as of September 30, 2024	$ (96)	$ 1	$ 75	$ 8	$ 4	$ (8)
Balance as of December 31, 2022	$ (93)	$ 1	$ 70	$ (1)	$ —	$ (23)
Other comprehensive income before reclassifications	—	—	—	—	—	—
Amounts reclassified from accumulated other comprehensive income	—	—	1	—	—	1
Net other comprehensive income	—	—	1	—	—	1
Balance as of September 30, 2023	$ (93)	$ 1	$ 71	$ (1)	$ —	$ (22)

The Company does not reclassify the amortization of defined benefit pension cost components from accumulated other comprehensive loss directly to net income in its entirety, as a portion of these costs have been deferred as a regulatory asset. These accumulated other comprehensive loss components are included in the computation of net periodic pension cost.

The amortization of the gain (loss) on cash flow hedges is reclassified to net income during the period incurred and is included in Interest expense in the accompanying Consolidated Statements of Operations.

An unrealized gain (loss) on available-for-sale fixed-income securities is reclassified to net income upon sale of the securities as a realized gain or loss and is included in Other, net in the accompanying Consolidated Statements of Operations.

Dividends

On September 4, 2024, the Company paid a quarterly cash dividend of $0.7650 per share to shareholders of record as of August 13, 2024.

On October 29, 2024, the Company's Board of Directors declared a quarterly cash dividend payment of $0.7650 per share, payable on December 3, 2024, to shareholders of record as of November 12, 2024. Future dividends, when and as declared at the discretion of the Board of Directors, will be dependent upon future earnings and cash flows, compliance with various regulatory, financial and legal requirements, and other factors. See Note 9—Shareholders' Equity in the Notes to Consolidated Financial Statements in the Company's Form 10-K for additional information regarding the payment of dividends on the Company's common stock.

Note 7: Long-Term Debt

On February 23, 2024, American Water Capital Corp. ("AWCC") completed a $1.4 billion debt offering, which included the sale of $700 million aggregate principal amount of its 5.150% senior notes due 2034 and $700 million aggregate principal amount of its 5.450% senior notes due 2054. At the closing of this offering, AWCC received, after deduction of underwriting discounts and before deduction of offering expenses, net proceeds of approximately $1,381 million. AWCC used the net proceeds of the offering (1) to lend funds to American Water and the Regulated Businesses; (2) to repay at maturity AWCC's 3.850% Senior Notes due 2024; (3) to repay AWCC's commercial paper obligations; and (4) for general corporate purposes.

In addition to the notes issued by AWCC as described above, during the nine months ended September 30, 2024, AWCC and the Company's regulated subsidiaries issued in the aggregate $25 million of private activity bonds and government funded debt in multiple transactions with annual interest rates ranging from 0.00% to 1.75%, a weighted average interest rate of 0.01%, and maturity dates ranging from 2025 through 2061. $25 million of the private activity bonds and government funded debt issued by the Company's regulated subsidiaries during the nine months ended September 30, 2024, were collateralized. During the nine months ended September 30, 2024, AWCC and the Company's regulated subsidiaries made sinking fund payments for, or repaid at maturity, $474 million in aggregate principal amount of outstanding long-term debt, with annual interest rates ranging from 0.00% to 7.17%, a weighted average interest rate of 4.20%, and maturity dates ranging from 2024 to 2061.

During the third quarter of 2024, the Company entered into seven treasury lock agreements, with a term of 10 years or 30 years, with notional amounts totaling $330 million. These treasury lock agreements have an average fixed interest rate of 4.02%. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss.

The Company had entered into 15 treasury lock agreements through February 2024, with notional amounts totaling $825 million. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss. In February 2024, the Company terminated the treasury lock agreements realizing a pre-tax net gain of $14 million, to be amortized through Interest expense over a 10-year period or 30-year period, in accordance with the tenor of the notes issued on February 23, 2024.

No ineffectiveness was recognized on hedging instruments for the three and nine months ended September 30, 2024 or 2023.

On June 29, 2023, AWCC issued $1,035 million aggregate principal amount of 3.625% Exchangeable Senior Notes due 2026 (the "Notes"). AWCC received net proceeds of approximately $1,022 million, after deduction of underwriting discounts and commissions but before deduction of offering expenses payable by AWCC. A portion of the net proceeds was used to repay AWCC's commercial paper obligations and the remainder was used for general corporate purposes. The Notes are senior unsecured obligations of AWCC and have the benefit of a support agreement from parent company, which serves as the functional equivalent of a guarantee by parent company of the obligations of AWCC under the Notes. The Notes will mature on June 15, 2026 (the "Maturity Date"), unless earlier exchanged or repurchased.

The Notes are exchangeable at an initial exchange rate of 5.8213 shares of parent company's common stock per $1,000 principal amount of Notes (equivalent to an initial exchange price of approximately $171.78 per share of common stock). The initial exchange rate of the Notes is subject to adjustment as provided in the indenture pursuant to which the Notes were issued (the "Note Indenture"). Prior to the close of business on the business day immediately preceding March 15, 2026, the Notes are exchangeable at the option of the noteholders only upon the satisfaction of specified conditions and during certain periods described in the Note Indenture. On or after March 15, 2026, until the close of business on the business day immediately preceding the Maturity Date, the Notes will be exchangeable at the option of the noteholders at any time regardless of these conditions or periods. Upon any exchange of the Notes, AWCC will (1) pay cash up to the aggregate principal amount of the Notes and (2) pay or deliver (or cause to be delivered), as the case may be, cash, shares of parent company's common stock, or a combination of cash and shares of such common stock, at AWCC's election, in respect of the remainder, if any, of AWCC's exchange obligation in excess of the aggregate principal amount of the Notes being exchanged.

AWCC may not redeem the Notes prior to the Maturity Date, and no sinking fund is provided for the Notes. Subject to certain conditions, holders of the Notes will have the right to require AWCC to repurchase all or a portion of their Notes upon the occurrence of a fundamental change, as defined in the Note Indenture, at a repurchase price of 100% of their principal amount plus any accrued and unpaid interest.

Note 8: Short-Term Debt

Liquidity needs for capital investment, working capital and other financial commitments are generally funded through cash flows from operations, public and private debt offerings, commercial paper markets and, if and to the extent necessary, borrowings under the AWCC revolving credit facility, and, in the future, issuances of equity. AWCC maintains an unsecured revolving credit facility which provides $2.75 billion in aggregate total commitments from a diversified group of financial institutions. On October 28, 2024, the termination date of the credit agreement with respect to AWCC's revolving credit facility was extended, as permitted by the terms of the credit agreement, from October 2028 to October 2029. The revolving credit facility is used principally to support AWCC's commercial paper program, to provide additional liquidity support and to provide a sub-limit for the issuance of up to $150 million in letters of credit. Subject to satisfying certain conditions, the credit agreement permits AWCC to increase the maximum commitment under the facility by up to an aggregate of $500 million. As of September 30, 2024, and December 31, 2023, there were no borrowings under the revolving credit facility. As of September 30, 2024, and December 31, 2023, there were $75 million of outstanding letters of credit under the revolving credit facility.

Short-term debt consists of commercial paper borrowings totaling $215 million and $180 million as of September 30, 2024, and December 31, 2023, respectively, or net of discount $215 million and $179 million as of September 30, 2024, and December 31, 2023, respectively. The weighted-average interest rate on AWCC's outstanding short-term borrowings was approximately 4.90% and 5.51% at September 30, 2024, and December 31, 2023, respectively. At September 30, 2024, and December 31, 2023, there were no commercial paper borrowings outstanding with maturities greater than three months.

Presented in the tables below is the aggregate credit facility commitments, commercial paper limit and letter of credit availability under the revolving credit facility, as well as the available capacity for each:

	As of September 30, 2024		
	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	(215)	(75)	(290)
Remaining availability as of September 30, 2024	$ 2,385	$ 75	$ 2,460

(a) Total remaining availability of $2.5 billion as of September 30, 2024, was accessible through revolver draws.

	As of December 31, 2023		
	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	(180)	(75)	(255)
Remaining availability as of December 31, 2023	$ 2,420	$ 75	$ 2,495

(a) Total remaining availability of $2.5 billion as of December 31, 2023, was accessible through revolver draws.

Presented in the table below is the Company's total available liquidity as of September 30, 2024, and December 31, 2023, respectively:

	Cash and Cash Equivalents	Availability on Revolving Credit Facility	Total Available Liquidity
Available liquidity as of September 30, 2024	$ 127	$ 2,460	$ 2,587
Available liquidity as of December 31, 2023	$ 330	$ 2,495	$ 2,825

Note 9: Income Taxes

The Company's effective income tax rate was 22.7% and 20.6% for the three months ended September 30, 2024 and 2023, respectively, and 23.1% and 21.0% for the nine months ended September 30, 2024 and 2023, respectively. The increase in the Company's effective income tax rate for the three and nine months ended September 30, 2024, was primarily due to the decrease in the amortization of EADIT pursuant to regulatory orders and a decrease in deductions related to payments of stock-based compensation benefits.

On August 16, 2022, the Inflation Reduction Act of 2022 (the "IRA") was signed into law. The IRA contains a 15% Corporate Alternative Minimum Tax ("CAMT") provision on applicable corporations effective January 1, 2023. To determine if a company is considered an applicable corporation subject to CAMT, the company's average adjusted financial statement income ("AFSI") for the three consecutive years preceding the tax year must exceed $1.0 billion. An applicable corporation must make several adjustments to net income when determining AFSI. A corporation paying CAMT is eligible for a future tax credit, which can be utilized when regular tax exceeds CAMT. Based on current guidance, the Company is an applicable corporation subject to CAMT beginning in 2024 and expects to owe CAMT in excess of the regular tax liability. On September 12, 2024, the Internal Revenue Service ("IRS") and the U.S. Treasury issued Notice 2024-66, allowing corporate taxpayers to exclude amounts attributable to the CAMT liability, without penalty, from estimated tax payments with respect to a taxable year that begins during 2024. The Company will include the CAMT liability in its 2024 extension payment due April 15, 2025. The Company will continue to assess the impacts of the IRA as the U.S. Treasury and the IRS provide further guidance.

Note 10: Pension and Other Postretirement Benefits

Presented in the table below are the components of net periodic benefit costs:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Components of net periodic pension benefit cost:				
Service cost	$ 4	$ 4	$ 13	$ 12
Interest cost	21	22	63	65
Expected return on plan assets	(24)	(23)	(71)	(69)
Amortization of prior service credit	(1)	(1)	(3)	(3)
Amortization of actuarial loss	6	4	18	11
Net periodic pension benefit cost	$ 6	$ 6	$ 20	$ 16
Components of net periodic other postretirement benefit credit:				
Service cost	$ 1	$ 1	$ 2	$ 2
Interest cost	3	4	9	11
Expected return on plan assets	(3)	(3)	(9)	(9)
Amortization of prior service credit	(8)	(8)	(24)	(24)
Amortization of actuarial loss	—	1	—	2
Net periodic other postretirement benefit credit	$ (7)	$ (5)	$ (22)	$ (18)

The Company contributed $11 million and $33 million for the funding of its defined benefit pension plans for the three and nine months ended September 30, 2024, respectively, and contributed $11 million and $31 million for the funding of its defined benefit pension plans for the three and nine months ended September 30, 2023, respectively. The Company expects to make additional pension contributions to the plan trusts of $11 million during the remainder of 2024.

Note 11: Commitments and Contingencies

Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. As of September 30, 2024, the Company has accrued approximately $7 million of probable loss contingencies and has estimated that the maximum amount of loss associated with reasonably possible loss contingencies arising out of such legal actions, which can be reasonably estimated, is $5 million. For certain legal actions, the Company is unable to estimate possible losses. The Company believes that damages or settlements, if any, recovered by plaintiffs in such legal actions, other than as described in this Note 11 —Commitments and Contingencies, will not have a material adverse effect on the Company.

Dunbar, West Virginia Water Main Break Class Action Litigation

On the evening of June 23, 2015, a 36-inch pre-stressed concrete transmission water main, installed in the early 1970s, failed. The water main is part of the West Relay pumping station located in the City of Dunbar, West Virginia and owned by the Company's West Virginia subsidiary ("WVAWC"). The failure of the main caused water outages and low pressure for up to approximately 25,000 WVAWC customers. In the early morning hours of June 25, 2015, crews completed a repair, but that same day, the repair developed a leak. On June 26, 2015, a second repair was completed, and service was restored that day to approximately 80% of the impacted customers, and to the remaining approximately 20% by the next morning. The second repair showed signs of leaking, but the water main was usable until June 29, 2015, to allow tanks to refill. The system was reconfigured to maintain service to all but approximately 3,000 customers while a final repair was being completed safely on June 30, 2015. Water service was fully restored by July 1, 2015, to all customers affected by this event.

On June 2, 2017, a complaint captioned *Jeffries, et al. v. West Virginia-American Water Company* was filed in West Virginia Circuit Court in Kanawha County on behalf of an alleged class of residents and business owners who lost water service or pressure as a result of the Dunbar main break. The complaint alleges breach of contract by WVAWC for failure to supply water, violation of West Virginia law regarding the sufficiency of WVAWC's facilities and negligence by WVAWC in the design, maintenance and operation of the water system. The *Jeffries* plaintiffs seek unspecified alleged damages on behalf of the class for lost profits, annoyance and inconvenience, and loss of use, as well as punitive damages for willful, reckless and wanton behavior in not addressing the risk of pipe failure and a large outage.

In February 2020, the *Jeffries* plaintiffs filed a motion seeking class certification on the issues of breach of contract and negligence, and to determine the applicability of punitive damages and a multiplier for those damages if imposed. In July 2020, the Circuit Court entered an order granting the *Jeffries* plaintiffs' motion for certification of a class regarding certain liability issues but denying certification of a class to determine a punitive damages multiplier. In August 2020, WVAWC filed a Petition for Writ of Prohibition in the Supreme Court of Appeals of West Virginia seeking to vacate or remand the Circuit Court's order certifying the issues class. In January 2021, the Supreme Court of Appeals remanded the case back to the Circuit Court for further consideration in light of a decision issued in another case relating to the class certification issues raised on appeal. In July 2022, the Circuit Court entered an order again certifying a class to address at trial certain liability issues but not to consider damages. In August 2022, WVAWC filed another Petition for Writ of Prohibition in the Supreme Court of Appeals of West Virginia challenging the West Virginia Circuit Court's July 2022 order, which petition was denied on June 8, 2023. By order dated June 28, 2024, the Circuit Court set a new date of December 3, 2024, for a class trial on issues relating to duty and breach of that duty. This trial will not find class-wide or punitive damages. Before trial begins, mediation is scheduled to take place during the fourth quarter of 2024.

The Company and WVAWC believe that WVAWC has valid, meritorious defenses to the claims raised in this class action complaint. WVAWC is vigorously defending itself against these allegations. Given the current stage of this proceeding, the Company cannot reasonably estimate the amount of any reasonably possible loss or a range of loss related to this proceeding.

Chattanooga, Tennessee Water Main Break Class Action Litigation

On September 12, 2019, the Company's Tennessee subsidiary ("TAWC"), experienced a leak in a 36-inch water transmission main, which caused service fluctuations or interruptions to TAWC customers and the issuance of a boil water notice. TAWC repaired the main by early morning on September 14, 2019, and restored full water service by the afternoon of September 15, 2019, with the boil water notice lifted for all customers on September 16, 2019.

On September 17, 2019, a complaint captioned *Bruce, et al. v. American Water Works Company, Inc., et al.* was filed in the Circuit Court of Hamilton County, Tennessee against TAWC, the Company and American Water Works Service Company, Inc. ("Service Company" and, together with TAWC and the Company, collectively, the "Tennessee-American Water Defendants"), on behalf of a proposed class of individuals or entities who lost water service or suffered monetary losses as a result of the Chattanooga incident (the "Tennessee Plaintiffs"). The complaint alleged breach of contract and negligence against the Tennessee-American Water Defendants, as well as an equitable remedy of piercing the corporate veil. In the complaint as originally filed, the Tennessee Plaintiffs were seeking an award of unspecified alleged damages for wage losses, business and economic losses, out-of-pocket expenses, loss of use and enjoyment of property and annoyance and inconvenience, as well as punitive damages, attorneys' fees and pre- and post-judgment interest.

In September 2020, the court dismissed all of the Tennessee Plaintiffs' claims in their complaint, except for the breach of contract claims against TAWC, which remain pending. In October 2020, TAWC answered the complaint, and the parties have been engaging in discovery. On January 12, 2023, after hearing oral argument, the court issued an oral ruling denying the Tennessee Plaintiffs' motion for class certification. On February 9, 2023, the Tennessee Plaintiffs sought reconsideration of the ruling by the court, and any final ruling is appealable to the Tennessee Court of Appeals, as allowed under Tennessee law. On September 21, 2023, the court upheld its prior ruling but gave the Tennessee Plaintiffs the option to file an amended class definition. On October 12, 2023, the Tennessee Plaintiffs filed an amended class definition seeking certification of a business customer-only class. On December 1, 2023, TAWC filed a memorandum in opposition to the amended class definition. On January 18, 2024, and April 19, 2024, the court heard oral argument on the motions. On June 14, 2024, the court issued its written order denying the amended class and incorporating its denial of the original class. On June 21, 2024, the Tennessee Plaintiffs appealed both of the court's orders denying class certification.

The Company and TAWC believe that TAWC has valid, meritorious defenses to the claims raised in this class action complaint. TAWC is vigorously defending itself against these allegations. Given the current stage of this proceeding, the Company cannot currently determine the likelihood of a loss, if any, or estimate the amount of any loss or a range of loss related to this proceeding.

Mountaineer Gas Company Main Break

During the afternoon of November 10, 2023, WVAWC was informed that an 8-inch ductile iron water main owned by WVAWC, located on the West Side of Charleston, West Virginia and originally installed in approximately 1989, experienced a leak. In the early morning hours of November 11, 2023, WVAWC crews successfully completed a repair to the water main. A precautionary boil water advisory was issued the same day to approximately 300 WVAWC customers and ultimately lifted on November 12, 2023.

On November 10, 2023, a break was reported in a low-pressure natural gas main located near the affected WVAWC water main, and an inflow of water into the natural gas main and associated delivery pipelines occurred. The natural gas main and pipelines are owned by Mountaineer Gas Company, a regulated natural gas distribution company serving over 220,000 customers in West Virginia ("Mountaineer Gas"). The resulting inflow of water into the natural gas main and related pipelines resulted in a loss of natural gas service to approximately 1,500 Mountaineer Gas customers, as well as water entering customer service lines and certain natural gas appliances owned or used by some of the affected Mountaineer Gas customers. Mountaineer Gas reported that restoration of natural gas service to all affected gas mains occurred on November 24, 2023. The timing, order and causation of both the WVAWC water main break and Mountaineer Gas's main break are currently unknown and under investigation.

To date, a total of four pending lawsuits have been filed against Mountaineer Gas and WVAWC purportedly on behalf of customers in Charleston, West Virginia related to these incidents. On November 14, 2023, a complaint captioned *Ruffin et al. v. Mountaineer Gas Company and West Virginia-American Water Company* was filed in West Virginia Circuit Court in Kanawha County on behalf of an alleged class of Mountaineer Gas residential and business customers and other households and businesses supplied with natural gas in Kanawha County, which lost natural gas service on November 10, 2023, as a result of these events. The complaint alleges, among other things, breach of contract by Mountaineer Gas, trespass by WVAWC, nuisance by WVAWC, violation of statutory obligations by Mountaineer Gas and WVAWC, and negligence by Mountaineer Gas and WVAWC. The complaint seeks class-wide damages against Mountaineer Gas and WVAWC for loss of use of natural gas, annoyance, inconvenience and lost profits, as well as punitive damages.

On November 15, 2023, a complaint captioned *Toliver et al. v. West Virginia-American Water Company and Mountaineer Gas Company* was filed in West Virginia Circuit Court in Kanawha County on behalf of an alleged class of all natural persons or entities who are citizens of the State of West Virginia and who are customers of WVAWC and/or Mountaineer Gas in the affected areas. The complaint alleges against Mountaineer Gas and WVAWC, among other things, negligence, nuisance, trespass and strict liability, as well as breach of contract against Mountaineer Gas. The complaint seeks class-wide damages against Mountaineer Gas and WVAWC for property damage, loss of use and enjoyment of property, annoyance and inconvenience and business losses, as well as punitive damages.

On November 16, 2023, a complaint captioned *Dodson et al. v. West Virginia American Water and Mountaineer Gas Company* was filed in West Virginia Circuit Court in Kanawha County on behalf of an alleged class of all West Virginia citizens living between Pennsylvania Avenue south of Washington Street, and Iowa Street, who are customers of Mountaineer Gas. The complaint alleges against Mountaineer Gas and WVAWC, among other things, negligence, nuisance, trespass, statutory code violations and unfair or deceptive business practices. The complaint seeks class-wide damages against Mountaineer Gas and WVAWC for property loss and damage, loss of use and enjoyment of property, mental and emotional distress, and aggravation and inconvenience, as well as punitive damages.

On January 4, 2024, a fourth complaint, captioned *Thomas v. West Virginia-American Water Company and Mountaineer Gas Company*, was filed in West Virginia Circuit Court in Kanawha County asserting similar allegations as those included in the *Ruffin*, *Toliver* and *Dodson* lawsuits, with the addition of counts alleging unjust enrichment and violations of the West Virginia Human Rights Act and the West Virginia Consumer Credit and Protection Act.

On November 17, 2023, the *Ruffin* plaintiff filed a motion to consolidate the class action lawsuits before a single judge in Kanawha County Circuit Court. On June 14, 2024, the judge in the *Ruffin* case partially granted the motion by transferring all of the four class action lawsuits to her court but deferring as premature consolidation of the cases.

On December 5, 2023, a complaint captioned *Mountaineer Gas Company v. West Virginia-American Water Company* was filed in West Virginia Circuit Court in Kanawha County seeking damages under theories of trespass, negligence and implied indemnity. The damages being sought related to the incident include, among other things, repair and response costs incurred by Mountaineer Gas and attorneys' fees and expenses incurred by Mountaineer Gas. On December 14, 2023, Mountaineer Gas filed a motion with the Supreme Court of West Virginia to transfer this case to the West Virginia Business Court. On December 29, 2023, WVAWC filed a joinder in the motion to transfer the case. WVAWC has also filed a partial motion to dismiss this lawsuit. On March 6, 2024, the motion to transfer the complaint captioned *Mountaineer Gas Company v. West Virginia-American Water Company* to the West Virginia Business Court was granted and trial and resolution judges were assigned. Mountaineer Gas voluntarily dismissed its implied indemnity count against WVAWC, rendering moot WVAWC's partial motion to dismiss, and on May 31, 2024, WVAWC answered the complaint. The Business Court has set a trial date of October 7, 2025, for this matter.

On December 20, 2023, Mountaineer Gas filed answers to each of the first three class action lawsuits, which included cross-claims against WVAWC alleging that Mountaineer Gas is without fault for the claims and damages alleged in the lawsuits and WVAWC should be required to indemnify Mountaineer Gas for any damages and for attorneys' fees and expenses incurred by Mountaineer Gas in the lawsuits. WVAWC has filed a partial motion to dismiss certain claims in the *Ruffin, Toliver, Dodson* and *Thomas* lawsuits and a motion to dismiss the cross-claims asserted against WVAWC therein by Mountaineer Gas. Mountaineer Gas subsequently voluntarily dismissed its cross-claims. On January 30, 2024, a motion was filed with the West Virginia Supreme Court on behalf of the *Toliver* plaintiff to refer the four class action complaints and the *Mountaineer Gas* complaint to the West Virginia Mass Litigation Panel. On February 7, 2024, WVAWC filed a motion joining in that referral request. On February 19, 2024, Mountaineer Gas filed a motion opposing the referral of the four class action complaints and the *Mountaineer Gas* complaint to the West Virginia Mass Litigation Panel. On March 28, 2024, the Kanawha County Circuit Court trial judge filed a memorandum opposing the referral. On May 31, 2024, the West Virginia Supreme Court denied the motion seeking referral. The Kanawha County Circuit Court has set a trial date of February 2, 2026, for the class action complaints.

On December 6, 2023, WVAWC initiated a process whereby Mountaineer Gas customers could file claims with WVAWC and seek payment from WVAWC of up to $2,000 in damages per affected household for the inconvenience arising from a loss of use of their appliances and documented out-of-pocket expenses as a result of the natural gas outage. In light of the diminishing number of new claims being filed, the claims process was concluded on March 8, 2024. As of September 30, 2024, a total of 593 Mountaineer Gas customers completed this claims process, and each of those customers has been paid by WVAWC an average of approximately $1,500. In return, these customers were required to execute a partial release of liability in favor of WVAWC.

On November 16, 2023, the Public Service Commission of West Virginia (the "WVPSC") issued an order initiating a general investigation into both the water main break and natural gas outages occurring in this incident to determine the cause or causes thereof, as well as breaks and outages generally throughout the systems of WVAWC and Mountaineer Gas and the utility practices of both utilities. Following a series of disagreements among the parties regarding the scope of discovery, the WVPSC closed the general investigation into both utilities and ordered a separate general investigation for each utility. The WVPSC focused the two general investigations away from the cause of the events and instead on the maintenance practices of each utility during and after the main breaks. On January 29, 2024, the Consumer Advocate Division of the WVPSC filed a motion to intervene in the WVAWC general investigation. WVAWC is cooperating with its general investigation.

On March 1, 2024, the staff of the WVPSC issued an initial memorandum in each separate general investigation for Mountaineer Gas and WVAWC. On April 24, 2024, the staff issued a final joint memorandum in the Mountaineer Gas general investigation stating its view that Mountaineer Gas responded appropriately, reasonably and according to Mountaineer Gas's written procedures. The staff is making no recommendations for improvements to Mountaineer Gas and is recommending that the Mountaineer Gas general investigation be closed. On July 24, 2024, the staff issued a final joint memorandum in the WVAWC general investigation finding no indication of systematic failure by WVAWC and concluding WVAWC's maintenance and operating procedures were adequate to ensure safe and reliable service, subject to the implementation by WVAWC of three recommended operational improvements. Both general investigations remain pending.

The Company and WVAWC believe that the causes of action and other claims asserted against WVAWC in the class action complaints and the lawsuit filed by Mountaineer Gas are without merit and that WVAWC has meritorious defenses to such claims, and WVAWC is defending itself vigorously in these litigation proceedings. Given the current stage of these proceedings and the general investigation, the Company and WVAWC are currently unable to predict the outcome of any of the proceedings described above, and the Company cannot currently determine the likelihood of a loss, if any, or estimate the amount of any loss or a range of loss related to this proceeding.

Alternative Water Supply in Lieu of Carmel River Diversions

Compliance with Orders to Reduce Carmel River Diversions—Monterey Peninsula Water Supply Project

Under a 2009 order (the "2009 Order") of the State Water Resources Control Board (the "SWRCB"), the Company's California subsidiary ("Cal Am") is required to decrease significantly its yearly diversions of water from the Carmel River according to a set reduction schedule. In 2016, the SWRCB issued an order (the "2016 Order," and, together with the 2009 Order, the "Orders") approving a deadline of December 31, 2021, for Cal Am's compliance with these prior orders.

Cal Am is currently involved in developing the Monterey Peninsula Water Supply Project (the "Water Supply Project"), which includes the construction of a desalination plant, to be owned by Cal Am, and the construction of wells that would supply water to the desalination plant. In addition, the Water Supply Project also includes Cal Am's purchase of water from a groundwater replenishment project (the "GWR Project") between Monterey One Water and the Monterey Peninsula Water Management District (the "MPWMD"). The Water Supply Project is intended, among other things, to fulfill Cal Am's obligations under the Orders.

Cal Am's ability to move forward on the Water Supply Project is subject to administrative review by the CPUC and other government agencies, obtaining necessary permits, and intervention from other parties. In September 2016, the CPUC unanimously approved a final decision to authorize Cal Am to enter into a water purchase agreement for the GWR Project and to construct a pipeline and pump station facilities and recover up to $50 million in associated incurred costs, plus an allowance for funds used during construction ("AFUDC"), subject to meeting certain criteria.

In September 2018, the CPUC unanimously approved another final decision finding that the Water Supply Project meets the CPUC's requirements for a certificate of public convenience and necessity and an additional procedural phase was not necessary to consider alternative projects. The CPUC's 2018 decision concludes that the Water Supply Project is the best project to address estimated future water demands in Monterey, and, in addition to the cost recovery approved in its 2016 decision, adopts Cal Am's cost estimates for the Water Supply Project, which amounted to an aggregate of $279 million plus AFUDC at a rate representative of Cal Am's actual financing costs. The 2018 final decision specifies the procedures for recovery of all of Cal Am's prudently incurred costs associated with the Water Supply Project upon its completion, subject to the frameworks included in the final decision related to cost caps, operation and maintenance costs, financing, ratemaking and contingency matters. The reasonableness of the Water Supply Project costs will be reviewed by the CPUC when Cal Am seeks cost recovery for the Water Supply Project. Cal Am is also required to implement mitigation measures to avoid, minimize or offset significant environmental impacts from the construction and operation of the Water Supply Project and comply with a mitigation monitoring and reporting program, a reimbursement agreement for CPUC costs associated with that program, and reporting requirements on plant operations following placement of the Water Supply Project in service. Cal Am has incurred $266 million in aggregate costs as of September 30, 2024, related to the Water Supply Project, which includes $84 million in AFUDC.

In September 2021, Cal Am, Monterey One Water and the MPWMD reached an agreement on Cal Am's purchase of additional water from an expansion to the GWR Project. On December 5, 2022, the CPUC issued a final decision that authorized Cal Am to enter into the amended water purchase agreement, and specifically to increase pumping capacity and reliability of groundwater extraction from the Seaside Groundwater Basin. The final decision sets the cost cap for the proposed facilities at approximately $62 million. Cal Am may seek recovery of amounts above the cost cap in a subsequent rate filing or general rate case. Additionally, the final decision authorizes AFUDC at Cal Am's actual weighted average cost of debt for most of the facilities. On December 30, 2022, Cal Am filed with the CPUC an application for rehearing of the CPUC's December 5, 2022, final decision, and on March 30, 2023, the CPUC issued a decision denying Cal Am's application for rehearing, but adopting its proposed AFUDC for already incurred and future costs. This decision also provided Cal Am the opportunity to serve supplemental testimony to increase its cost cap for certain of the Water Supply Project's extraction wells. The amended water purchase agreement and a memorandum of understanding to negotiate certain milestones related to the expansion of the GWR Project have been signed by the relevant parties. Further hearings were scheduled in a Phase 2 to this CPUC proceeding to focus on updated supply and demand estimates for the Water Supply Project, and Phase 2 testimony was completed in September 2022. On October 23, 2023, a status conference was held to determine procedural steps to conclude the proceeding, and further evidentiary hearings were held in March 2024.

While Cal Am believes that its expenditures to date have been prudent and necessary to comply with the Orders, as well as relevant final decisions of the CPUC related thereto, Cal Am cannot currently predict its ability to recover all of its costs and expenses associated with the Water Supply Project and there can be no assurance that Cal Am will be able to recover all of such costs and expenses in excess of the $112 million in aggregate construction costs, plus applicable AFUDC, previously approved by the CPUC in its 2016 final decision and its December 2022 final decision, as amended by its March 30, 2023, rehearing decision.

Coastal Development Permit Application

In 2018, Cal Am submitted a coastal development permit application (the "Marina Application") to the City of Marina (the "City") for those project components of the Water Supply Project located within the City's coastal zone. Members of the City's Planning Commission, as well as City councilpersons, have publicly expressed opposition to the Water Supply Project. In May 2019, the City issued a notice of final local action based upon the denial by the Planning Commission of the Marina Application. Thereafter, Cal Am appealed this decision to the Coastal Commission, as permitted under the City's code and the California Coastal Act. At the same time, Cal Am submitted an application (the "Original Jurisdiction Application") to the Coastal Commission for a coastal development permit for those project components located within the Coastal Commission's original jurisdiction. After Coastal Commission staff issued reports recommending denial of the Original Jurisdiction Application, noting potential impacts on environmentally sensitive habitat areas and wetlands and possible disproportionate impacts to communities of concern, in September 2020, Cal Am withdrew the Original Jurisdiction Application in order to address the staff's environmental justice concerns. In November 2020, Cal Am refiled the Original Jurisdiction Application.

In October 2022, Cal Am announced a phasing plan for the proposed desalination plant component of the Water Supply Project. The desalination plant and slant wells originally approved by the CPUC would produce up to 6.4 million gallons of desalinated water per day. Under the phased approach, the facilities would initially be constructed to produce up to 4.8 million gallons per day of desalinated water, enough to meet anticipated demand through about 2030, and would limit the number of slant wells initially constructed. As demand increases in the future, desalination facilities would be expanded to meet the additional demand. The phased approach seeks to meet near-term demand by allowing for additional supply as it becomes needed, while also providing an opportunity for regional future public participation and was developed by Cal Am based on feedback received from the community.

In November 2022, the Coastal Commission approved the Marina Application and the Original Jurisdiction Application with respect to the phased development of the proposed desalination plant, subject to compliance with a number of conditions, all of which Cal Am expects to satisfy. In December 2022, the City, Marina Coast Water District ("MCWD"), MCWD's groundwater sustainability agency, and the MPWMD jointly filed a petition for writ of mandate in Monterey County Superior Court against the Coastal Commission, alleging that the Coastal Commission violated the California Coastal Act and the California Environmental Quality Act ("CEQA") in issuing a coastal development permit to Cal Am for construction of the slant wells. Cal Am is named as a real party in interest. On April 24, 2024, the court granted defendants' motion for judgment on the pleadings and dismissed one of four causes of action in the petition. The three remaining claims challenge the Coastal Commission's substantive compliance with certain provisions of CEQA, the California Coastal Act, and due process requirements in considering Cal Am's application. Trial in this matter has been set for November 13, 2024.

Following the issuance of the coastal development permit, Cal Am continues to work constructively with all appropriate agencies to provide necessary information in connection with obtaining the remaining required permits for the Water Supply Project. However, there can be no assurance that the Water Supply Project in its current configuration will be completed on a timely basis, if ever. For the year ended December 31, 2023, Cal Am has complied with the diversion limitations contained in the 2016 Order. Continued compliance with the diversion limitations in 2024 and future years may be impacted by a number of factors, including, without limitation, potential recurrence of drought conditions in California and the exhaustion of water supply reserves, and will require successful development of alternate water supply sources sufficient to meet customer demand. The Orders remain in effect until Cal Am certifies to the SWRCB, and the SWRCB concurs, that Cal Am has obtained a permanent supply of water to substitute for past unauthorized Carmel River diversions. While the Company cannot currently predict the likelihood or result of any adverse outcome associated with these matters, further attempts to comply with the Orders may result in material additional costs and obligations to Cal Am, including fines and penalties against Cal Am in the event of noncompliance with the Orders.

Cal Am's Action for Damages Following Termination of Regional Desalination Project ("RDP")

In 2010, the CPUC had approved the RDP, which was a precursor to the current Water Supply Project and called for the construction of a desalination facility in the City of Marina. The RDP was to be implemented through a Water Purchase Agreement and ancillary agreements (collectively, the "Agreements") among MCWD, Cal Am and the Monterey County Water Resources Agency ("MCWRA"). In 2011, due to a conflict of interest concerning a former member of MCWRA's Board of Directors, MCWRA stated that the Agreements were void, and, as a result, Cal Am terminated the Agreements. In ensuing litigation filed by Cal Am in 2012 to resolve the termination of the RDP, the court in 2015 entered a final judgment agreeing with Cal Am's position that four of the five Agreements are void, and one, the credit line agreement, is not void. As a result of this litigation, Cal Am was permitted to institute further proceedings, discussed below, to determine the amount of damages that may be awarded to Cal Am as a result of the failure of the RDP.

In 2015, Cal Am and MCWRA filed a complaint in San Francisco County Superior Court against MCWD and RMC Water and Environment, a private engineering consulting firm ("RMC"), seeking to recover compensatory, consequential and incidental damages associated with the failure of the RDP, as well as punitive and treble damages, statutory penalties and attorneys' fees. In 2019, MCWD was granted a motion for summary judgment related to the tort claims in the complaint. A settlement as to the non-tort claims was finalized and entered into in March 2020. In July 2020, Cal Am appealed the grant of summary judgment on MCWD's tort claims, and in December 2022, the trial court's decision was reversed with instructions to vacate its prior orders granting MCWD's motions for summary judgment and to enter new orders denying the motions. In February 2023, MCWD filed a petition for review of the appellate decision with the California Supreme Court, which was denied in March 2023. Following a hearing held on August 16, 2024, the court approved supplemental briefing on certain issues and continued the hearing to November 1, 2024. The trial date in this matter remains vacated and will be rescheduled at a later date.

Proposed Acquisition of Monterey System Assets — MPWMD Condemnation Action

Local Agency Formation Commission Litigation

The water system assets of Cal Am located in Monterey, California (the "Monterey system assets") are the subject of a condemnation action by the MPWMD stemming from a November 2018 public ballot initiative. In 2019, the MPWMD issued a preliminary valuation and cost of service analysis report, finding in part that (1) an estimate of the Monterey system assets' total value plus adjustments would be approximately $513 million, (2) the cost of service modeling results indicate significant annual reductions in revenue requirements and projected monthly water bills, and (3) the acquisition of the Monterey system assets by the MPWMD would be economically feasible. In 2020, the MPWMD certified a final environmental impact report, analyzing the environmental impacts of the MPWMD's project to (1) acquire the Monterey system assets through the power of eminent domain, if necessary, and (2) expand its geographic boundaries to include all parts of this system.

In February 2021, the MPWMD filed an application with the Local Agency Formation Commission of Monterey County ("LAFCO") seeking approval to become a retail water provider and annex approximately 58 parcels of land into the MPWMD's boundaries. In June 2021, LAFCO's commissioners voted to require a third-party independent financial study as to the feasibility of an acquisition by the MPWMD of the Monterey system assets. In December 2021, LAFCO's commissioners denied the MPWMD's application to become a retail water provider, determining that the MPWMD does not have the authority to proceed with a condemnation of the Monterey system assets. In April 2022, the MPWMD filed a lawsuit against LAFCO challenging its decision to deny the MPWMD's application seeking approval to become a retail water provider. In June 2022, the court granted, with conditions, a motion by Cal Am to intervene in the MPWMD's lawsuit against LAFCO. In December 2022, the court sustained in part, and denied in part, demurrers that had been filed by LAFCO seeking to dismiss the MPWMD's lawsuit.

On December 11, 2023, the Monterey County Superior Court issued a writ of mandate directing LAFCO to vacate and set aside its original denial of the MPWMD's application to serve as a retail water provider (in conjunction with its effort to acquire the Monterey system assets) and, if requested, to re-hear the application in compliance with all applicable law. The court held that LAFCO incorrectly applied two statutory standards and noted a lack of sufficient evidence to support certain of LAFCO's factual findings. As a result, the LAFCO denial has been nullified and LAFCO will be required to hold another hearing on the MPWMD's application. On February 8, 2024, and February 9, 2024, respectively, Cal Am and LAFCO each filed a notice of appeal with the California Court of Appeal regarding the Monterey County Superior Court's decision to issue the writ of mandate. The MPWMD filed a notice of cross-appeal on February 15, 2024. Cal Am is evaluating potential additional actions to seek to uphold LAFCO's denial of the MPWMD's application, including filing other challenges and/or making suitable presentations at a subsequent LAFCO rehearing.

MPWMD Condemnation Actions

Separate from the proceedings related to the MPWMD's application with LAFCO, by letter dated October 3, 2022, the MPWMD notified Cal Am of a decision to appraise the Monterey system assets and requesting access to a number of Cal Am's properties and documents to assist the MPWMD with such an appraisal. Cal Am responded by letter on October 24, 2022, denying the request for access, stating that the MPWMD does not have the right to appraise Cal Am's system without LAFCO approval to become a retail water provider. On April 28, 2023, Cal Am rejected an offer by the MPWMD to purchase the Monterey system assets for $448.8 million. Over the written and oral objections of Cal Am, at a hearing held on October 10, 2023, the MPWMD adopted a resolution of necessity to authorize it to file an eminent domain lawsuit with respect to the Monterey system assets. On December 15, 2023, the MPWMD filed a lawsuit in Monterey County Superior Court seeking to condemn the Monterey system assets. On February 26, 2024, Cal Am filed a motion requesting the Monterey County Superior Court dismiss the MPWMD's lawsuit seeking to condemn Cal Am's Monterey system assets. Cal Am's motion asserts that the MPWMD lacks legal authorization from both the California legislature and LAFCO to become a retail water provider and the lawsuit improperly seeks to effect a taking of property outside the boundaries of the MPWMD's territory. Hearings on the motion were held on May 3, 2024, and August 23, 2024, and a decision on the motion from the court remains pending.

While the Company cannot currently predict the outcome of the MPWMD's eminent domain lawsuit, the Company believes that, given existing legal precedent related to similar attempts by public agencies in California to take over water systems and its other defenses, Cal Am should be able to defend itself successfully against this lawsuit.

West Virginia Elk River Freedom Industries Chemical Spill

On June 8, 2018, the U.S. District Court for the Southern District of West Virginia granted final approval of a settlement class and global class action settlement (the "Settlement") for all claims and potential claims by all class members (collectively, the "West Virginia Plaintiffs") arising out of the January 2014 Freedom Industries, Inc. chemical spill in West Virginia. The effective date of the Settlement was July 16, 2018. Under the terms and conditions of the Settlement, WVAWC and certain other Company affiliated entities did not admit, and will not admit, any fault or liability for any of the allegations made by the West Virginia Plaintiffs in any of the actions that were resolved.

As of September 30, 2024, $0.5 million of the aggregate Settlement amount of $126 million remains reflected in accrued liabilities, and $0.5 million in an offsetting insurance receivable remains reflected in other current assets on the Consolidated Balance Sheets pending resolution of all asserted actual or potential claims associated with this matter. The amount reflected in accrued liabilities reflects the status of the liability and the offsetting insurance receivable reflected in other current assets, each as of September 30, 2024.

Note 12: Earnings per Common Share

Presented in the table below is a reconciliation of the numerator and denominator for the basic and diluted earnings per share ("EPS") calculations:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator:				
Net income attributable to common shareholders	$ 350	$ 323	$ 812	$ 773
Denominator:				
Weighted-average common shares outstanding—Basic	195	195	195	192
Effect of dilutive common stock equivalents	—	—	—	—
Weighted-average common shares outstanding—Diluted	195	195	195	192

The effect of dilutive common stock equivalents is related to outstanding restricted stock units ("RSUs") and performance stock units ("PSUs") granted under the Company's 2007 Omnibus Equity Compensation Plan and outstanding RSUs and PSUs granted under the Company's 2017 Omnibus Equity Compensation Plan, as well as estimated shares to be purchased under the Company's 2017 Nonqualified Employee Stock Purchase Plan. Less than one million share-based awards were excluded from the computation of diluted EPS for the three and nine months ended September 30, 2024 and 2023, because their effect would have been anti-dilutive under the treasury stock method.

The if-converted method is applied to the Notes issued in June 2023 for computing diluted EPS. For both periods presented, there was no dilution resulting from the Notes. See Note 7—Long-Term Debt for additional information relating to the Notes.

Note 13: Fair Value of Financial Information

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Current assets and current liabilities—The carrying amounts reported on the Consolidated Balance Sheets for current assets and current liabilities, including revolving credit debt, due to the short-term maturities and variable interest rates, approximate their fair values.

Secured seller promissory note from the sale of the Homeowner Services Group—The carrying amount reported on the Consolidated Balance Sheets for the secured seller promissory note, included as part of the consideration from the sale of HOS, is $795 million and $720 million as of September 30, 2024, and December 31, 2023, respectively. On February 2, 2024, the secured seller promissory note from the sale of HOS was amended to increase the principal amount, in full satisfaction of a $75 million contingent cash payment, see Note 5—Acquisitions and Divestitures for additional information. This amount represents the principal amount owed under the secured seller promissory note, for which the Company expects to receive full payment. The accounting fair value measurement of the secured seller promissory note approximated $803 million and $704 million as of September 30, 2024, and December 31, 2023, respectively. The accounting fair value measurement is an estimate that is reflective of changes in benchmark interest rates. The secured seller promissory note is classified as Level 3 within the fair value hierarchy.

Preferred stock with mandatory redemption requirements and long-term debt—The fair values of preferred stock with mandatory redemption requirements and long-term debt are categorized within the fair value hierarchy based on the inputs that are used to value each instrument. The fair value of long-term debt classified as Level 1 is calculated using quoted prices in active markets. Level 2 instruments are valued using observable inputs and Level 3 instruments are valued using observable and unobservable inputs.

Presented in the tables below are the carrying amounts, including fair value adjustments previously recognized in acquisition purchase accounting, and the fair values of the Company's financial instruments:

	As of September 30, 2024				
		At Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 3	$ —	$ —	$ 3	$ 3
Long-term debt	13,135	10,746	1,060	665	12,471

	As of December 31, 2023				
		At Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 3	$ —	$ —	$ 3	$ 3
Long-term debt	12,190	9,575	1,044	757	11,376

Recurring Fair Value Measurements

Presented in the tables below are assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy:

	As of September 30, 2024			
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	$ 50	$ —	$ —	$ 50
Rabbi trust investments	27	—	—	27
Deposits	6	—	—	6
Other investments:				
Money market and other	25	—	—	25
Fixed-income securities	108	7	—	115
Mark-to-market derivative asset	—	1	—	1
Total assets	216	8	—	224
Liabilities:				
Deferred compensation obligations	32	—	—	32
Mark-to-market derivative liability	—	3	—	3
Total liabilities	32	3	—	35
Total assets	$ 184	$ 5	$ —	$ 189

	As of December 31, 2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	$ 34	$ —	$ —	$ 34
Rabbi trust investments	22	—	—	22
Deposits	8	—	—	8
Other investments:				
Money market and other	26	—	—	26
Fixed-income securities	140	6	—	146
Total assets	230	6	—	236
Liabilities:				
Deferred compensation obligations	27	—	—	27
Mark-to-market derivative liability	—	8	—	8
Total liabilities	27	8	—	35
Total assets (liabilities)	$ 203	$ (2)	$ —	$ 201

Restricted funds—The Company's restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operation, maintenance and repair projects.

Rabbi trust investments—The Company's rabbi trust investments consist of equity and index funds from which supplemental executive retirement plan benefits and deferred compensation obligations can be paid. The Company includes these assets in other long-term assets on the Consolidated Balance Sheets.

Deposits—Deposits include escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets on the Consolidated Balance Sheets.

Deferred compensation obligations—The Company's deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. The Company includes such plans in other long-term liabilities on the Consolidated Balance Sheets. The value of the Company's deferred compensation obligations is based on the market value of the participants' notional investment accounts. The notional investments are comprised primarily of mutual funds, which are based on quoted prices for identical assets in active markets.

Mark-to-market derivative assets and liabilities—The Company employs derivative financial instruments in the form of treasury lock agreements, classified as cash flow hedges, in order to fix the interest cost on existing or forecasted debt. The Company uses a calculation of future cash inflows and estimated future outflows, which are discounted, to determine the current fair value. Additional inputs to the present value calculation include the contract terms, counterparty credit risk, interest rates and market volatility.

Other investments—The Company maintains a Voluntary Employees' Beneficiary Association trust for purposes of paying active union employee medical benefits ("Active VEBA"). The investments in the Active VEBA trust primarily consist of money market funds and available-for-sale fixed-income securities.

The money market and other investments have original maturities of three months or less when purchased. The fair value measurement of the money market and other investments is based on quoted prices for identical assets in active markets and therefore included in the recurring fair value measurements hierarchy as Level 1.

The available-for-sale fixed-income securities are primarily investments in U.S. Treasury securities and government bonds. The majority of U.S. Treasury securities and government bonds have been categorized as Level 1 because they trade in highly-liquid and transparent markets. Certain U.S. Treasury securities are based on prices that reflect observable market information, such as actual trade information of similar securities, and are therefore categorized as Level 2, because the valuations are calculated using models which utilize actively traded market data that the Company can corroborate.

The Company includes other investments measured and recorded at fair value on the Consolidated Balance Sheets of $76 million and $62 million in other current assets, as of September 30, 2024, and December 31, 2023, respectively, and $64 million and $111 million in other long-term assets, as of September 30, 2024, and December 31, 2023, respectively. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income until realized.

The following tables summarize the unrealized positions for available-for-sale fixed-income securities:

	As of September 30, 2024			
	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale fixed-income securities	$ 110	$ 8	$ 3	$ 115

	As of December 31, 2023			
	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale fixed-income securities	$ 143	$ 6	$ 3	$ 146

The fair value of the Company's available-for-sale fixed-income securities, summarized by contractual maturities, as of September 30, 2024, is as follows:

	Amount
Other investments - Available-for-sale fixed-income securities	
Less than one year	$ 70
1 year - 5 years	31
5 years - 10 years	6
Greater than 10 years	8
Total	$ 115

Note 14: Leases

The Company has operating and finance leases involving real property, including facilities, utility assets, vehicles, and equipment. Certain operating leases have renewal options ranging from one year to 60 years. The exercise of lease renewal options is at the Company's sole discretion. Renewal options that the Company was reasonably certain to exercise are included in the Company's right-of-use ("ROU") assets. Certain operating leases contain the option to purchase the leased property. The operating leases for real property, vehicles and equipment will expire over the next 40 years, five years, and five years, respectively.

The Company participates in a number of arrangements with various public entities ("Partners") in West Virginia. Under these arrangements, the Company transferred a portion of its utility plant to the Partners in exchange for an equal principal amount of Industrial Development Bonds ("IDBs") issued by the Partners under the Industrial Development and Commercial Development Bond Act. The Company leased back the utility plant under agreements for a period of 30 to 40 years. The Company has recorded these agreements as finance leases in property, plant and equipment, as ownership of the assets will revert back to the Company at the end of the lease term. The carrying value of the finance lease assets was $144 million as of September 30, 2024, and December 31, 2023. The Company determined that the finance lease obligations and the investments in IDBs meet the conditions for offsetting, and as such, are reported net on the Consolidated Balance Sheets and are excluded from the lease disclosure presented below.

The Company also enters into O&M agreements with the Partners. The Company pays an annual fee for use of the Partners' assets in performing under the O&M agreements. The O&M agreements are recorded as operating leases, and future annual use fees of $1 million in 2024, $4 million in 2025 through 2028, and $41 million thereafter, are included in operating lease ROU assets and operating lease liabilities on the Consolidated Balance Sheets.

Rental expenses under operating leases were $3 million and $2 million for the three months ended September 30, 2024 and 2023, respectively, and $9 million and $8 million for the nine months ended September 30, 2024 and 2023, respectively.

For the three and nine months ended September 30, 2024, cash paid for amounts in lease liabilities, which includes operating cash flows from operating leases, was $3 million and $8 million, respectively. For the nine months ended September 30, 2024, there were ROU assets obtained in exchange for new operating lease liabilities of $10 million.

As of September 30, 2024, the weighted-average remaining lease term of the operating leases was 18 years, and the weighted-average discount rate of the operating leases was 5%.

The future maturities of lease liabilities as of September 30, 2024, were $3 million in 2024, $11 million in 2025, $10 million in 2026, $9 million in 2027, $8 million in 2028, and $92 million thereafter. As of September 30, 2024, imputed interest was $48 million.

Note 15: Segment Information

The Company's operating segments are comprised of its businesses which generate revenue, incur expense and have separate financial information which is regularly used by management to make operating decisions, assess performance and allocate resources. The Company operates primarily through one reportable segment, the Regulated Businesses segment. The Regulated Businesses segment also includes inter-segment revenues, costs and interest which are eliminated to reconcile to the Consolidated Statements of Operations.

The Company also operates other businesses, primarily MSG, that do not meet the criteria of a reportable segment in accordance with GAAP and are collectively presented throughout this Form 10-Q within "Other," which is consistent with how management assesses the results of these businesses. Other also includes corporate costs that are not allocated to the Company's Regulated Businesses, interest income related to the secured seller promissory note from the sale of HOS, income from assets not associated with the Regulated Businesses, eliminations of inter-segment transactions and fair value adjustments related to acquisitions that have not been allocated to the Regulated Businesses segment. The adjustments related to the acquisitions are reported in Other as they are excluded from segment performance measures evaluated by management.

Presented in the tables below is summarized segment information:

	As of or for the Three Months Ended September 30, 2024		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 1,219	$ 104	$ 1,323
Depreciation and amortization	196	4	200
Total operating expenses, net	677	103	780
Interest expense	(107)	(25)	(132)
Interest income	6	16	22
Provision for income taxes	102	1	103
Net income (loss) attributable to common shareholders	356	(6)	350
Total assets	29,238	2,552	31,790
Cash paid for capital expenditures	683	—	683

	As of or for the Three Months Ended September 30, 2023		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 1,095	$ 72	$ 1,167
Depreciation and amortization	174	3	177
Total operating expenses, net	614	75	689
Interest expense	(92)	(25)	(117)
Interest income	7	16	23
Provision for income taxes	84	—	84
Net income (loss) attributable to common shareholders	331	(8)	323
Total assets	26,987	2,831	29,818
Cash paid for capital expenditures	619	7	626

	As of or for the Nine Months Ended September 30, 2024		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 3,204	$ 279	$ 3,483
Depreciation and amortization	569	12	581
Total operating expenses, net	1,909	256	2,165
Interest expense	(306)	(81)	(387)
Interest income	14	57	71
Provision for income taxes	233	11	244
Net income (loss) attributable to common shareholders	815	(3)	812
Total assets	29,238	2,552	31,790
Cash paid for capital expenditures	1,954	8	1,962

	As of or for the Nine Months Ended September 30, 2023		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 2,960	$ 242	$ 3,202
Depreciation and amortization	515	8	523
Total operating expenses, net	1,770	227	1,997
Interest expense	(269)	(73)	(342)
Interest income	14	38	52
Provision for income taxes	203	2	205
Net income (loss) attributable to common shareholders	783	(10)	773
Total assets	26,987	2,831	29,818
Cash paid for capital expenditures	1,765	14	1,779

Note 16: Subsequent Events

On October 3, 2024, the Company identified unauthorized activity within its computer networks and systems, which the Company determined to be the result of a cybersecurity incident. Upon identification of this activity, the Company immediately activated its incident response protocols and third-party cybersecurity experts to assist with containment and mitigation activities and to investigate the nature and scope of the incident. The Company also promptly notified law enforcement and has coordinated fully with them. As part of the incident response, and in order to protect its systems and data, the Company disconnected and deactivated certain of its systems, which have since been reconnected and reactivated upon verification that those systems were secure.

The Company believes that all necessary containment, mitigation and restoration activities related to this incident have been completed. None of the Company's water or wastewater facilities were impacted by this incident. Although the Company is unable to predict the full impact of this incident, the Company does not expect that the incident will have a material effect on the Company or its financial condition or results of operations. An understanding of the full scope, nature and impacts of this incident remains subject to an ongoing investigation. In addition, a number of putative class action lawsuits have been filed in connection with this cybersecurity incident, alleging claims related to consumer protection and data privacy. The Company is reviewing these lawsuits and intends to defend itself vigorously.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with the unaudited Consolidated Financial Statements and the Notes thereto included elsewhere in this Form 10-Q, and in the Company's Form 10-K for the year ended December 31, 2023. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about the Company's business, operations and financial performance. The cautionary statements made in this Form 10-Q should be read as applying to all related forward-looking statements whenever they appear in this Form 10-Q. The Company's actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those that are discussed under "Forward-Looking Statements" and elsewhere in this Form 10-Q. The Company has a disclosure committee consisting of members of senior management and other key employees involved in the preparation of the Company's SEC reports. The disclosure committee is actively involved in the review and discussion of the Company's SEC filings.

Overview

American Water is the largest and most geographically diverse, publicly traded water and wastewater utility company in the United States, as measured by both operating revenues and population served. The Company's primary business involves the ownership of utilities that provide water and wastewater services to residential, commercial, industrial, public authority, fire service and sale for resale customers, collectively presented as the "Regulated Businesses." Services provided by the Company's utilities are subject to regulation by multiple state utility commissions or other entities engaged in utility regulation, collectively referred to as public utility commissions ("PUCs"). The Company also operates other businesses not subject to economic regulation by state PUCs that provide water and wastewater services to the U.S. government on military installations, as well as municipalities, collectively presented throughout this Form 10-Q within "Other." See Part I, Item 1—Business in the Company's Form 10-K for additional information.

Financial Results

For the three and nine months ended September 30, 2024, diluted earnings per share, prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), were $1.80 and $4.17, respectively, compared to $1.66 and $4.03 per share in the same periods in 2023. Results for the three and nine months ended September 30, 2024, include increased revenues from the implementation of new rates in the Regulated Businesses from capital and acquisition investments. Results also reflect increased production and employee related costs, increased depreciation and higher financing costs used to fund the current capital investment plan. Results for the three and nine months ended September 30, 2024, reflect the net favorable impact of warmer, drier weather compared to normal, estimated at $0.04 and $0.07 per share, respectively. Results for the three and nine months ended September 30, 2023, reflect the net favorable impact of weather compared to normal, estimated at $0.04 and $0.11 per share, respectively. Results for the three and nine months ended September 30, 2024, include additional interest income of $0.03 and $0.07 per share, respectively, resulting from the early 2024 amendment to the secured seller note from the sale of the former HOS business.

Growth Through Capital Investment in Infrastructure and Regulated Acquisitions

The Company continues to grow its businesses, with the substantial majority of its growth to be achieved in the Regulated Businesses through (i) continued capital investment in the Company's infrastructure to provide safe, clean, reliable and affordable water and wastewater services to its customers, (ii) regulated acquisitions to expand the Company's services to new customers and (iii) organic growth in existing systems. The Company now plans to invest approximately $3.3 billion in these growth strategies in 2024. During the first nine months of 2024, the Company invested $2.0 billion, in the Regulated Businesses, as discussed below.

- $1.9 billion capital investment in the Regulated Businesses for infrastructure improvements and replacements; and
- $119 million to fund acquisitions in the Regulated Businesses, which added approximately 33,400 customers. This includes the acquisition by the Company's Illinois subsidiary of a wastewater treatment plant and related assets from Granite City on March 11, 2024, for a cash purchase price of $86 million, which added approximately 26,000 wastewater customers, including 15,500 customers indirectly in surrounding communities.
- Added approximately 14,700 new customers through organic growth in existing systems.

On September 26, 2024, the Pennsylvania Commonwealth Court issued an order dismissing the appeals of Center Township and Summit Township, which sought to reverse the November 9, 2023, order entered by the PaPUC which approved a settlement agreement without modification with respect to the Company's Pennsylvania subsidiary's application to acquire the wastewater collection and treatment system assets (the "System Assets") from the Butler Area Sewer Authority. On October 29, 2024, the Pennsylvania subsidiary acquired the System Assets from the Butler Area Sewer Authority for a purchase price of $230 million, in cash. This system provides wastewater service for approximately 15,000 customer connections. The acquisition will be accounted for as a business combination in the fourth quarter of 2024 and the preliminary purchase price allocation consists primarily of utility plant.

Effective March 24, 2023, the Company's Pennsylvania subsidiary acquired the rights to buy the wastewater system assets of Towamencin Township, for an aggregate purchase price of $104 million. On August 28, 2024, Towamencin Township and the Company's Pennsylvania subsidiary began the process to terminate the asset purchase agreement. On October 15, 2024, the Pennsylvania Public Utility Commission ("PaPUC") issued a Certificate of Filing, which approves the termination of the asset purchase agreement with respect to this acquisition. As a result, the asset purchase agreement and all rights and obligations of the Company's Pennsylvania subsidiary thereunder have been terminated without penalty.

In December 2020, the Company's Pennsylvania subsidiary entered into an agreement (an acquisition intended to comply with Act 12 (discussed below)) to acquire the wastewater collection system assets of Brentwood Borough ("Brentwood") for a purchase price of approximately $19 million. On February 22, 2024, the PaPUC denied the Pennsylvania subsidiary's application to acquire Brentwood. On April 3, 2024, the Pennsylvania subsidiary filed an appeal of the decision with the Pennsylvania Commonwealth Court, asserting, among other things, the PaPUC did not apply the correct legal standard in its decision. The Company cannot currently predict the outcome of this appeal, and the matter remains pending.

As of October 30, 2024, the Company had entered into 22 agreements with a total aggregate purchase price of $169 million for pending acquisitions in the Regulated Businesses, to add approximately 43,400 additional customers.

On February 7, 2024, the PaPUC proposed the Tentative Supplemental Implementation Order ("TSIO") which seeks to make certain changes to the process by which the PaPUC considers and decides applications to acquire water and wastewater assets under Pennsylvania's existing utility valuation law, known as Act 12 of 2016 ("Act 12"). The TSIO proposes, among other things, a reasonableness review ratio that would be applied to help guide the determination on the overall prudency of the transaction and reasonableness of the purchase price. On July 2, 2024, the PaPUC issued the Final Supplemental Implementation Order ("FSIO"), which largely adopts the provisions in the TSIO. The provisions of the FSIO are not retroactive and apply to acquisition applications filed after July 2, 2024. Separately, legislation has also been introduced in the Pennsylvania House of Representatives that would amend Act 12 and establish new guidelines for evaluating applicable acquisitions. The proposed bills were reported out of committee but have not yet been considered by the full House of Representatives. The Company cannot currently predict the outcome of these or other legislative initiatives, or their impacts, but the Company intends to continue to support outcomes that allow for consolidation and investment in water and wastewater infrastructure in Pennsylvania and in its other regulated jurisdictions.

Other Matters

Environmental, Health and Safety, and Water Quality Regulation

On April 10, 2024, the U.S. Environmental Protection Agency ("EPA") announced a final National Primary Drinking Water Regulation ("NPDWR") for six PFAS, including perfluorooctanoic acid ("PFOA"), perfluorooctane sulfonic acid ("PFOS"), perfluorononanoic acid ("PFNA"), hexafluoropropylene oxide dimer acid ("HFPO-DA", commonly known as "GenX Chemicals"), perfluorohexane sulfonic acid ("PFHxS"), and perfluorobutane sulfonic acid ("PFBS"). The NPDWR for PFAS establishes legally enforceable levels, called Maximum Contaminant Levels ("MCLs"), for PFAS in drinking water. Utilities will be required to complete their initial monitoring for PFAS by 2027, followed by ongoing compliance monitoring. Utilities will be required to comply with the new MCLs by April 2029, implementing solutions to reduce PFAS levels where needed. Beginning in April 2029, utilities that exceed any of the PFAS MCLs will be required to provide notification to the public of the violation.

As previously disclosed, the Company estimates an investment of approximately $1 billion of capital expenditures to install additional treatment facilities over a five-year period in order to comply with the new regulations. Additionally, the Company estimates that it will incur annual operating expenses of up to approximately $50 million related to testing and treatment, with the majority of the operating expenses beginning after the April 2029 compliance deadline. The actual level of capital investment and expenses may differ from these estimates and will be dependent upon market dynamics upon implementation of solutions to comply with the NPDWR for PFAS.

The Company supports sound policies and compliance with the NPDWR for PFAS by all water utilities, while protecting customers and communities from the costly burden of monitoring and mitigating PFAS contamination in water systems. The Company continues to advocate for policies that hold polluters accountable and is participating in the multi-district litigation and other lawsuits filed against certain PFAS manufacturers seeking damages and reimbursement of costs incurred and continuing to be incurred to address contamination of public water supply systems by PFAS. For more information on the PFAS multi-district litigation, see Part II, Item 1—Legal Proceedings—PFAS Multi-District Litigation, in the Company's Form 10-Q for the quarter ended June 30, 2024.

On April 19, 2024, the EPA issued a final rule to designate PFOA and PFOS as hazardous substances under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"). The Company, along with a coalition (Water Coalition Against PFAS) of many other water and wastewater organizations, is actively advocating for and supporting bipartisan legislation that would provide PFAS liability protections under CERCLA for water and wastewater systems, as passive receivers of PFAS, and to hold polluters, and not the public or customers, accountable for PFAS related liability.

On October 8, 2024, the EPA announced a final NPDWR for lead and copper in drinking water known as the Lead and Copper Rule Improvements ("LCRI"). The compliance date ("Compliance Date") for the final rule is estimated to begin in the fourth quarter of 2027, three years after the date of publication in the federal register. The LCRI includes requirements related to (1) achieving lead replacement by the end of 2037, 10 years from the Compliance Date; (2) locating legacy lead pipes; (3) improving tap sampling; (4) lowering the lead action level; and (5) strengthening protections to reduce exposure. The LCRI builds on the Lead and Copper Rule Revisions ("LCRR") that were finalized in 2021 with the LCRI deferring the due date for several requirements from the LCRR for three years. The EPA is requiring water systems to replace all lead and certain galvanized service lines under their control no later than 10 years after the Compliance Date. The Company is in the process of reviewing the specific requirements of the LCRI to determine capital expenditures and operating costs. Capital expenditures and operating costs associated with compliance with federal water quality regulations have been traditionally recognized by PUCs as appropriate for inclusion in establishing rates.

The Company continues to comply with the EPA's existing Lead and Copper Rule requirements by replacing lead service lines in accordance with current scientific guidance and utilizing appropriate corrosion control techniques as necessary to comply with current water quality regulatory requirements.

The Company met the LCRR requirements, effective October 16, 2024, identified as enforceable by the EPA. Remaining LCRR requirements are deferred under the LCRI.

Cybersecurity Incident

On October 3, 2024, the Company identified unauthorized activity within its computer networks and systems, which the Company determined to be the result of a cybersecurity incident. Upon identification of this activity, the Company immediately activated its incident response protocols and third-party cybersecurity experts to assist with containment and mitigation activities and to investigate the nature and scope of the incident. The Company also promptly notified law enforcement and has coordinated fully with them. As part of the incident response, and in order to protect its systems and data, the Company disconnected and deactivated certain of its systems, which have since been reconnected and reactivated upon verification that those systems were secure.

The Company believes that all necessary containment, mitigation and restoration activities related to this incident have been completed. None of the Company's water or wastewater facilities were impacted by this incident. Although the Company is unable to predict the full impact of this incident, the Company does not expect that the incident will have a material effect on the Company or its financial condition or results of operations. An understanding of the full scope, nature and impacts of this incident remains subject to an ongoing investigation. In addition, a number of putative class action lawsuits have been filed in connection with this cybersecurity incident, alleging claims related to consumer protection and data privacy. The Company is reviewing these lawsuits and intends to defend itself vigorously.

Regulatory Matters

General Rate Cases

Presented in the table below are annualized incremental revenues, including reductions for the amortization of the excess accumulated deferred income taxes ("EADIT") that are generally offset in income tax expense, assuming a constant sales volume and customer count, resulting from general rate case authorizations that are effective during 2024:

(In millions)	Effective Date	Amount
General rate cases by state:		
New Jersey	September 15, 2024	$ 80
Pennsylvania	August 7, 2024	99
Indiana, Step Increases	(a)	48
Kentucky	May 3, 2024 (b)	11
West Virginia	February 25, 2024	18
Total general rate case authorizations		$ 256

(a) In 2024, $23 million was effective May 10 and $25 million was effective February 21.

(b) The Kentucky Public Service Commission issued its final order on May 3, 2024. On May 16, 2024, the Kentucky subsidiary filed a petition for rehearing.

On September 4, 2024, the New Jersey Board of Public Utilities ("NJBPU") issued an order approving without modification the stipulation of settlement of a general rate case filed on January 19, 2024, by the Company's New Jersey subsidiary. The general rate case order approved an $80 million annualized increase in the New Jersey subsidiary's water and wastewater revenues, effective September 15, 2024, based on (i) an authorized return on equity of 9.60%, (ii) an authorized rate base of $5.1 billion, (iii) a common equity ratio of 55.00%, and (iv) a long-term debt ratio of 45.00%. The annualized revenue increase is driven primarily by $1.3 billion of incremental capital investments since the New Jersey subsidiary's last general rate case. The New Jersey subsidiary will continue to defer as a regulatory asset or liability, as appropriate, until its next general rate case, the difference between its pension expense and other postretirement benefits expense and those amounts included in base rates.

On July 22, 2024, the PaPUC released an order approving the adjustment of base rates requested in a general rate case filed by the Company's Pennsylvania subsidiary on November 8, 2023. The PaPUC approved a $99 million annualized increase in the Pennsylvania subsidiary's water and wastewater system revenues, excluding previously recovered infrastructure surcharges of $20 million, based on (i) an authorized return on equity of 9.45%, (ii) an authorized rate base of $5.8 billion, which reflects, as requested and included in the general rate case, approximately $1.0 billion in capital investments to be made through mid-2025, (iii) a common equity ratio of 55.30%, and (iv) a long-term debt ratio of 44.70%. Certain acquisitions that were or remain pending, including the acquisition of the wastewater collection and treatment system of the Butler Area Sewer Authority, were excluded from authorized base rates. The new rates were effective on August 7, 2024, except that new wastewater rates for two recently acquired systems, including the City of York, will take effect during the first half of 2025 in accordance with the terms of the relevant acquisition agreements. As part of its approval of this rate adjustment, the PaPUC initiated an investigation into certain reported water service and water quality issues in the Pennsylvania subsidiary's Northeastern service territory, which reports had been provided during public input hearings convened in the general rate case.

On May 3, 2024, the Kentucky Public Service Commission (the "KPSC") issued an order approving the adjustment of base rates requested in a rate case filed on June 30, 2023, by the Company's Kentucky subsidiary. The general rate case order approved an $11 million annualized increase in water revenues, excluding infrastructure surcharge revenues of $10 million which continue to be recovered in the Kentucky subsidiary's approved infrastructure mechanism. The annualized increase is based upon an authorized return on equity of 9.70%, authorized rate base of $489 million, which reflects capital investments through January 31, 2025, and a capital structure with a common equity ratio of 52.22%. Interim rates in this proceeding were effective on February 6, 2024, and the order required that the difference between interim and final approved rates be subject to refund no later than August 26, 2024. On May 16, 2024, the Kentucky subsidiary filed with the KPSC a petition for rehearing of the KPSC's order, seeking clarification and/or correction of certain computational inconsistencies that the Kentucky subsidiary believes are reflected in the KPSC's order with respect to the authorized amount of annualized revenues to be received by the Kentucky subsidiary. The petition for rehearing also requested that any revisions become effective February 6, 2024, with any difference between the adjusted amount and initial approved rates subject to refund or collection. On May 28, 2024, the KPSC granted the request for rehearing, and the Kentucky subsidiary expects resolution of this proceeding later in 2024.

On February 23, 2024, the West Virginia Public Service Commission issued an order approving the adjustment of base rates requested in a rate case filed on May 1, 2023, by the Company's West Virginia subsidiary. The general rate case order approved an $18 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges of $7 million, based on an authorized return on equity of 9.80%, authorized rate base of $886 million, which reflects capital investments through February 2024, a common equity ratio of 50.10% and a long-term debt ratio of 49.90%. The increased water and wastewater revenues related to the base rate adjustment are being driven primarily by (i) $220 million of related water and wastewater system capital investments made since the completion of the West Virginia subsidiary's previous rate case, (ii) higher pension and other postretirement benefit costs, and (iii) increases in production costs, including chemicals, fuel and power costs.

On February 14, 2024, the Indiana Utility Regulatory Commission ("IURC") issued an order approving the adjustment of base rates requested in a rate case filed on March 31, 2023, by the Company's Indiana subsidiary. The general rate case order approved a $66 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges, based on an authorized return on equity of 9.65%, authorized rate base of $1.8 billion, a common equity ratio of 56.15% and a debt ratio of 43.85%. For purposes of determining rates, the adjustment is based on an equity component of 48.19% due to the regulatory practice in Indiana of including certain zero-cost items or tax credit balances in the capital structure calculation. The annualized revenue increase will include three step increases, with $25 million of the increase to be included in rates in February 2024, $23 million in May 2024, and $18 million in May 2025. The increases are being driven primarily by (i) over $875 million of water and wastewater system capital investments since the completion of the Indiana subsidiary's last rate case and through April 30, 2025, (ii) higher pension and other postretirement benefit costs, and (iii) increases in production costs, including chemicals, fuel and power costs.

Pending General Rate Case Filings

On August 2, 2024, the Company's Hawaii subsidiary filed a general rate case requesting approximately $2 million in annualized incremental revenues, which is based on a proposed return on equity of 10.67% and a capital structure with an equity component of 52.11% and debt component of 47.89%. The requested annualized incremental revenue is driven primarily by approximately $41 million in capital investments made and to be made by the Hawaii subsidiary through 2025. The Hawaii subsidiary anticipates that the general rate case proceeding will be completed by mid-2025.

On July 1, 2024, the Company's Missouri subsidiary filed a general rate case requesting approximately $148 million in annualized incremental revenues. The request is based on a return on equity of 10.75% and a capital structure with an equity component of 50.54% and a long-term debt component of 49.46%. The requested annualized incremental revenue is driven primarily by $1.5 billion of incremental capital investments completed and planned by the Missouri subsidiary from January 2023 through May 2026. On July 31, 2024, the Missouri Public Service Commission issued an order establishing the test year in this case, which modified the Missouri subsidiary's original proposal for a future test year through May 2026, and instead reverted to a true-up period through December 31, 2024, with an allowance for proposed discrete adjustments subsequent to this date. On September 6, 2024, the Missouri subsidiary filed supplemental testimony to revise the request to approximately $123 million in annualized incremental revenues and define the specific discrete adjustments proposed through the rate effective period, which lowered the incremental capital investments completed and planned to $1.1 billion through May 2025. The Missouri subsidiary anticipates that the general rate case proceeding will be completed by mid-2025.

On May 1, 2024, the Company's Iowa subsidiary filed a general rate case requesting approximately $21 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 52.57% and debt component of 47.43%. The requested annualized revenue increase is driven primarily by approximately $157 million in capital investments made and to be made by the Iowa subsidiary through March 2026. Interim rates became effective May 11, 2024, with the difference between interim and final approved rates subject to refund. On August 29, 2024, the Iowa subsidiary submitted supplemental testimony consistent with the procedural schedule, which was subsequently challenged by the parties in the proceeding. On October 4, 2024, the Iowa Utilities Commission issued an order that granted the inclusion of the supplemental filing and extended the procedural schedule in the case beyond the statutory ten-month period. The Iowa subsidiary now expects resolution of this proceeding by May 2025.

On May 1, 2024, the Company's Tennessee subsidiary filed a general rate case requesting approximately $14 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 54.52% and debt component of 45.48%. The requested annualized revenue increase is driven primarily by approximately $173 million in capital investments made and to be made by the Tennessee subsidiary through December 2025.

On January 25, 2024, the Company's Illinois subsidiary filed tariffs for new water and wastewater rates. The request seeks a two-step rate increase consisting of aggregate annualized incremental revenue, based on a proposed return on equity of 10.75%, of (i) approximately $132 million, excluding infrastructure surcharges of $5 million, effective January 1, 2025, based on a future test year through December 31, 2025, with average rate base and a capital structure with an equity component of 52.27% and a debt component of 47.73%, and (ii) approximately $16 million effective January 1, 2026, based on a future test year to include end of period rate base and a capital structure with an equity component of 54.43% and a debt component of 45.57%. The requested increases are driven primarily by an estimated $557 million in capital investments to be made by the Illinois subsidiary from January 2024 through December 2025. The request also proposes a treatment and compliance rider to address recovery of future environmental compliance investments, and a modification to the existing volume balancing account mechanism to include full production cost recovery. The requested increase was subsequently updated in the Illinois subsidiary's June 20, 2024, rebuttal filing, with the first step request adjusted to $140 million in additional annualized revenues. On October 24, 2024, a proposed order was issued by the administrative law judge in the proceeding, recommending a 9.84% return on equity and a capital structure with an equity component of 49.00% and a debt component of 51.00%. In addition, the proposed order recommended against the Illinois subsidiary's second-step increase. The recommendations in the proposed order may be accepted, modified or rejected by the Illinois Commerce Commission. A final order in the case is expected no later than December 17, 2024, with new rates implemented January 1, 2025.

On December 15, 2023, the Company's California subsidiary submitted a request to delay by one year its cost of capital filing and maintain its current authorized cost of capital through 2025. On February 2, 2024, the California Public Utilities Commission ("CPUC") granted the request for a one-year extension of the cost of capital filing to May 1, 2025, to set its authorized cost of capital beginning January 1, 2026.

On November 1, 2023, the Company's Virginia subsidiary filed a general rate case requesting $20 million in additional annualized revenues. The request is based on a proposed return on equity of 10.95% and a capital structure with an equity component of 45.67% and a debt and other component of 54.33%. The requested increase is driven by approximately $110 million in capital investments between May 2023 and April 2025. The request also proposed a revenue decoupling mechanism and seeks deferral of certain production cost adjustments. Interim rates became effective May 1, 2024, with the difference between interim and final approved rates subject to refund. On September 20, 2024, the Virginia subsidiary filed with the Virginia State Corporation Commission (the "SCC") a "black box" stipulation of settlement which agreed to a $15 million annualized increase in the Virginia subsidiary's revenues. The stipulation of settlement also agreed, solely for purposes of the Virginia subsidiary's future filings requiring a stated cost of capital and/or capital structure (including its annual information and water and wastewater infrastructure surcharge filings), that its return on equity will be 9.70% and its capital structure will consist of an equity component of 45.67% and a debt and other component of 54.33%. The stipulation of settlement remains subject to SCC review and approval.

On July 1, 2022, the Company's California subsidiary filed a general rate case requesting an increase in 2024 revenue of $56 million and a total increase in revenue over the 2024 to 2026 period of $95 million, all as compared to 2022 revenues. The Company updated its filing in January 2023 to capture the authorized step increase effective January 1, 2023. The filing was also updated to incorporate a decoupling proposal and a revision to the Company's sales and associated variable expense forecast. The revised filing requested additional annualized revenues for the test year 2024 of $37 million, compared to 2023 revenues. This excludes the proposed step rate and attrition rate increase for 2025 and 2026 of $20 million and $19 million, respectively. The total revenue requirement request for the three-year rate case cycle, incorporating updates to present rate revenues and forecasted demand, is $76 million. On November 17, 2023, the California subsidiary filed with the CPUC a partial settlement agreement reached with the CPUC's Public Advocates Office, which would determine the amount of incremental annualized water and wastewater revenue to be received by the California subsidiary to be $20 million in the 2024 test year, $16 million in the 2025 escalation year, and $15 million in the 2026 attrition year. The partial settlement agreement addresses the California subsidiary's revenue requirement request but does not address rate design or certain other matters, such as the requested inclusion and implementation of a revenue stability mechanism to separate the California subsidiary's revenue and water sales. On August 27, 2024, a proposed decision was issued in the proceeding which, among other provisions, recommended adoption by the CPUC of the partial settlement agreement and recommended denial of the California subsidiary's proposed Water Resources Sustainability Plan decoupling mechanism and its currently effective Annual Consumption Adjustment Mechanism. On September 16, 2024, and September 23, 2024, the California subsidiary submitted comments in the proceeding continuing to support its position and recommending the CPUC revise the proposed decision to approve the Water Resource Sustainability Plan decoupling mechanism and maintain the Annual Consumption Adjustment Mechanism. The CPUC will consider the proposed decision and all responsive comments and will issue a final decision in the proceeding, which is currently scheduled for December 5, 2024, with new rates implemented retroactively to January 1, 2024.

Infrastructure Surcharges

A number of states have authorized the use of regulatory mechanisms that permit rates to be adjusted outside of a general rate case for certain costs and investments, such as infrastructure surcharge mechanisms that permit recovery of capital investments to replace aging infrastructure. Presented in the table below are annualized incremental revenues, assuming a constant sales volume and customer count, resulting from infrastructure surcharge authorizations that became effective during 2024:

(In millions)	Effective Date	Amount
Infrastructure surcharges by state:		
Missouri	(b)	$ 47
Pennsylvania	(c)	21
New Jersey	April 30, 2024	9
Iowa	March 1, 2024	1
West Virginia (a)	March 1, 2024	7
Illinois	January 1, 2024	5
Total infrastructure surcharge authorizations		$ 90

(a) On March 5, 2024, the West Virginia Public Service Commission directed the Company's West Virginia subsidiary to interpret the distribution system improvement charge ("DSIC") Order as having included within the DSIC the three-year amortization of a prior authorized deferral associated with a large treatment plant project. The inclusion of this deferral increased the net incremental revenue by $0.7 million to a total of $6.6 million effective March 1, 2024.

(b) In 2024, $21 million was effective July 11 and $26 million was effective January 20.

(c) In 2024, $14 million was effective July 1 and $7 million was effective April 1.

Pending Infrastructure Surcharge Filings

On September 3, 2024, the Company's Missouri subsidiary filed an infrastructure surcharge proceeding requesting $17 million in additional annualized revenues.

On August 30, 2024, the Company's Kentucky subsidiary filed an infrastructure surcharge proceeding requesting $2 million in additional annualized revenues.

On June 28, 2024, the Company's West Virginia subsidiary filed an infrastructure surcharge proceeding requesting $4 million in additional annualized revenues.

Other Regulatory Matters

In September 2020, the CPUC released a decision under its Low-Income Rate Payer Assistance program rulemaking that required the Company's California subsidiary to file a proposal to alter its water revenue adjustment mechanism in its next general rate case filing in 2022, which would have become effective upon receiving an order in the current pending rate case. On October 5, 2020, the Company's California subsidiary filed an application for rehearing of the decision and following the CPUC's denial of its rehearing application in September 2021, the Company's California subsidiary filed a petition for writ of review with the California Supreme Court on October 27, 2021. On May 18, 2022, the California Supreme Court issued a writ of review for the California subsidiary's petition and the petitions filed by other entities challenging the decision. On July 8, 2024, the California Supreme Court issued a unanimous opinion concluding that the CPUC did not regularly seek to exercise its authority when it prohibited water utilities from proposing to continue their water revenue adjustment mechanisms. Accordingly, the California Supreme Court vacated the portion of the CPUC's 2020 decision relating to this prohibition against continuation of such water revenue adjustment mechanisms.

Independent of the judicial challenge, California passed Senate Bill 1469, which allows the CPUC to consider and authorize the implementation of a mechanism that separates the water corporation's revenue and its water sales. Legislation was signed by the Governor on September 30, 2022, and became effective on January 1, 2023. In response to the legislation, on January 27, 2023, the Company's California subsidiary filed an updated application requesting the CPUC to consider a Water Resources Sustainability Plan decoupling mechanism in its pending 2022 general rate case, which, if adopted, will become effective upon receiving an order in the current pending rate case, as discussed above.

Consolidated Results of Operations

Presented in the table below are the Company's consolidated results of operations:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In millions)	2024	2023	2024	2023
Operating revenues	$ 1,323	$ 1,167	$ 3,483	$ 3,202
Operating expenses:				
Operation and maintenance	496	436	1,339	1,248
Depreciation and amortization	200	177	581	523
General taxes	84	76	246	227
Other	—	—	(1)	(1)
Total operating expenses, net	780	689	2,165	1,997
Operating income	543	478	1,318	1,205
Other (expense) income:				
Interest expense	(132)	(117)	(387)	(342)
Interest income	22	23	71	52
Non-operating benefit costs, net	7	9	23	26
Other, net	13	14	31	37
Total other (expense) income	(90)	(71)	(262)	(227)
Income before income taxes	453	407	1,056	978
Provision for income taxes	103	84	244	205
Net income attributable to common shareholders	$ 350	$ 323	$ 812	$ 773

Segment Results of Operations

The Company's operating segments are comprised of its businesses which generate revenue, incur expense and have separate financial information which is regularly used by management to make operating decisions, assess performance and allocate resources. The Company operates its business primarily through one reportable segment, the Regulated Businesses segment. Other, primarily includes MSG, which does not meet the criteria of a reportable segment in accordance with GAAP. Other also includes corporate costs that are not allocated to the Company's Regulated Businesses, interest income related to the secured seller promissory note from the sale of HOS, income from assets not associated with the Regulated Businesses, eliminations of inter-segment transactions and fair value adjustments related to acquisitions that have not been allocated to the Regulated Businesses segment. This presentation is consistent with how management assesses the results of these businesses.

Regulated Businesses Segment

Presented in the table below is financial information for the Regulated Businesses:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In millions)	2024	2023	2024	2023
Operating revenues	$ 1,219	$ 1,095	$ 3,204	$ 2,960
Operation and maintenance	402	368	1,109	1,043
Depreciation and amortization	196	174	569	515
General taxes	79	72	232	213
Other	—	—	(1)	(1)
Other expenses	(84)	(66)	(247)	(204)
Provision for income taxes	102	84	233	203
Net income attributable to common shareholders	$ 356	$ 331	$ 815	$ 783

Operating Revenues

Presented in the tables below is information regarding the main components of the Regulated Businesses' operating revenues:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In millions)	2024	2023	2024	2023
Water services:				
Residential	$ 679	$ 607	$ 1,763	$ 1,622
Commercial	255	231	659	600
Fire service	41	40	123	118
Industrial	50	50	138	126
Public and other	81	72	212	220
Total water services	1,106	1,000	2,895	2,686
Wastewater services:				
Residential	62	58	181	169
Commercial	20	16	52	46
Industrial	4	2	9	6
Public and other	11	8	28	21
Total wastewater services	97	84	270	242
Other (a)	16	11	39	32
Total operating revenues	$ 1,219	$ 1,095	$ 3,204	$ 2,960

(a) Includes other operating revenues consisting primarily of miscellaneous utility charges, fees and rents.

(Gallons in millions)	For the Three Months Ended September 30, 2024	For the Three Months Ended September 30, 2023	For the Nine Months Ended September 30, 2024	For the Nine Months Ended September 30, 2023
Billed water services volumes:				
Residential	51,137	49,452	123,752	123,527
Commercial	24,389	23,481	60,971	59,029
Industrial	10,261	10,559	28,308	28,014
Fire service, public and other	16,263	15,760	41,077	41,042
Total billed water services volumes	102,050	99,252	254,108	251,612

For the three and nine months ended September 30, 2024, operating revenues increased $124 million and $244 million, respectively, primarily due to increases of $83 million and $183 million, respectively, from authorized rate increases, including infrastructure surcharges, principally to recover infrastructure investment in various states. In addition, operating revenues increased $11 million and $29 million for the three and nine months ended September 30, 2024, respectively, from water and wastewater acquisitions, as well as organic growth in existing systems. Also, operating revenues were $7 million and $17 million higher for the three and nine months ended September 30, 2024, respectively, as a result of reduced amortization of EADIT, primarily in the Company's Missouri subsidiary. For the three and nine months ended September 30, 2024, operating revenues increased $20 million from strong demand. For the nine months ended September 30, 2024, these increases were partially offset by a $8 million estimated net decrease due to warm, dry weather in 2023.

Operation and Maintenance

Presented in the table below is information regarding the main components of the Regulated Businesses' operation and maintenance expense:

(In millions)	For the Three Months Ended September 30, 2024	For the Three Months Ended September 30, 2023	For the Nine Months Ended September 30, 2024	For the Nine Months Ended September 30, 2023
Employee-related costs	$ 134	$ 127	$ 405	$ 386
Production costs	133	125	344	324
Operating supplies and services	72	59	196	173
Maintenance materials and supplies	25	22	66	65
Customer billing and accounting	20	19	48	48
Other	18	16	50	47
Total operation and maintenance expense	$ 402	$ 368	$ 1,109	$ 1,043

For the three and nine months ended September 30, 2024, operation and maintenance expense increased $34 million and $66 million, respectively, due to increased production costs primarily from higher purchased water cost and usage, increased employee related costs to support growth and increases in other operating expenses.

Depreciation and Amortization

For the three and nine months ended September 30, 2024, depreciation and amortization increased $22 million and $54 million, respectively, primarily due to additional utility plant placed in service from capital infrastructure investments.

General Taxes

For the three and nine months ended September 30, 2024, general taxes increased $7 million and $19 million, respectively, primarily due to incremental property taxes and New Jersey Gross Receipts Tax.

Other Expenses

For the three and nine months ended September 30, 2024, other expenses increased $18 million and $43 million, respectively, primarily due to higher interest expense from the issuance of incremental long-term debt and a decrease in allowance for funds used during construction in the current periods. These increases were partially offset by decreases in interest expense as a result of lower average commercial paper borrowings and from the repayment of American Water Capital Corp.'s ("AWCC") 3.850% Senior Notes in March 2024.

Provision for Income Taxes

For the three and nine months ended September 30, 2024, the Regulated Businesses' provision for income taxes increased $18 million and $30 million, respectively. The Regulated Businesses' effective income tax rate was 22.3% and 20.2% for the three months ended September 30, 2024 and 2023, respectively, and 22.2% and 20.6% for the nine months ended September 30, 2024 and 2023, respectively. The increase was primarily due to the decrease in the amortization of EADIT pursuant to regulatory orders.

Other

Presented in the table below is information for Other:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In millions)	2024	2023	2024	2023
Operating revenues	$ 104	$ 72	$ 279	$ 242
Operation and maintenance	94	68	230	205
Depreciation and amortization	4	3	12	8
General taxes	5	4	14	14
Interest expense	(25)	(25)	(81)	(73)
Interest income	16	16	57	38
Other income	3	4	9	12
Provision for income taxes	1	—	11	2
Net loss attributable to common shareholders	$ (6)	$ (8)	$ (3)	$ (10)

Operating Revenues

For the three and nine months ended September 30, 2024, operating revenues increased $32 million and $37 million, respectively, primarily due to timing of capital projects in MSG and the Contract Services Group businesses.

Operation and Maintenance

For the three and nine months ended September 30, 2024, operation and maintenance expense increased $26 million and $25 million, respectively, primarily due to costs associated with the increased capital projects in MSG.

Interest Income

For the nine months ended September 30, 2024, interest income increased $19 million, primarily due to the increased interest rate and higher principal balance on the amended secured seller promissory note from the sale of HOS. See Note 5—Acquisitions and Divestitures in the Notes to Consolidated Financial Statements for additional information.

Legislative Updates

During 2024, the Company's regulatory jurisdictions enacted the following legislation that has been approved and is effective as of October 30, 2024:

- New Jersey passed Assembly Bill 4791, establishing the "Resiliency and Environmental System Investment Charge Program," which creates a regulatory mechanism that enables water and wastewater utilities to recover the costs of investment in certain non-revenue producing utility system components that enhance water and wastewater system resiliency, environmental compliance such as existing and proposed requirements for PFAS, safety, and public health. Legislation was signed by the Governor and became effective on January 12, 2024.
- Indiana passed Senate Bill 5, which provides access to a property by a water utility to replace lead service lines when a landowner does not enroll in the offered lead service line replacement program, does not personally replace the customer owned portion of the lead service line following notice and a 45-day waiting period, or is non-responsive to attempted communication after the 45-day waiting period. Legislation was signed by the Governor and became effective on March 11, 2024.
- Iowa passed House File 207, which modifies property tax assessments to exempt property owned or operated by a public or private utility and is directly and primarily used for furnishing sanitary sewage or storm water drainage disposal by a piped collection system to the public for compensation. Legislation was signed by the Governor and became effective on May 2, 2024.

- West Virginia passed House Bill 5617, which adopts standards and authorizes the Public Service Commission to promulgate rules, and also allows for rate recovery, on maintenance, flushing, flow testing and marking of fire hydrants owned by water utilities. Legislation was signed by the Governor and became effective on June 4, 2024.
- Iowa passed House File 2101, which increases the threshold amount required for approval by the Iowa Utilities Commission for water and wastewater utility acquisition filings from $0.5 million to $3 million. Legislation was signed by the Governor and became effective on July 1, 2024.
- Indiana passed Senate Bill 247, which establishes a 30-day filing with the IURC by a utility for an acquisition of a utility with an appraised value and purchase price of less than $3 million. Legislation was signed by the Governor became effective on July 1, 2024.

During 2024, the Company's regulatory jurisdictions enacted the following legislation that has been approved but is not yet effective as of October 30, 2024:

- California passed Senate Bill 219, which amends the Climate Corporate Data Accountability Act and the Climate-Related Financial Risk Act, to allow the California Air Resources Board until July 1, 2025, to issue implementing regulations, including reporting requirements for Scope 3 emissions. Legislation was signed by the Governor on September 27, 2024, and will become effective January 1, 2025.

Condemnation and Eminent Domain

All or portions of the Regulated Businesses' utility assets could be acquired by state, municipal or other government entities through one or more of the following methods: (i) eminent domain (also known as condemnation); (ii) the right of purchase given or reserved by a municipality or political subdivision when the original certificate of public convenience and necessity ("CPCN") was granted; and (iii) the right of purchase given or reserved under the law of the state in which the utility subsidiary was incorporated or from which it received its CPCN. The acquisition consideration related to such a proceeding initiated by a local government may be determined consistent with applicable eminent domain law or may be negotiated or fixed by appraisers as prescribed by the law of the state or the jurisdiction of the particular CPCN.

As such, the Regulated Businesses are periodically subject to condemnation proceedings in the ordinary course of business. For example, the Monterey water service system assets (the "Monterey system assets") of the Company's California subsidiary ("Cal Am") are the subject of a potential condemnation action by the Monterey Peninsula Water Management District (the "MPWMD") stemming from a November 2018 public ballot initiative. For more information on this matter, see Part II, Item 1—Legal Proceedings—Proposed Acquisition of Monterey System Assets — MPWMD Condemnation Action and Note 11—Commitments and Contingencies in the Notes to Consolidated Financial Statements.

Furthermore, the law in certain jurisdictions in which the Regulated Businesses operate provides for eminent domain rights allowing private property owners to file a lawsuit to seek just compensation against a public utility, if a public utility's infrastructure has been determined to be a substantial cause of damage to that property. In these actions, the plaintiff would not have to prove that the public utility acted negligently. In California, for example, lawsuits have been filed in connection with large-scale natural events such as wildfires. Some of these lawsuits have included allegations that infrastructure of certain utilities triggered the natural event that resulted in damage to the property. In some cases, the PUC has allowed certain costs or losses incurred by the utility to be recovered from customers in rates, but in other cases such recovery in rates has been disallowed. Also, the utility may have obtained insurance that could respond to some or all of such losses, although the utility would be at risk for any losses not ultimately subject to rate or insurance recovery or losses that exceed the limits of such insurance.

Tax Matters

On August 16, 2022, the Inflation Reduction Act of 2022 (the "IRA") was signed into law. The IRA contains a 15% Corporate Alternative Minimum Tax ("CAMT") provision on applicable corporations effective January 1, 2023. To determine if a company is considered an applicable corporation subject to CAMT, the company's average adjusted financial statement income ("AFSI") for the three consecutive years preceding the tax year must exceed $1.0 billion. An applicable corporation must make several adjustments to net income when determining AFSI. A corporation paying CAMT is eligible for a future tax credit, which can be utilized when regular tax exceeds CAMT. Based on current guidance, the Company is an applicable corporation subject to CAMT beginning in 2024 and expects to owe CAMT in excess of the regular tax liability. On September 12, 2024, the Internal Revenue Service ("IRS") and the U.S. Treasury issued Notice 2024-66, allowing corporate taxpayers to exclude amounts attributable to the CAMT liability, without penalty, from estimated tax payments with respect to a taxable year that begins during 2024. The Company will include the CAMT liability in its 2024 extension payment due April 15, 2025. The Company will continue to assess the impacts of the IRA as the U.S. Treasury and the IRS provide further guidance.

Liquidity and Capital Resources

For a general overview of the sources and uses of capital resources, see the introductory discussion in Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources in the Company's Form 10-K.

Liquidity needs for capital investment, working capital and other financial commitments are generally funded through cash flows from operations, public and private debt offerings, commercial paper markets, future issuances of equity, and, if and to the extent necessary, borrowings under AWCC's revolving credit facility.

The Company expects to fund future maturities of long-term debt through a combination of external debt and, to the extent available, cash flows from operations. Since the Company expects its capital investments over the next few years to be greater than its cash flows from operating activities, the Company currently plans to fund the excess of its capital investments over its cash flows from operating activities for the next five years through a combination of long-term debt and equity issuances, in addition to the remaining proceeds from the sale of HOS. The remaining proceeds from the sale of HOS include receipt of payments under a secured seller promissory note, plus interest. If necessary, the Company may delay certain capital investments or other funding requirements or pursue financing from other sources to preserve liquidity. In this event, the Company believes it can rely upon cash flows from operations to meet its obligations and fund its minimum required capital investments for an extended period of time.

On February 23, 2024, AWCC completed a $1.4 billion debt offering, which included the sale of $700 million aggregate principal amount of its 5.150% senior notes due 2034 and $700 million aggregate principal amount of its 5.450% senior notes due 2054. At the closing of this offering, AWCC received, after deduction of underwriting discounts and before deduction of offering expenses, net proceeds of approximately $1,381 million. AWCC used the net proceeds of the offering (1) to lend funds to American Water and the Regulated Businesses; (2) to repay at maturity AWCC's 3.850% Senior Notes due 2024; (3) to repay AWCC's commercial paper obligations; and (4) for general corporate purposes.

AWCC's revolving credit facility provides $2.75 billion in aggregate total commitments from a diversified group of financial institutions. The revolving credit facility is used principally to support AWCC's commercial paper program, to provide additional liquidity support, and to provide a sub limit for the issuance of up to $150 million in letters of credit. The maximum aggregate principal amount of short-term borrowings authorized for issuance under AWCC's commercial paper program is $2.6 billion. On October 28, 2024, the termination date of the credit agreement with respect to AWCC's revolving credit facility was extended, as permitted by the terms of the credit agreement, from October 2028 to October 2029. Subject to satisfying certain conditions, the credit agreement permits AWCC to increase the maximum commitment by up to an aggregate of $500 million. As of September 30, 2024, and December 31, 2023, there were no borrowings under the revolving credit facility. As of September 30, 2024, and December 31, 2023, there were $75 million of outstanding letters of credit under the revolving credit facility.

Presented in the tables below is the aggregate credit facility commitments, commercial paper limit and letter of credit availability under the revolving credit facility, as well as the available capacity for each:

	As of September 30, 2024		
(In millions)	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	(215)	(75)	(290)
Remaining availability as of September 30, 2024	$ 2,385	$ 75	$ 2,460

(a) Total remaining availability of $2.5 billion as of September 30, 2024, was accessible through revolver draws.

	As of December 31, 2023		
(In millions)	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	(180)	(75)	(255)
Remaining availability as of December 31, 2023	$ 2,420	$ 75	$ 2,495

(a) Total remaining availability of $2.5 billion as of December 31, 2023, was accessible through revolver draws.

Presented in the table below is the Company's total available liquidity:

(In millions)	Cash and Cash Equivalents	Availability on Revolving Credit Facility	Total Available Liquidity
Available liquidity as of September 30, 2024	$ 127	$ 2,460	$ 2,587
Available liquidity as of December 31, 2023	$ 330	$ 2,495	$ 2,825

The weighted-average interest rate on AWCC's outstanding short-term borrowings was approximately 4.90% and 5.51% at September 30, 2024, and December 31, 2023, respectively.

The Company believes that its ability to access the debt and equity capital markets, the revolving credit facility and cash flows from operations will generate sufficient cash to fund the Company's short-term requirements. The Company believes it has sufficient liquidity and the ability to manage its expenditures, should there be a disruption of the capital and credit markets. However, there can be no assurance that the lenders will be able to meet existing commitments to AWCC under the revolving credit facility, or that AWCC will be able to access the commercial paper or loan markets in the future on acceptable terms or at all. See Note 8—Short-Term Debt in the Notes to Consolidated Financial Statements for additional information.

During the third quarter of 2024, the Company entered into seven treasury lock agreements, with a term of 10 years or 30 years, with notional amounts totaling $330 million. These treasury lock agreements have an average fixed interest rate of 4.02%. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss.

The Company had entered into 15 treasury lock agreements through February 2024, with notional amounts totaling $825 million. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss. In February 2024, the Company terminated the treasury lock agreements realizing a pre-tax net gain of $14 million, to be amortized through Interest expense over a 10-year period or 30-year period, in accordance with the tenor of the notes issued on February 23, 2024.

No ineffectiveness was recognized on hedging instruments for the three and nine months ended September 30, 2024 or 2023.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the warmer months. Presented in the table below is a summary of the major items affecting the Company's cash flows from operating activities:

(In millions)	For the Nine Months Ended September 30, 2024	2023
Net income	$ 812	$ 773
Add (less):		
Depreciation and amortization	581	523
Deferred income taxes and amortization of investment tax credits	84	129
Other non-cash activities (a)	28	(13)
Changes in assets and liabilities (b)	(66)	(31)
Pension contributions	(33)	(34)
Net cash provided by operating activities	$ 1,406	$ 1,347

(a) Includes provision for losses on accounts receivable, pension and non-pension postretirement benefits and other non-cash, net. Details of each component can be found on the Consolidated Statements of Cash Flows.

(b) Changes in assets and liabilities include changes to receivables and unbilled revenues, income tax receivable, accounts payable, accrued liabilities, accrued taxes and other assets and liabilities, net.

For the nine months ended September 30, 2024, cash provided by operating activities increased $59 million, due to an increase in net income and other non-cash activities, offset by changes in deferred income taxes and an increase in other long-term assets.

Cash Flows from Investing Activities

Presented in the table below is a summary of the major items affecting the Company's cash flows from investing activities:

(In millions)	For the Nine Months Ended September 30, 2024	2023
Capital expenditures	$ (1,962)	$ (1,779)
Acquisitions, net of cash acquired	(119)	(36)
Removal costs from property, plant and equipment retirements, net	(112)	(113)
Purchases of available-for-sale fixed-income securities	(113)	—
Proceeds from sales and maturities of available-for-sale fixed-income securities	147	—
Net cash used in investing activities	$ (2,159)	$ (1,928)

For the nine months ended September 30, 2024, cash used in investing activities increased $231 million, primarily due to increased payments for capital expenditures and acquisitions.

Cash Flows from Financing Activities

Presented in the table below is a summary of the major items affecting the Company's cash flows from financing activities:

(In millions)	For the Nine Months Ended September 30, 2024	2023
Proceeds from long-term debt, net of discount	$ 1,416	$ 1,246
Repayments of long-term debt	(474)	(263)
Net proceeds from common stock financing	—	1,688
Net short-term borrowings (repayments) with maturities less than three months	35	(1,175)
Debt issuance costs	(13)	(15)
Dividends paid	(436)	(395)
Other financing activities, net (a)	38	39
Net cash provided by financing activities	$ 566	$ 1,125

(a) Includes proceeds from issuances of common stock under various employee stock plans and the Company's dividend reinvestment and direct stock purchase plan, net of taxes paid, and advances and contributions in aid of construction, net of refunds.

For the nine months ended September 30, 2024, cash provided by financing activities decreased $559 million, primarily due to the repayment of long-term debt in the current period and the proceeds from the common stock financing in March 2023. These decreases were partially offset by a higher issuance of long-term debt and lower repayments of short-term commercial paper borrowings compared to the prior period.

Debt Covenants

The Company's debt agreements contain financial and non-financial covenants. To the extent that the Company is not in compliance with these covenants, an event of default may occur under one or more debt agreements and the Company, or its subsidiaries, may be restricted in its ability to pay dividends, issue new debt or access the revolving credit facility. The long-term debt indentures contain a number of covenants that, among other things, prohibit or restrict the Company from issuing debt secured by the Company's assets, subject to certain exceptions. Failure to comply with any of these covenants could accelerate repayment obligations.

Covenants in certain long-term notes and the revolving credit facility require the Company to maintain a ratio of consolidated debt to consolidated capitalization (as defined in the relevant documents) of not more than 0.70 to 1.00. On September 30, 2024, the Company's ratio was 0.56 to 1.00 and therefore the Company was in compliance with the covenants.

Security Ratings

Presented in the table below are long-term and short-term credit ratings and rating outlooks as of October 30, 2024, as issued by Moody's Ratings on January 29, 2024, and S&P Global Ratings on March 4, 2024:

Securities	Moody's Ratings	S&P Global Ratings
Rating outlook	Stable	Stable
Senior unsecured debt	Baa1	A
Commercial paper	P-2	A-1

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon the ability to generate cash flows in an amount sufficient to service debt and meet investment plans. The Company can provide no assurances that its ability to generate cash flows is sufficient to maintain its existing ratings. The Company does not have any material borrowings that are subject to default or prepayment as a result of the downgrading of these security ratings, although such a downgrading could increase fees and interest charges under its credit facility.

As part of its normal course of business, the Company routinely enters into contracts for the purchase and sale of water, power and other fuel, chemicals and other services. These contracts either contain express provisions or otherwise permit the Company and its counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if the Company is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that the Company must provide collateral to secure its obligations. The Company does not expect to post any collateral which will have a material adverse impact on the Company's results of operations, financial position or cash flows.

Access to the capital markets, including the commercial paper market, and respective financing costs in those markets, may be directly affected by the Company's securities ratings. The Company primarily accesses the debt capital markets, including the commercial paper market, through AWCC. However, the Company has also issued debt through its regulated subsidiaries, primarily in the form of mortgage bonds and tax-exempt securities or borrowings under state revolving funds, to lower the overall cost of debt.

Dividends

For discussion of the Company's dividends, see Note 6—Shareholders' Equity in the Notes to Consolidated Financial Statements for additional information.

Application of Critical Accounting Policies and Estimates

The financial condition of the Company, results of operations and cash flows, as reflected in the Company's Consolidated Financial statements, are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. See Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates in the Company's Form 10-K for a discussion of its critical accounting policies. Additionally, see Note 2—Significant Accounting Policies in the Notes to Consolidated Financial Statements for updates, if any, to the significant accounting policies previously disclosed in the Company's Form 10-K.

Recent Accounting Standards

See Note 2—Significant Accounting Policies in the Notes to Consolidated Financial Statements for a description of new accounting standards recently adopted or pending adoption.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk in the normal course of business, including changes in commodity prices, equity prices and interest rates. For further discussion of its exposure to market risk, see Part II, Item 7A—Quantitative and Qualitative Disclosures about Market Risk in the Company's Form 10-K. There have been no significant changes to the Company's exposure to market risk since December 31, 2023.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

American Water maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective.

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of September 30, 2024.

Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of September 30, 2024, the Company's disclosure controls and procedures were effective at a reasonable level of assurance.

Changes in Internal Control over Financial Reporting

The Company concluded that there have been no changes in internal control over financial reporting that occurred during the three months ended September 30, 2024, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following information updates and amends the information provided in the Company's Form 10-K in Item 3—Legal Proceedings, and in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, in Part II, Item 1—Legal Proceedings. Capitalized terms used but not otherwise defined herein have the meanings set forth in the Company's Form 10-K and Form 10-Q. In accordance with the SEC's disclosure rules, the Company has elected to disclose environmental proceedings involving the Company and a governmental authority if the amount of potential monetary sanctions, exclusive of interest and costs, that the Company reasonably believes will result from such proceeding is $1 million or more.

Alternative Water Supply in Lieu of Carmel River Diversions

Monterey Peninsula Water Supply Project

Water Supply Project Land Acquisition and Slant Well Site Use

The July 15, 2024, trial date previously set by the Monterey County Superior Court for the City's May 2020 lawsuit has been vacated pending receipt of the SWRCB's expert advisory opinion. On September 19, 2024, the SWRCB administrative hearing officer sent a letter to the court advising that the full draft report of the SWRCB advisory opinion addressing the questions referred by the court would not be received until at least November 1, 2024, and would then be likely considered by the SWRCB at its public board meeting scheduled for December 2024. The court therefore scheduled another status conference for January 28, 2025.

Regional Water Quality Control Board Approval of NPDES Permit Amendment

A requirement of the desalination plant that is a key component of the Water Supply Project is the discharge of brine through Monterey One Water's outfall. As a condition to Cal Am's coastal development permit, an amendment of a National Pollutant Discharge Elimination System, or NPDES, permit must be obtained by Monterey One Water as the outfall owner from the Regional Water Quality Control Board (the "RWQCB"). The RWQCB must also determine that the proposed brine discharge complies with the desalination facility requirements under the California Ocean Plan. Working in cooperation with Monterey One Water staff and consultants, Cal Am prepared an application for submission to the RWQCB, which application and submission were approved by Monterey One Water's Board on September 30, 2024.

Cal Am's Action for Damages Following Termination of Regional Desalination Project ("RDP")

Following a hearing held on August 16, 2024, the court approved supplemental briefing on certain issues and continued the hearing to November 1, 2024. The trial date in this matter remains vacated and will be rescheduled at a later date.

Proposed Acquisition of Monterey System Assets — MPWMD Condemnation Action

MPWMD Condemnation Action

On February 26, 2024, Cal Am filed a motion requesting the Monterey County Superior Court dismiss the MPWMD's eminent domain lawsuit seeking to condemn Cal Am's Monterey system assets. Hearings on the motion were held on May 3, 2024, and August 23, 2024, and a decision on the motion from the court remains pending.

Dunbar, West Virginia Water Main Break Class Action Litigation

By order dated June 28, 2024, the Circuit Court set a date of December 3, 2024, for a class trial on issues relating to duty and breach of that duty. This trial will not find class-wide or punitive damages. Before trial begins, mediation is scheduled to take place during the fourth quarter of 2024.

Mountaineer Gas Company Main Break

The West Virginia Business Court has set a trial date of October 7, 2025, for the matter of *Mountaineer Gas Company v. West Virginia-American Water Company.*

On December 6, 2023, WVAWC initiated a process whereby Mountaineer Gas customers could file claims with WVAWC and seek payment from WVAWC of up to $2,000 in damages per affected household for the inconvenience arising from a loss of use of their appliances and documented out-of-pocket expenses as a result of the natural gas outage. In light of the diminishing number of new claims being filed, the claims process was concluded on March 8, 2024. As of September 30, 2024, a total of 593 Mountaineer Gas customers completed this claims process, and each of those customers has been paid by WVAWC an average of approximately $1,500. In return, these customers were required to execute a partial release of liability in favor of WVAWC.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, readers should carefully consider the factors discussed in Item 1A—Risk Factors in the Form 10-K, and in the Company's other filings with the SEC, which could materially affect the Company's business, financial condition, cash flows or future results. Other than as set forth below, there have been no material changes from the risk factors previously disclosed in Item 1A—Risk Factors in the Form 10-K.

We are, and may in the future be, subject to physical and cyber attacks.

As owners and operators of critical infrastructure, we face a heightened risk of physical and cyber attacks from internal or external sources. Our water and wastewater systems may be vulnerable to disability or failures as a result of physical or cyber attacks, acts of war or terrorism, vandalism and other causes. Our operational and information technology systems are also vulnerable to unauthorized external or internal access, due to hacking, viruses, social engineering attacks, acts of violence, war or terrorism, and other causes. Unauthorized access to confidential information located or stored on these systems could negatively and materially impact our reputation, customers, employees, suppliers and other third parties. Such unauthorized access could be caused through, among other causes, failure to follow established policies and procedures on the part of our employees, agents, vendors, suppliers, contractors or other third parties. Further, third parties, including vendors, suppliers and contractors, who perform certain services for us or administer and maintain our networks and sensitive information, could also be targets of cyber attacks and unauthorized access to their operational or information technology systems, and any cyber incident affecting our third-party business partners could significantly disrupt our operations. By way of example, on October 7, 2024, we disclosed that, on October 3, 2024, we identified unauthorized activity within our information technology computer networks and systems, which we determined to be the result of a cybersecurity incident. See Part I, Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations—Other Matters—Cybersecurity Incident for more information regarding this incident.

While we believe that we have appropriate security measures and safeguards to protect our operational and information technology systems, the recent cybersecurity incident that we experienced demonstrated that those protections alone may not prevent a cyber attack, and we cannot guarantee that such protections will be completely successful in preventing or mitigating a future cyber attack. Although the Company is unable to predict the full impact of this incident, the Company does not expect that the incident will have a material effect on the Company or its financial condition or results of operations. An understanding of the full scope, nature and impact of this incident remains subject to our ongoing investigation. The Company remains subject to various risks due to this incident, including those related to the adequacy of processes during the period of disruption, diversion of management's attention, and litigation and regulatory scrutiny, including from putative class action lawsuits that have been filed in connection with the recent incident. Cybersecurity events could cause our operations to be disrupted, property to be damaged, and customer and other confidential information to be lost or stolen; we could experience substantial loss of revenues, response costs and other financial loss; we would likely suffer a loss or redirection of management time, attention and resources from our regular business operations; we may be subject to increased regulatory requirements; we would likely experience litigation and other claims against us; and we may suffer damage to our reputation, any of which could have a negative impact on our business, financial condition, results of operations and cash flows. Applicable laws and regulations or contracts may require us to report cybersecurity events or breaches of securely maintained confidential data, which may cause us to incur costs related to legal claims or proceedings and regulatory fines or penalties. These types of events, and their resulting impacts, either to our facilities or assets, those of third parties, or the industry in general, may also cause us to incur additional security and insurance related costs. In addition, in the ordinary course of business, we collect and retain sensitive information, including personally identifiable information, about our customers and employees. In many cases, we outsource administration of certain functions to vendors that have been and will continue to be targets of cyber attacks. Any theft, loss or fraudulent use of customer, employee or proprietary data as a result of a cyber attack on us or a vendor, supplier, contractor or other third-party business partner could also subject us to significant litigation, liability and costs, as well as adversely impact our reputation with customers and regulators, among others.

We have obtained insurance to provide coverage for a portion of the losses and damages that may result from a physical attack, cyber attack or a security breach, but such insurance is subject to a number of exclusions and may not cover the total loss or damage caused by an attack or a breach. We have incurred, and may continue to incur, certain expenses related to the cybersecurity incident, including expenses to respond to, remediate and investigate this matter. Although we maintain cybersecurity insurance, the full scope of the costs and related impacts of the recent cybersecurity incident remain subject to investigation, and thus we cannot be certain of the extent to which such coverage or third-party indemnification will cover such costs. In the future, adequate insurance may not be available at rates that we believe are reasonable, and the costs of responding to and recovering from a physical attack, cyber attack or security breach incident may not be covered by insurance or recoverable in rates.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In February 2015, the Board of Directors authorized an anti-dilutive stock repurchase program to mitigate the dilutive effect of shares issued through the Company's dividend reinvestment and direct stock purchase plan and employee stock purchase and executive compensation activities. The program allows the Company to purchase up to 10 million shares of its outstanding common stock over an unrestricted period of time in the open market or through privately negotiated transactions. The program is conducted in accordance with Rule 10b-18 of the Exchange Act, and, to facilitate these repurchases, the Company enters into Rule 10b5-1 stock repurchase plans with a third-party broker, which allow the Company to repurchase shares of its common stock at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Subject to applicable regulations, the Company may elect to amend or cancel the program or the stock repurchase parameters at its discretion to manage dilution.

The Company did not repurchase shares of common stock during the three months ended September 30, 2024. From April 1, 2015, the date repurchases under the anti-dilutive stock repurchase program commenced, through September 30, 2024, the Company repurchased an aggregate of 4,860,000 shares of common stock under the program, leaving an aggregate of 5,140,000 shares available for repurchase under this program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
2.1#	Membership Interest Purchase Agreement, dated as of October 28, 2021, by and among American Water Enterprises, LLC, American Water (USA), LLC, American Water Resources, LLC, Pivotal Home Solutions, LLC, American Water Resources Holdings, LLC, American Water Works Company, Inc. and Lakehouse Buyer Inc. (incorporated by reference to Exhibit 2.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed October 29, 2021).
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed November 6, 2008).
3.2	Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, File No. 001-34028, filed December 8, 2022).
4.1	Indenture, dated as of December 4, 2009, between American Water Capital Corp. and Computershare Trust Company, N.A., as successor to Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed December 3, 2010).
4.2	Officers' Certificate of American Water Capital Corp., dated February 23, 2024, establishing the 5.150% Senior Notes due 2034 (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed February 23, 2024).
4.3	Officers' Certificate of American Water Capital Corp., dated February 23, 2024, establishing the 5.450% Senior Notes due 2054 (incorporated by reference to Exhibit 4.2 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed February 23, 2024).
10.1#	Amendment No. 1 to Secured Seller Note Agreement, dated as of February 2, 2024, by and among Lakehouse Bidco Inc., Lakehouse Buyer Inc., American Water Resources, LLC, Pivotal Home Solutions, LLC, American Water Resources Holdings, LLC, American Water Resources of Texas, LLC, American Water Resources of Florida, LLC, and American Water Enterprises, LLC (incorporated by reference to Exhibit 10.1.2 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed February 5, 2024).
*10.2	Extension Agreement, dated as of October 28, 2024, by and among American Water Works Company, Inc., American Water Capital Corp., each of the Lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent.
*10.3	Offer Letter for Employment, dated August 1, 2024, between American Water Works Company, Inc. and M. Susan Hardwick.

Exhibit Number	Exhibit Description
*10.4	Offer Letter for Employment, dated August 1, 2024, between American Water Works Company, Inc. and John C. Griffith.
*10.5	Offer Letter for Employment, dated August 1, 2024, between American Water Works Company, Inc. and David M. Bowler.
*10.6	Offer Letter for Employment, dated August 1, 2024, between American Water Works Company, Inc. and Stacy A. Mitchell.
*10.7	Omnibus Amendment No. 1 to American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2022, 2023 and 2024 Restricted Stock Unit Grants (for Section 16 officers only).
*10.8	Omnibus Amendment No. 1 to Form of American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2022, 2023 and 2024 Performance Stock Unit Grants (PSU-TSR) (for Section 16 officers only).
*10.9	Omnibus Amendment No. 1 to Form of American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2022, 2023 and 2024 Performance Stock Unit Grants (PSU-EPS) (for Section 16 officers only).
*10.10	Omnibus Amendment No. 1 to Form of American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Performance Stock Unit Grants (PSU-ROE) (for Section 16 officers only).
*31.1	Certification of M. Susan Hardwick, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
*31.2	Certification of David M. Bowler, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
**32.1	Certification of M. Susan Hardwick, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
**32.2	Certification of David M. Bowler, Executive Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101).

Certain schedules and exhibits to this agreement have been omitted as permitted by rules or regulations of the SEC. The Company will furnish the omitted schedules and exhibits to the SEC upon request.

* Filed herewith.

** Furnished herewith.

The Membership Interest Purchase Agreement filed as Exhibit 2.1 and the Amendment No. 1 to Secured Seller Note Agreement filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q have been included to provide investors and security holders with information regarding the terms of the respective agreements. The filing of these agreements is not intended to provide any other factual information about the parties thereto, or any of their respective subsidiaries or affiliates. The representations, warranties and covenants contained in the respective agreements (i) were made by the parties thereto only for purposes of that respective agreement and as of specific dates; (ii) were made solely for the benefit of the parties to the respective agreement; (iii) may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures exchanged between the parties in connection with the execution of the respective agreement (such disclosures include information that has been included in public disclosures, as well as additional non-public information); (iv) may have been made for the purposes of allocating contractual risk between the parties to the respective agreements instead of establishing these matters as facts; and (v) may be subject to standards of materiality applicable to the contracting parties to the respective agreements that differ from those applicable to investors.

Investors should not rely on the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or condition of the parties to the respective agreements thereto, or any of their respective subsidiaries or affiliates. Additionally, the representations, warranties, covenants, conditions and other terms of the respective agreements may be subject to subsequent waiver or modification. Moreover, information concerning the subject matter of the representations, warranties and covenants may change after the date of the respective agreement, which subsequent information may or may not be fully reflected in the Company's public disclosures. The respective agreements should not be read alone, but should instead be read in conjunction with the other information regarding the Company that is or will be contained in, or incorporated by reference into, the reports and other documents that are filed by the Company with the SEC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 30th day of October, 2024.

AMERICAN WATER WORKS COMPANY, INC.
(REGISTRANT)

By /s/ M. SUSAN HARDWICK
M. Susan Hardwick
Chief Executive Officer
(Principal Executive Officer)

By /s/ DAVID M. BOWLER
David M. Bowler
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

By /s/ MELISSA K. WIKLE
Melissa K. Wikle
Senior Vice President, Chief Accounting Officer
(Principal Accounting Officer)

Exhibit 10.2

Execution Version

EXTENSION AGREEMENT

This **EXTENSION AGREEMENT** (this "Agreement"), dated as of October 28, 2024, is entered into among **AMERICAN WATER CAPITAL CORP.**, a Delaware corporation ("AWCC" or the "Borrower"), the Lenders party hereto, and Wells Fargo Bank, National Association, as administrative agent for the Lenders (the "Administrative Agent").

RECITALS

AWCC, the Lenders and the Administrative Agent are parties to that certain Third Amended and Restated Credit Agreement, dated as of October 26, 2022 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"). Capitalized terms used herein without definition shall have the meanings ascribed to such terms in the Credit Agreement.

AWCC, the Lenders party thereto and the Administrative Agent previously entered into an Extension Agreement, dated October 26, 2023, whereby the Termination Date was extended by a period of one year, pursuant to Section 2.06(b) of the Credit Agreement.

AWCC has requested its second (and final) one-year extension of the Termination Date pursuant to Section 2.06(b) of the Credit Agreement and each Lender executing this Agreement as an "Extending Lender" (each, an "Extending Lender") has approved such request pursuant to Section 2.06(b) of the Credit Agreement.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Extension. Pursuant to Section 2.06(b) of the Credit Agreement, the Borrower requested an extension of the Termination Date for a period of one year from October 26, 2028 to October 26, 2029 (the "Extension"). As of the date hereof, the Extending Lenders constituting the Required Lenders have agreed to extend (such agreement evidenced by their execution of this Agreement) the Termination Date as to the Extending Lenders for a period of one year from October 26, 2028 to October 26, 2029. Subject to the satisfaction of the conditions in Section 3 hereof, the Termination Date as to the Extending Lenders is hereby extended to October 26, 2029. The Termination Date as to each Non-Extending Lender remains unchanged, subject to the right of the Borrower pursuant to Section 2.06(e) of the Credit Agreement to require any Non-Extending Lender to assign to one or more Eligible Assignees all of its rights and obligations under the Credit Agreement.

2. Limited Waiver. Subject to the satisfaction of the conditions set forth in Section 3 hereof, the Borrower and the Required Lenders hereby waive the various notice and timing requirements contained in Section 2.06(b)-(d) of the Credit Agreement; provided, however, that the deadline for the Administrative Agent to receive Extending Lender consents for purposes of Section 2.06(c) and (d) of the Credit Agreement shall be 5:00 P.M. Eastern time on October 25, 2024.

3. Conditions to Effectiveness. The Extension set forth in Section 1 and the limited waiver set forth in Section 2 shall become effective as of the date (the "Effective Date") on which each of the following conditions precedent shall have been satisfied:

a. The Administrative Agent shall have received counterparts of this Agreement duly executed by AWCC, the Parent (solely for purposes of acknowledging Section 4), the Administrative Agent and Extending Lenders constituting the Required Lenders.

b. AWCC shall have paid the fees and reasonable expenses required to be paid on or prior to the Effective Date under that certain fee letter, dated as of October 28, 2024, among AWCC, Wells Fargo Securities, LLC, and Wells Fargo Bank, National Association, including but not limited to an extension fee equal to 0.06% of each Extending Lender's Commitment as of the Effective Date, and all other fees and reasonable expenses of the Administrative Agent and the Lenders required under the Credit Agreement and any other Loan Document to be paid on or prior to the Effective Date (including reasonable fees and expenses of counsel) in connection with this Agreement.

c. The Administrative Agent shall have received a certificate of a Responsible Officer of AWCC, dated as of the Effective Date, confirming satisfaction of the conditions set forth in Sections 3.02(b) and 3.02(c) of the Credit Agreement (with all references in such Sections to a Borrowing or Swingline Borrowing being deemed to be references to the Extension).

d. The Administrative Agent shall have received copies (certified to be true and complete by a Responsible Officer of the Borrower) of all governmental approvals (if any) required for each of the Borrower and the Parent in connection with the Extension.

4. Reaffirmation. The Parent hereby confirms and agrees that after giving effect to this Agreement and the Extension, the Obligations owing by the Borrower under the Credit Agreement constitute "Debt" under the Support Agreement. The Parent acknowledges that the Administrative Agent and the Extending Lenders would not enter into this Agreement in the absence of the acknowledgment and confirmation contained herein.

5. Full Force and Effect. Except as expressly modified hereby, the Credit Agreement and the Loan Documents shall continue in full force and effect in accordance with the provisions thereof on the date hereof. As used in the Credit Agreement, "hereinafter," "hereto," "hereof," and words of similar import shall, unless the context otherwise requires, mean the Credit Agreement after giving effect to this Agreement. Any reference to the Credit Agreement or any of the other Loan Documents herein or in any such documents shall refer to the Credit Agreement and Loan Documents as modified hereby. This Agreement is limited as specified and shall not constitute or be deemed to constitute an amendment, modification or waiver of any provision of the Credit Agreement or any Loan Document except as expressly set forth herein. This Agreement shall constitute a Loan Document under the terms of the Credit Agreement.

6. Severability of Provisions. Any provision in this Agreement that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be

inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction.

7. Successors and Assigns. The terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto.

8. Expenses. The Borrower agrees on demand (i) to pay all reasonable fees and expenses of counsel to the Administrative Agent, and (ii) to reimburse the Administrative Agent for all reasonable out-of-pocket costs and expenses, in each case, in connection with the preparation, negotiation, execution and delivery of this Agreement.

9. Applicable Law. This Agreement shall be construed in accordance with and governed by the laws of the State of New York.

10. Construction. The headings of the various sections and subsections of this Agreement have been inserted for convenience only and shall not in any way affect the meaning or construction of any of the provisions hereof.

11. Counterparts; Electronic Delivery. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which taken together shall constitute one and the same instrument. Delivery by any party to this Agreement of its signatures hereon through facsimile or other electronic image file (including .pdf) may be relied upon as if this Agreement were physically delivered with an original hand-written signature of such party and shall be binding on such party for all purposes.

[*remainder of page intentionally blank*]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

AMERICAN WATER CAPITAL CORP.

By: /s/ NICHOLAS FURIA
Name: Nicholas Furia
Title: Vice President and Treasurer

Acknowledged and agreed solely as to Section 4 of this Agreement:

AMERICAN WATER WORKS COMPANY, INC.

By: /s/ NICHOLAS FURIA
Name: Nicholas Furia
Title: Vice President and Treasurer

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent, an LC Issuing Bank, a Swingline Bank and an Extending Lender

By: /s/ WHITNEY SHELLENBERG
Name: Whitney Shellenberg
Title: Executive Director

JPMORGAN CHASE BANK, N.A., as an Extending Lender

By: /s/ OSWIN JOSEPH
Name: Oswin Joseph
Title: Executive Director

BANK OF AMERICA, N.A., as an Extending Lender

By: /s/ DILCIA PENA HILL
Name: Dilcia P. Hill
Title: Senior Vice President

MIZUHO BANK, LTD, as an Extending Lender

By: /s/ EDWARD SACKS
Name: Edward Sacks
Title: Managing Director

PNC BANK, NATIONAL ASSOCIATION, as an Extending Lender

By: /s/ MEREDITH L. JERMANN
Name: Meredith L. Jermann
Title: Vice President

ROYAL BANK OF CANADA, as an Extending Lender

By: /s/ MARTINA WELLIK
Name: Martina Wellik
Title: Authorized Signatory

U.S. BANK NATIONAL ASSOCIATION, as an Extending Lender

By: /s/ JAMES O'SHAUGHNESSY
Name: James O'Shaughnessy
Title: Senior Vice President

TD BANK, N.A., as an Extending Lender

By: /s/ M. BERNADETTE COLLINS
Name: Bernadette Collins
Title: Senior Vice President

TRUIST BANK, as an Extending Lender

By: /s/ JUSTIN LIEN
Name: Justin Lien
Title: Director

REGIONS BANK, as an Extending Lender

By: /s/ TEDRICK TARVER
Name: Tedrick Tarver
Title: Director

THE BANK OF NOVA SCOTIA, as an Extending Lender

By: /s/ DAVID DEWAR
Name: David Dewar
Title: Director

THE HUNTINGTON NATIONAL BANK, as an Extending Lender

By: /s/ NOLAN WOODBURY
Name: Nolan Woodbury
Title: Assistant Vice President

THE BANK OF NEW YORK MELLON, as an Extending Lender

By: /s/ MOLLY H. ROSS
Name: Molly H. Ross
Title: Director

THE NORTHERN TRUST COMPANY, as an Extending Lender

By: /s/ ANDREW D. HOLTZ
Name: Andrew D. Holtz
Title: Senior Vice President

Exhibit 10.3

August 1, 2024

Ms. M. Susan Hardwick
[REDACTED]
[REDACTED]

Dear Susan:

On behalf of American Water Works Service Company, Inc., I am confirming your new position as Chief Executive Officer at our Camden, New Jersey headquarters office. The effective date of your new position is August 1, 2024. **The terms described in this offer letter are subject to the recommendation of the Executive Development & Compensation Committee (ED&CC) and the approval of the independent members of the Board of Directors and will not be effective until such approvals are received.**

Base Salary: There will be no change to your current annual salary. Your job performance will be reviewed annually as part of our performance management process, and you may be eligible for a merit increase in 2025.

APP: There will be no change to your 2024 target award eligibility. For reference purposes, the 2024 cycle covers the period beginning on 01/01/2024 through 12/31/2024. Awards from the Annual Performance Plan are based on several company performance objectives, and payments may be higher or lower than target.

LTPP: You remain eligible to receive a performance award under the American Water Long Term Performance Plan.

Benefits: Your current benefits will remain unchanged and in effect, including your vacation accrual. This change in your position is not an IRS Qualified Life Event allowing you to change your American Water benefit elections.

Non-Qualified Deferred Compensation: You will remain eligible to participate in our Non-Qualified Deferred Compensation Plan. The Company may make Employer Matching and Defined Contribution Account contributions as soon as administratively practicable after the end of the applicable plan year. Under the Non-Qualified Deferred Compensation Plan, Employer Matching contributions are immediately vested; Defined Contribution Account contributions will vest after five years of service.

As you will continue to be a Section 16 officer of the Company, American Water may be required to disclose your compensation and/or this offer letter in an SEC filing. Your signature below indicates your acceptance of our offer and your acknowledgment of this requirement of your position.

Sincerely,

Karl F. Kurz
Board Chair
American Water

cc: Melanie Kennedy, Executive Vice President, Chief Human Resources Officer

I, M. Susan Hardwick, understand that my employment with American Water is "at will," which means that I am not guaranteed employment or any particular job for any specified period of time. The Company or I may terminate my employment at any time, for any or no reason, with or without cause.

/s/ M. SUSAN HARDWICK — 8/1/24
Signature — Date

AMERICAN WATER

CONFIDENTIALITY POLICY AND AGREEMENT

This Confidentiality Policy and Agreement ("Confidentiality Agreement") set forth your understanding and agreement with the provisions below which discuss the Company's confidential and propriety information and trade secrets. You acknowledge and agree that you are signing this Confidentiality Agreement for good and adequate consideration including your employment by or continuing employment by American Water or one of its subsidiaries (collectively, the "Company"); the access that the Company is providing you to certain confidential and proprietary information and trade secrets described below; and the Company's willingness to provide you with valuable opportunities, consideration and/or benefits. You further acknowledge that this Confidentially Agreement is in addition to existing American Water policies addressing the handling of sensitive information, cyber and information security.

The Company's Confidentiality Policy

The protection of confidential business information and trade secrets is vital to the interests and the success of the Company. In the course of employment with the Company, employees may create, discover or receive proprietary and/or confidential information including, without limitation: all information about markets, key personnel, operational methods, proprietary intellectual property, real property, plans for future developments, projects in the pipeline, bid information, manuals, books, training materials, forms and procedures, policies, customer or prospective customer lists, customer-related data, marketing plans and strategies, financial information, technical information, technical processes and methods, algorithms, documents relating to any of the foregoing, and other written and oral materials (whether electronic or on hard copy) which are related to the business of the Company (collectively, "Confidential Information"). Confidential Information includes all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if -- (A) the Company has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information. Confidential Information may also be "material, non-public information" as defined by federal securities laws and Company policy, both of which prohibit insider trading. Confidential Information may be contained in Company documents, computer programs, databases, investor documents, trading strategies and analytic models. Confidential Information is related to a product or service used, or intended for use, in interstate or foreign commerce.

Confidential Information must be protected as confidential and not copied, disclosed or used, directly or indirectly, at any time, other than for the Company's benefit (to the extent permitted by law), unless and until such knowledge or information is in the public domain through no wrongful act by the employee(s). Employees must not, directly or indirectly, divulge or disclose to anyone (other than the Company or any of its affiliates or any person employed or designated by such entities who need to know), publish or make use of any Confidential Information without the Company's express prior written consent; provided, however, that nothing shall prohibit or restrict an employee from participating, cooperating, or testifying in any action, investigation, or proceeding with, or providing information to, any governmental agency or legislative body, or any self-regulatory organization (collectively, the "Regulators"). Employees may engage in such activities with the Regulators without notifying or obtaining prior authorization from the Company.

Nothing in this document is intended to interfere with or discourage a good faith disclosure to any governmental entity related to a suspected violation of the law. The employee cannot and will not be held criminally or civilly liable under any federal or state trade secret law for disclosing otherwise protected trade secrets or confidential or proprietary information as long as the disclosure is made in (i) confidence to a federal, state, or local government official, directly or indirectly, or to an attorney and solely for the purpose of reporting or investigating a suspected violation of law; or (ii) a complaint or other document filed in a lawsuit or other proceeding, as long as such filing is made under seal. The Company will not retaliate against any employee in any way for a disclosure made in accordance with the law. In the event that the employee makes a disclosure, and the employee files a lawsuit against the Company alleging that the Company retaliated against the employee because of his or her disclosure, the employee may disclose the relevant trade secret or Confidential Information to his or her attorney and may use the trade secret or Confidential Information in the court proceeding only if (i) the employee ensures that any court filing that includes the trade secret or Confidential Information at issue is made under seal; and (ii) the employee does not otherwise disclose the trade secret or Confidential Information except as required by court order.

Following the cessation of employment, employees shall deliver to the Company all documents or other materials in their possession, including all copies thereof, which contain or are derived from Confidential Information, and they shall not misappropriate, utilize, disclose or infringe upon the Confidential Information of the Company or any of its affiliates (including the recreation or reconstruction of Confidential Information from memory). At the Company's request, employees must delete or destroy any and all files and/or backup files on any personal computer, telephone or storage device used for Company purposes, and, at the Company's request, deliver and/or provide access to the Company to any such devices, cloud systems, disk, thumb and/or flash drives for the Company's review and permit the Company to delete all Confidential or other Company proprietary material contained on such devices. Employees shall not analyze, reverse engineer, or otherwise seek to determine the composition or structure of any sample or device provided by the Company or the method by which such sample or device was created, except as specifically authorized by the Company in writing. All samples and devices, whether in whole or in pieces, shall be returned to the Company at its request.

A breach of this Agreement would cause irreparable harm and significant injury to the Company, the quantification of which is difficult to ascertain. Because such harm and injury could not be compensable by damages alone, the employee agrees that the Company shall have the right to enforce this Agreement by injunction (without the necessity of a bond or other security and without proving actual damages), specific performance, or other equitable relief without prejudice to any other rights and remedies available to the Company in the event of a breach of this Agreement. The employee acknowledges that: (i) an immediate and irreparable injury would occur without a seizure order; (ii) seizure of the Confidential Information would not interrupt the legitimate business operations of the employee; and (iii) an injunction would not prevent the employee from entering into an employment relationship. You further agree that the Company shall be entitled to its reasonable fees and costs if a court of competent jurisdiction issues a preliminary or permanent injunction against you or a court of competent jurisdiction finds that you breached the terms of the Agreement.

The Defend Trade Secrets Act of 2016 ("DTSA") governs the trade secret aspects of this Agreement. Otherwise, the validity, interpretation, and enforceability of this Agreement shall be governed by the laws of the State of New Jersey and the United States of America without regard to the conflict of laws principles thereof. Employees with questions regarding this Confidentiality Agreement or the Company's Confidentiality Policy including questions regarding whether any particular information constitutes "Confidential Information," the public disclosure of which is prohibited hereunder, should contact their supervisor or the Chief Compliance Officer. Employees who improperly use or disclose trade secrets or Confidential Information may be subject to disciplinary action, up to and including termination of employment, as well as legal action, even if the employee does not actually benefit from the disclosed information.

You acknowledge that you (a) have carefully read and considered the provisions of this Confidentiality Agreement and the Company's Confidentiality Policy (b) have had a reasonable opportunity to consult with an independent legal counsel of your choosing, and (c) accept this Confidentiality Agreement on the terms set forth herein, intending to be legally bound. You understand that it is your responsibility to read and comply with its contents and any revisions made to it.

___/s/ M. SUSAN HARDWICK_____
Employee Signature

___M. Susan Hardwick_____
Employee Name (Print)

___8/1/24_____
Date

AMERICAN WATER

INTELLECTUAL PROPERTY AGREEMENT

This Agreement sets forth the agreements between you and AWIP Holdings LLC ("AWIP") concerning any inventions you may make or works you may create in connection with your employment by American Water Works Company, Inc. or one of its affiliates or subsidiaries (collectively, the "Company") and your treatment of the Company's confidential and proprietary information. You acknowledge and agree that you are signing this Agreement for good and adequate consideration including (a) your employment by or continuing employment by the Company; (b) the access that the Company is providing you to certain confidential and proprietary information and trade secrets described below; and (c) the Company's willingness to provide you with valuable opportunities, consideration and/or benefits.

1.0 INVENTIONS. As used in this Agreement, the term "Inventions" means any and all inventions, ideas, and discoveries, including improvements, original works of authorship, designs, formulas, processes, methods, algorithms, computer programs or portions thereof, databases, trade secrets and proprietary information, documentation, and materials made, created, conceived or reduced to practice by you, whether alone or jointly with others.

a. Your Rights in Inventions

(i) Prior Inventions. In the space provided below, or on a separate sheet attached to this Agreement, you may list all Inventions (a) that you made prior to your employment by the Company; (b) that you claim belong to you, or that you claim an ownership interest in, or that you claim any other legal right or title in; and (c) in which you wish to retain any claimed ownership or other legal rights ("Prior Inventions"). If you do list such Prior Inventions, you hereby grant to AWIP a royalty-free, irrevocable, perpetual, worldwide license to any Prior Invention that is now or hereafter infringed by a Company product, process, or method of doing business (hereinafter "AWIP Product") if: (i) you were involved in the development or implementation of that portion of the AWIP Product which infringes your Prior Invention, or (ii) you acquiesced or permitted other Company employees to utilize your Prior Invention in the course of their development or implementation of the AWIP Product, or (iii) upon first learning of the Company's use of your Prior Invention you do not immediately notify in writing the Company's Legal Department of the Company's infringing use of your Prior Invention and the need for a license thereto. If you do not list a Prior Invention, you acknowledge and agree that no such Prior Inventions exist and, to the extent such Prior Inventions do exist, you waive any and all rights or claims of ownership to such Prior Inventions. You understand that your listing of any Prior Invention(s) here does not constitute an acknowledgment by the Company of the existence or extent of such Prior Invention, nor of your ownership of such Prior Inventions. Please do not use this space to disclose an on-going business or project, or a product that you are developing and/or distributing.

Prior Inventions (description and identifying number of patent, copyright, or patent or copyright application, if applicable):

Title Date

Brief Description of Invention

☐ A separate sheet listing Prior Inventions is attached.

(ii) Future Employee inventions. The Company acknowledges and agrees, in accordance with applicable state law, that any Inventions (a) that you develop entirely on your own time; and (b) that you develop without using the Company's equipment, supplies, facilities, or trade secret information; and (c) that do not result from any work performed by you for the Company; and (d) that do not relate, at the time of conception or reduction to practice, to the Company's business or products, or to the Company's actual or demonstrably anticipated research or development, will be owned entirely by you, even if developed by you during the time period in which you are employed by the Company.

b. AWIP's Rights In Inventions

(i) Assignment of Inventions to AWIP. You agree that all Inventions that (a) are developed using the equipment, supplies, facilities, or Proprietary Information of the Company; or (b) result from or are suggested by work performed by you for the Company; or (c) are conceived or reduced to practice during your employment by the Company and relate to the business and products, or to the actual or demonstrably anticipated research or development of the Company ("AWIP Inventions"), are the sole and exclusive property of AWIP, and you hereby assign all your right, title and interest in such AWIP Inventions to AWIP. You agree to perform any and all acts requested by AWIP, if any, to perfect this assignment.

(ii) Disclosure. You agree to make full written disclosure promptly to your direct supervisor at AWIP of any and all AWIP Inventions, and provide access to all notes, materials, source code, or other items related to AWIP Inventions.

(iii) Assignment of Moral Rights to AWIP. In addition, to the extent permitted by law, you hereby transfer and assign any "moral" rights that you may have in any AWIP Invention(s) under any copyright or other law, whether U.S. or foreign. "Moral" rights are defined as (1) the right of attribution (give credit to the author); and (2) the right of integrity in the AWIP Invention (not do something with an AWIP Invention, such as change or add to it, that would have a negative impact on the author's reputation). You agree to waive and never to assert any such "moral" rights in AWIP Inventions during or after the cessation of your employment with by the Company. You agree that AWIP, its subsidiaries, and its licensees are not required to designate you as the author of any AWIP Inventions when distributed. You also agree that the Company retains sole discretion with regard to how and for what purposes, if any, such AWIP Invention(s) are used.

c. Work for Hire

You acknowledge that all original works of authorship that are made by you (solely or jointly with others) within the scope of your employment by the Company, and that are protectable by copyright, are works made for hire, as that term is defined in the United States Copyright Act (17 U.S.C. § 101). To the extent any works created by you within the scope of your employment cannot be characterized as a work made for hire, you hereby grant, assign and transfer to AWIP all right, title and interest, including all intellectual property in and to works.

d. Protection of AWIP Inventions

You agree (at AWIP's expense) to assist AWIP in every proper way to obtain and to help AWIP enforce patents, copyrights, and other legal protections for AWIP Inventions in any and all countries. You agree to promptly execute any documents that American Water may reasonably request, or perform such legal acts that may be required, for use in obtaining or enforcing such patents, copyrights, and other legal protections.

2.0 CONFIDENTIAL AND PROPRIETARY INFORMATION. You understand that your employment by the Company creates a relationship of confidence and trust with respect to any information of a confidential, proprietary, and secret nature that may be disclosed to you or otherwise learned by you in the course of your employment at the Company, including but not limited to any confidential information of third parties disclosed to the Company. Such confidential, proprietary, and secret information includes, but is not limited to, information and material relating to past, present, or future Inventions, marketing plans, manufacturing and product plans, technical specifications, hardware designs and prototypes, business strategies, financial information, forecasts, personnel information, processes, methods, algorithms, and customer lists, and is referred to collectively in this Agreement as "Proprietary Information."

a. Confidentiality of Proprietary Information. You acknowledge and agree that your employment by the Company requires you to keep all Proprietary Information in confidence and trust for the tenure of your employment and thereafter, and that you will not use or disclose Proprietary Information without the written consent of the Company, except as necessary to perform your duties as an employee of the Company. Upon the cessation of your employment with the Company, you will promptly deliver to the Company all documents, electronically-stored information, materials and property of any kind pertaining to your work at the Company, and you agree that you will not take with you any documents, electronically-stored information, materials or copies thereof, or maintain access to such documents, information or materials, through online digital storage services, whether on paper, electronic media or storage devices, magnetic or optical media, or any other medium, containing any Proprietary Information.

3.0 PROTECTION OF INFORMATION OF OTHERS

a. Information of Others. You agree that during your employment by the Company and thereafter, you will not improperly use or disclose to the Company any confidential, or proprietary, or secret information of your former employer(s) or any other person(s). You further agree that you have not, and during your employment with the Company will not, bring any confidential, proprietary or secret information of your former employer(s) or any other person(s) onto the Company's property or place any such information on any of the Company's computer systems or servers.

4.0 NO CONFLICTING OBLIGATIONS

a. No Conflicting Outside Interests. You agree that during your employment by the Company you will not plan or engage in any other employment, occupations, consulting or other business activities or commitments competitive with or directly related to the Company's business or products, or to its actual or demonstrably anticipated research or development, nor will you engage in any other activities that conflict with your employment obligations to the Company. Activities and commitments as used herein do not include passive investments in stocks or other financial instruments.

b. No Conflicting Agreements. You represent to the Company that you have no other commitments that would hinder or prevent the full performance of your duties as a Company employee or your obligations under this Agreement, and you agree not to enter into any such conflicting agreement during your employment by the company.

c. Disclosure of Agreement. You hereby authorize the Company to notify others, including customers of the Company, and any future employers you may have, of the terms of this Agreement and your responsibilities under this Agreement.

5.0 PROTECTION OF COMPANY RELATIONSHIPS

If you are in a supervisory position, except for employees in a supervisory position in California, Illinois, and Oklahoma, during the period of your employment and for a period of one (1) year following the cessation of your employment, you will not, directly or indirectly, solicit, encourage, recruit, or take any action intended to induce Company employees or contractors to terminate their relationship with the Company.

6.0 NO IMPLIED EMPLOYMENT RIGHTS. You understand and agree that no term or provision of this Agreement confers upon you any rights to continued employment by the Company and that no term or provision of this Agreement obligates the Company to employ you for any specific period of time or interferes with or restricts your right or the Company's right to terminate your employment at any time for any reason and with or without notice, or the Company's right to terminate your employment for just cause in accordance with the applicable collective bargaining agreement if you are a union employee.

7.0 EQUITABLE RELIEF. A breach of the provisions of sections 1, 2 or 4 of this Agreement would cause irreparable harm and significant injury to the Company, the quantification of which is difficult to ascertain. Because such harm and injury could not be compensable by damages alone, you agree that the Company will have the right to enforce sections 1, 2 or 4 of this Agreement by injunction (without the necessity of a bond or other security and without proving actual damages), specific performance or other equitable relief in addition to any other rights and remedies available to the Company in the event of a breach of this Agreement. You further agree that the Company shall be entitled to its reasonable fees and costs if a court of competent jurisdiction issues a preliminary or permanent injunction against you or a court of competent jurisdiction finds that you breached the terms of the Agreement.

8.0 GENERAL PROVISIONS

a. Severability. If one or more of the provisions of this Agreement is or are deemed void or unenforceable by law, then the remaining provisions shall continue in full force and effect.

b. Governing Law. This Agreement shall be governed by the laws of the state of New Jersey, without regard to its conflicts of law principles. Any arbitration or judicial action between the parties relating to this Agreement will take place in Camden County, New Jersey, and you and the Company each consent to the personal jurisdiction of and venue in the state and federal courts within Camden County, New Jersey.

c. Successors and Assigns. This Agreement will be binding upon your heirs, executors, administrators and other legal representatives, and will be for the benefit of the Company, its successors and assigns. You specifically acknowledge and agree that the Company may assign its rights and obligations hereunder to any successor entity to the Company by operation of law or otherwise.

d. Entire Agreement. This Agreement, along with Company's CONFIDENTIALITY POLICY AND AGREEMENT of which you are also required to acknowledge receipt and understanding, sets forth the entire agreement between you and the Company relating to the subject matter of this Agreement. No modification to or amendment of this Agreement, nor any waiver of any rights under this Agreement, will be effective unless in writing signed by both you and a Company officer. Any subsequent changes in your duties, salary or compensation will not affect the validity or scope of this Agreement.

e. Compliance with Laws. You agree that you will comply, and do all things necessary for the Company to comply, with the laws and regulations of all governments where the Company does business, and with provisions of contracts between any such government or its contractors and the Company.

9.0 EMPLOYEE ACKNOWLEDGEMENT. You acknowledge that you have carefully read and considered the provisions of this Agreement, have had a reasonable opportunity to consult with an independent legal counsel of your choosing, and accept this Agreement on the terms set forth herein, intending to be legally bound.

EMPLOYEE

/s/ M. SUSAN HARDWICK
Employee Signature

8/1/24
Date

M. Susan Hardwick
Employee Name (Print)

Exhibit 10.4

August 1, 2024

Mr. John Griffith
[REDACTED]
[REDACTED]

Dear John:

On behalf of American Water Works Service Company, Inc., I am pleased to confirm your new position of President reporting to M. Susan Hardwick, Chief Executive Officer, at our Camden, New Jersey headquarters office. The effective date of your new position is August 1, 2024. We are confident that you will find your new position to be personally rewarding and one in which you can make significant contributions to the company. ***The terms of and compensation described in this offer letter are subject to the recommendation of the Executive Development & Compensation Committee (ED&CC) and the approval of the independent members of the Board of Directors and will not be effective until such approvals are received.***

Safety, trust, teamwork, high performance, and environmental leadership define our culture – a culture where every employee feels valued and lives up to his or her potential. Creating an environment where differences are embraced and where every person feels engaged and included makes us safer, stronger, and more successful. We believe that our success is based upon our employees having a vested interest in our business. As a part of our team, you will be tasked with helping make a great company even better – in doing so, you will be rewarded for your contributions. The following is our offer to you:

Base Salary: Your new annual salary will be approximately $950,000.00, which will be paid on a bi-weekly basis in accordance with American Water's standard payroll practices and will be effective August 1, 2024. Your job performance will be reviewed annually as part of our performance management process, and you may be eligible for a merit increase in 2025.

APP: Your target award eligibility will remain at 100%. For reference purposes, the 2024 cycle covers the period beginning on 01/01/2024 through 12/31/2024 and target awards are prorated based on your effective date. Awards from the Annual Performance Plan are based on several company performance objectives, and payments may be higher or lower than target.

LTPP: You remain eligible to receive a performance award under the 2024 American Water Long Term Performance Plan and your target opportunity under this plan will increase to 340% of your base salary. Effective August 1, 2024, you will receive a second set of grants that reflects the difference between your February 2024 grants and the grant amount based on your new base salary and LTPP target percentage.

For reference purposes, awards are currently granted under the terms and conditions of the Company's 2017 Omnibus Equity Compensation Plan (the "Plan"), in the form of restricted stock units and performance stock units. In the event of any conflict between your offer letter and the terms of the award grant documents and the Plan, the terms of the award documents and the Plan will govern.

Benefits: Your current benefits will remain unchanged and in effect, including your vacation accrual. This change in your position is not an IRS Qualified Life Event allowing you to change your American Water benefit elections, however, it is a notable event in your life. Please take this opportunity to review your health and welfare benefits and 401(k) elections to see how this transition impacts your coverage (e.g., company paid life insurance amount, HSA election, 401(k) paycheck election, beneficiary designations, etc.).

In addition to the benefits you currently hold, American Water believes your health is of critical importance for your family, our customers, shareholders, and the employees you lead. To help you take the best possible care of your health, we also have a company-sponsored Executive Health Program for our key leaders. The program focuses on your physical well-being and long-term health and consists of a thorough risk-factor analysis, advanced diagnostic screenings, extensive laboratory testing, and ongoing coaching and support. Additional services are available throughout the year, including voluntary primary care services.

Non-Qualified Deferred Compensation: You will remain eligible to participate in our Non-Qualified Deferred Compensation Plan. The Company may make Employer Matching and Defined Contribution Account contributions as soon as administratively practicable after the end of the applicable plan year. Under the Non-Qualified Deferred Compensation Plan, Employer Matching contributions are immediately vested; Defined Contribution Account contributions will vest after five years of service.

As you will continue to be a Section 16 officer of the Company, American Water may be required to disclose your compensation and/or this offer letter in an SEC filing. Your signature below indicates your acceptance of our offer and your acknowledgment of this requirement of your position.

We wish you the best of luck in your new role and future opportunities with American Water!

Sincerely,

M. Susan Hardwick
Chief Executive Officer
American Water

cc: Melanie Kennedy, Executive Vice President, Chief Human Resources Officer

I, John Griffith, understand that my employment with American Water is "at will," which means that I am not guaranteed employment or any particular job for any specified period of time. The Company or I may terminate my employment at any time, for any or no reason, with or without cause.

/s/ JOHN GRIFFITH 7/31/24
Signature Date

AMERICAN WATER

CONFIDENTIALITY POLICY AND AGREEMENT

This Confidentiality Policy and Agreement ("Confidentiality Agreement") set forth your understanding and agreement with the provisions below which discuss the Company's confidential and propriety information and trade secrets. You acknowledge and agree that you are signing this Confidentiality Agreement for good and adequate consideration including your employment by or continuing employment by American Water or one of its subsidiaries (collectively, the "Company"); the access that the Company is providing you to certain confidential and proprietary information and trade secrets described below; and the Company's willingness to provide you with valuable opportunities, consideration and/or benefits. You further acknowledge that this Confidentially Agreement is in addition to existing American Water policies addressing the handling of sensitive information, cyber and information security.

The Company's Confidentiality Policy

The protection of confidential business information and trade secrets is vital to the interests and the success of the Company. In the course of employment with the Company, employees may create, discover or receive proprietary and/or confidential information including, without limitation: all information about markets, key personnel, operational methods, proprietary intellectual property, real property, plans for future developments, projects in the pipeline, bid information, manuals, books, training materials, forms and procedures, policies, customer or prospective customer lists, customer-related data, marketing plans and strategies, financial information, technical information, technical processes and methods, algorithms, documents relating to any of the foregoing, and other written and oral materials (whether electronic or on hard copy) which are related to the business of the Company (collectively, "Confidential Information"). Confidential Information includes all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if -- (A) the Company has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information. Confidential Information may also be "material, non-public information" as defined by federal securities laws and Company policy, both of which prohibit insider trading. Confidential Information may be contained in Company documents, computer programs, databases, investor documents, trading strategies and analytic models. Confidential Information is related to a product or service used, or intended for use, in interstate or foreign commerce.

Confidential Information must be protected as confidential and not copied, disclosed or used, directly or indirectly, at any time, other than for the Company's benefit (to the extent permitted by law), unless and until such knowledge or information is in the public domain through no wrongful act by the employee(s). Employees must not, directly or indirectly, divulge or disclose to anyone (other than the Company or any of its affiliates or any person employed or designated by such entities who need to know), publish or make use of any Confidential Information without the Company's express prior written consent; provided, however, that nothing shall prohibit or restrict an employee from participating, cooperating, or testifying in any action, investigation, or proceeding with, or providing information to, any governmental agency or legislative body, or any self-regulatory organization (collectively, the "Regulators"). Employees may engage in such activities with the Regulators without notifying or obtaining prior authorization from the Company.

Nothing in this document is intended to interfere with or discourage a good faith disclosure to any governmental entity related to a suspected violation of the law. The employee cannot and will not be held criminally or civilly liable under any federal or state trade secret law for disclosing otherwise protected trade secrets or confidential or proprietary information as long as the disclosure is made in (i) confidence to a federal, state, or local government official, directly or indirectly, or to an attorney and solely for the purpose of reporting or investigating a suspected violation of law; or (ii) a complaint or other document filed in a lawsuit or other proceeding, as long as such filing is made under seal. The Company will not retaliate against any employee in any way for a disclosure made in accordance with the law. In the event that the employee makes a disclosure, and the employee files a lawsuit against the Company alleging that the Company retaliated against the employee because of his or her disclosure, the employee may disclose the relevant trade secret or Confidential Information to his or her attorney and may use the trade secret or Confidential Information in the court proceeding only if (i) the employee ensures that any court filing that includes the trade secret or

Confidential Information at issue is made under seal; and (ii) the employee does not otherwise disclose the trade secret or Confidential Information except as required by court order.

Following the cessation of employment, employees shall deliver to the Company all documents or other materials in their possession, including all copies thereof, which contain or are derived from Confidential Information, and they shall not misappropriate, utilize, disclose or infringe upon the Confidential Information of the Company or any of its affiliates (including the recreation or reconstruction of Confidential Information from memory). At the Company's request, employees must delete or destroy any and all files and/or backup files on any personal computer, telephone or storage device used for Company purposes, and, at the Company's request, deliver and/or provide access to the Company to any such devices, cloud systems, disk, thumb and/or flash drives for the Company's review and permit the Company to delete all Confidential or other Company proprietary material contained on such devices. Employees shall not analyze, reverse engineer, or otherwise seek to determine the composition or structure of any sample or device provided by the Company or the method by which such sample or device was created, except as specifically authorized by the Company in writing. All samples and devices, whether in whole or in pieces, shall be returned to the Company at its request.

A breach of this Agreement would cause irreparable harm and significant injury to the Company, the quantification of which is difficult to ascertain. Because such harm and injury could not be compensable by damages alone, the employee agrees that the Company shall have the right to enforce this Agreement by injunction (without the necessity of a bond or other security and without proving actual damages), specific performance, or other equitable relief without prejudice to any other rights and remedies available to the Company in the event of a breach of this Agreement. The employee acknowledges that: (i) an immediate and irreparable injury would occur without a seizure order; (ii) seizure of the Confidential Information would not interrupt the legitimate business operations of the employee; and (iii) an injunction would not prevent the employee from entering into an employment relationship. You further agree that the Company shall be entitled to its reasonable fees and costs if a court of competent jurisdiction issues a preliminary or permanent injunction against you or a court of competent jurisdiction finds that you breached the terms of the Agreement.

The Defend Trade Secrets Act of 2016 ("DTSA") governs the trade secret aspects of this Agreement. Otherwise, the validity, interpretation, and enforceability of this Agreement shall be governed by the laws of the State of New Jersey and the United States of America without regard to the conflict of laws principles thereof. Employees with questions regarding this Confidentiality Agreement or the Company's Confidentiality Policy including questions regarding whether any particular information constitutes "Confidential Information," the public disclosure of which is prohibited hereunder, should contact their supervisor or the Chief Compliance Officer. Employees who improperly use or disclose trade secrets or Confidential Information may be subject to disciplinary action, up to and including termination of employment, as well as legal action, even if the employee does not actually benefit from the disclosed information.

You acknowledge that you (a) have carefully read and considered the provisions of this Confidentiality Agreement and the Company's Confidentiality Policy (b) have had a reasonable opportunity to consult with an independent legal counsel of your choosing, and (c) accept this Confidentiality Agreement on the terms set forth herein, intending to be legally bound. You understand that it is your responsibility to read and comply with its contents and any revisions made to it.

__/s/ JOHN GRIFFITH_____
Employee Signature

__John Griffith_____
Employee Name (Print)

__7/31/24_____
Date

AMERICAN WATER

INTELLECTUAL PROPERTY AGREEMENT

This Agreement sets forth the agreements between you and AWIP Holdings LLC ("AWIP") concerning any inventions you may make or works you may create in connection with your employment by American Water Works Company, Inc. or one of its affiliates or subsidiaries (collectively, the "Company") and your treatment of the Company's confidential and proprietary information. You acknowledge and agree that you are signing this Agreement for good and adequate consideration including (a) your employment by or continuing employment by the Company; (b) the access that the Company is providing you to certain confidential and proprietary information and trade secrets described below; and (c) the Company's willingness to provide you with valuable opportunities, consideration and/or benefits.

1.0 INVENTIONS. As used in this Agreement, the term "Inventions" means any and all inventions, ideas, and discoveries, including improvements, original works of authorship, designs, formulas, processes, methods, algorithms, computer programs or portions thereof, databases, trade secrets and proprietary information, documentation, and materials made, created, conceived or reduced to practice by you, whether alone or jointly with others.

a. Your Rights in Inventions

(i) Prior Inventions. In the space provided below, or on a separate sheet attached to this Agreement, you may list all Inventions (a) that you made prior to your employment by the Company; (b) that you claim belong to you, or that you claim an ownership interest in, or that you claim any other legal right or title in; and (c) in which you wish to retain any claimed ownership or other legal rights ("Prior Inventions"). If you do list such Prior Inventions, you hereby grant to AWIP a royalty-free, irrevocable, perpetual, worldwide license to any Prior Invention that is now or hereafter infringed by a Company product, process, or method of doing business (hereinafter "AWIP Product") if: (i) you were involved in the development or implementation of that portion of the AWIP Product which infringes your Prior Invention, or (ii) you acquiesced or permitted other Company employees to utilize your Prior Invention in the course of their development or implementation of the AWIP Product, or (iii) upon first learning of the Company's use of your Prior Invention you do not immediately notify in writing the Company's Legal Department of the Company's infringing use of your Prior Invention and the need for a license thereto. If you do not list a Prior Invention, you acknowledge and agree that no such Prior Inventions exist and, to the extent such Prior Inventions do exist, you waive any and all rights or claims of ownership to such Prior Inventions. You understand that your listing of any Prior Invention(s) here does not constitute an acknowledgment by the Company of the existence or extent of such Prior Invention, nor of your ownership of such Prior Inventions. Please do not use this space to disclose an on-going business or project, or a product that you are developing and/or distributing.

Prior Inventions (description and identifying number of patent, copyright, or patent or copyright application, if applicable):

Title Date

Brief Description of Invention

☐ A separate sheet listing Prior Inventions is attached.

(ii) Future Employee inventions. The Company acknowledges and agrees, in accordance with applicable state law, that any Inventions (a) that you develop entirely on your own time; and (b) that you develop without using the Company's equipment, supplies, facilities, or trade secret information; and (c) that do not result from any work performed by you for the Company; and (d) that do not relate, at the time of conception or reduction to practice, to the Company's business or products, or to the Company's actual or demonstrably anticipated research or development, will be owned entirely by you, even if developed by you during the time period in which you are employed by the Company.

b. AWIP's Rights In Inventions

(i) Assignment of Inventions to AWIP. You agree that all Inventions that (a) are developed using the equipment, supplies, facilities, or Proprietary Information of the Company; or (b) result from or are suggested by work performed by you for the Company; or (c) are conceived or reduced to practice during your employment by the Company and relate to the business and products, or to the actual or demonstrably anticipated research or development of the Company ("AWIP Inventions"), are the sole and exclusive property of AWIP, and you hereby assign all your right, title and interest in such AWIP Inventions to AWIP. You agree to perform any and all acts requested by AWIP, if any, to perfect this assignment.

(ii) Disclosure. You agree to make full written disclosure promptly to your direct supervisor at AWIP of any and all AWIP Inventions, and provide access to all notes, materials, source code, or other items related to AWIP Inventions.

(iii) Assignment of Moral Rights to AWIP. In addition, to the extent permitted by law, you hereby transfer and assign any "moral" rights that you may have in any AWIP Invention(s) under any copyright or other law, whether U.S. or foreign. "Moral" rights are defined as (1) the right of attribution (give credit to the author); and (2) the right of integrity in the AWIP Invention (not do something with an AWIP Invention, such as change or add to it, that would have a negative impact on the author's reputation). You agree to waive and never to assert any such "moral" rights in AWIP Inventions during or after the cessation of your employment with by the Company. You agree that AWIP, its subsidiaries, and its licensees are not required to designate you as the author of any AWIP Inventions when distributed. You also agree that the Company retains sole discretion with regard to how and for what purposes, if any, such AWIP Invention(s) are used.

c. Work for Hire

You acknowledge that all original works of authorship that are made by you (solely or jointly with others) within the scope of your employment by the Company, and that are protectable by copyright, are works made for hire, as that term is defined in the United States Copyright Act (17 U.S.C. § 101). To the extent any works created by you within the scope of your employment cannot be characterized as a work made for hire, you hereby grant, assign and transfer to AWIP all right, title and interest, including all intellectual property in and to works.

d. Protection of AWIP Inventions

You agree (at AWIP's expense) to assist AWIP in every proper way to obtain and to help AWIP enforce patents, copyrights, and other legal protections for AWIP Inventions in any and all countries. You agree to promptly execute any documents that American Water may reasonably request, or perform such legal acts that may be required, for use in obtaining or enforcing such patents, copyrights, and other legal protections.

2.0 CONFIDENTIAL AND PROPRIETARY INFORMATION. You understand that your employment by the Company creates a relationship of confidence and trust with respect to any information of a confidential, proprietary, and secret nature that may be disclosed to you or otherwise learned by you in the course of your employment at the Company, including but not limited to any confidential information of third parties disclosed to the Company. Such confidential, proprietary, and secret information includes, but is not limited to, information and material relating to past, present, or future Inventions, marketing plans, manufacturing and product plans, technical specifications, hardware designs and prototypes, business strategies, financial information, forecasts, personnel information, processes, methods, algorithms, and customer lists, and is referred to collectively in this Agreement as "Proprietary Information."

a. Confidentiality of Proprietary Information. You acknowledge and agree that your employment by the Company requires you to keep all Proprietary Information in confidence and trust for the tenure of your employment and thereafter, and that you will not use or disclose Proprietary Information without the written consent of the Company, except as necessary to perform your duties as an employee of the Company. Upon the cessation of your employment with the Company, you will promptly deliver to the Company all documents, electronically-stored information, materials and property of any kind pertaining to your work at the Company, and you agree that you will not take with you any documents, electronically-stored information, materials or copies thereof, or maintain access to such documents, information or materials, through online digital storage services, whether on paper, electronic media or storage devices, magnetic or optical media, or any other medium, containing any Proprietary Information.

3.0 PROTECTION OF INFORMATION OF OTHERS

a. Information of Others. You agree that during your employment by the Company and thereafter, you will not improperly use or disclose to the Company any confidential, or proprietary, or secret information of your former employer(s) or any other person(s). You further agree that you have not, and during your employment with the Company will not, bring any confidential, proprietary or secret information of your former employer(s) or any other person(s) onto the Company's property or place any such information on any of the Company's computer systems or servers.

4.0 NO CONFLICTING OBLIGATIONS

a. No Conflicting Outside Interests. You agree that during your employment by the Company you will not plan or engage in any other employment, occupations, consulting or other business activities or commitments competitive with or directly related to the Company's business or products, or to its actual or demonstrably anticipated research or development, nor will you engage in any other activities that conflict with your employment obligations to the Company. Activities and commitments as used herein do not include passive investments in stocks or other financial instruments.

b. No Conflicting Agreements. You represent to the Company that you have no other commitments that would hinder or prevent the full performance of your duties as a Company employee or your obligations under this Agreement, and you agree not to enter into any such conflicting agreement during your employment by the company.

c. Disclosure of Agreement. You hereby authorize the Company to notify others, including customers of the Company, and any future employers you may have, of the terms of this Agreement and your responsibilities under this Agreement.

5.0 PROTECTION OF COMPANY RELATIONSHIPS

If you are in a supervisory position, except for employees in a supervisory position in California, Illinois, and Oklahoma, during the period of your employment and for a period of one (1) year following the cessation of your employment, you will not, directly or indirectly, solicit, encourage, recruit, or take any action intended to induce Company employees or contractors to terminate their relationship with the Company.

6.0 NO IMPLIED EMPLOYMENT RIGHTS. You understand and agree that no term or provision of this Agreement confers upon you any rights to continued employment by the Company and that no term or provision of this Agreement obligates the Company to employ you for any specific period of time or interferes with or restricts your right or the Company's right to terminate your employment at any time for any reason and with or without notice, or the Company's right to terminate your employment for just cause in accordance with the applicable collective bargaining agreement if you are a union employee.

7.0 EQUITABLE RELIEF. A breach of the provisions of sections 1, 2 or 4 of this Agreement would cause irreparable harm and significant injury to the Company, the quantification of which is difficult to ascertain. Because such harm and injury could not be compensable by damages alone, you agree that the Company will have the right to enforce sections 1, 2 or 4 of this Agreement by injunction (without the necessity of a bond or other security and without proving actual damages), specific performance or other equitable relief in addition to any other rights and remedies available to the Company in the event of a breach of this Agreement. You further agree that the Company shall be entitled to its reasonable fees and costs if a court of competent jurisdiction issues a preliminary or permanent injunction against you or a court of competent jurisdiction finds that you breached the terms of the Agreement.

8.0 GENERAL PROVISIONS

a. Severability. If one or more of the provisions of this Agreement is or are deemed void or unenforceable by law, then the remaining provisions shall continue in full force and effect.

b. Governing Law. This Agreement shall be governed by the laws of the state of New Jersey, without regard to its conflicts of law principles. Any arbitration or judicial action between the parties relating to this Agreement will take place in Camden County, New Jersey, and you and the Company each consent to the personal jurisdiction of and venue in the state and federal courts within Camden County, New Jersey.

c. Successors and Assigns. This Agreement will be binding upon your heirs, executors, administrators and other legal representatives, and will be for the benefit of the Company, its successors and assigns. You specifically acknowledge and agree that the Company may assign its rights and obligations hereunder to any successor entity to the Company by operation of law or otherwise.

d. Entire Agreement. This Agreement, along with Company's CONFIDENTIALITY POLICY AND AGREEMENT of which you are also required to acknowledge receipt and understanding, sets forth the entire agreement between you and the Company relating to the subject matter of this Agreement. No modification to or amendment of this Agreement, nor any waiver of any rights under this Agreement, will be effective unless in writing signed by both you and a Company officer. Any subsequent changes in your duties, salary or compensation will not affect the validity or scope of this Agreement.

e. Compliance with Laws. You agree that you will comply, and do all things necessary for the Company to comply, with the laws and regulations of all governments where the Company does business, and with provisions of contracts between any such government or its contractors and the Company.

9.0 EMPLOYEE ACKNOWLEDGEMENT. You acknowledge that you have carefully read and considered the provisions of this Agreement, have had a reasonable opportunity to consult with an independent legal counsel of your choosing, and accept this Agreement on the terms set forth herein, intending to be legally bound.

EMPLOYEE

/s/ JOHN GRIFFITH
Employee Signature

7/31/24
Date

John Griffith
Employee Name (Print)

Exhibit 10.5

August 1, 2024

Mr. David Bowler
[REDACTED]
[REDACTED]

Dear David:

On behalf of American Water Works Service Company, Inc., I am pleased to confirm your new position of Executive Vice President and Chief Financial Officer reporting to John Griffith, President, at our Camden, New Jersey headquarters office. The effective date of your new position is August 1, 2024. We are confident that you will find your new position to be personally rewarding and one in which you can make significant contributions to the company. ***The compensation described in this offer letter is subject to the approval of the Executive Development & Compensation Committee (ED&CC) and will not be effective until the ED&CC approves such compensation, and the independent members of the Board of Directors approve this offer letter after recommendation by the ED&CC.***

Safety, trust, teamwork, high performance, and environmental leadership define our culture – a culture where every employee feels valued and lives up to his or her potential. Creating an environment where differences are embraced and where every person feels engaged and included makes us safer, stronger, and more successful. We believe that our success is based upon our employees having a vested interest in our business. As a part of our team, you will be tasked with helping make a great company even better – in doing so, you will be rewarded for your contributions. The following is our offer to you:

Base Salary: Your new annual salary will be approximately $550,000.00, which will be paid on a bi-weekly basis in accordance with American Water's standard payroll practices and will be effective August 1, 2024. Your job performance will be reviewed annually as part of our performance management process, and you may be eligible for a merit increase in 2025.

APP: Your target award eligibility previously at 50% will change to 80% of your annual base salary. For reference purposes, the 2024 cycle covers the period beginning on 01/01/2024 through 12/31/2024 and target awards are prorated based on your effective date. Awards from the Annual Performance Plan are based on several company performance objectives, and payments may be higher or lower than target.

LTPP: You remain eligible to receive a performance award under the 2024 American Water Long Term Performance Plan and your target opportunity under this plan will increase to 160% of your base salary. Effective August 1, 2024, you will receive a second set of grants that reflects the difference between your February 2024 grants and the grant amount based on your new base salary and LTPP target percentage.

For reference purposes, awards are currently granted under the terms and conditions of the Company's 2017 Omnibus Equity Compensation Plan (the "Plan"), in the form of restricted stock units and performance stock units. In the event of any conflict between your offer letter and the terms of the award grant documents and the Plan, the terms of the award documents and the Plan will govern.

Benefits: Your current benefits will remain unchanged and in effect, including your vacation accrual. This change in your position is not an IRS Qualified Life Event allowing you to change your American Water benefit elections, however, it is a notable event in your life. Please take this opportunity to review your health and welfare benefits and 401(k) elections to see how this transition impacts your coverage (e.g., company paid life insurance amount, HSA election, 401(k) paycheck election, beneficiary designations, etc.).

In addition to the benefits you currently hold, American Water believes your health is of critical importance for your family, our customers, shareholders, and the employees you lead. To help you take the best possible care of your health, we also have a company-sponsored Executive Health Program for our key leaders. The program focuses on your physical well-being and long-term health and consists of a thorough risk-factor analysis, advanced diagnostic screenings, extensive laboratory testing, and ongoing coaching and support. Additional services are available throughout the year, including voluntary primary care services.

Non-Qualified Deferred Compensation: You will remain eligible to participate in our Non-Qualified Deferred Compensation Plan. The Company may make Employer Matching and Defined Contribution Account contributions as soon as administratively practicable after the end of the applicable plan year. Under the Non-Qualified Deferred Compensation Plan, Employer Matching contributions are immediately vested; Defined Contribution Account contributions will vest after five years of service.

As you will be a Section 16 officer of the Company, American Water may be required to disclose your compensation and/or this offer letter in an SEC filing. Your signature below indicates your acceptance of our offer and your acknowledgment of this requirement of your position.

We wish you the best of luck in your new role and future opportunities with American Water!

Sincerely,

M. Susan Hardwick
Chief Executive Officer
American Water

cc: Melanie Kennedy, Executive Vice President, Chief Human Resources Officer

I, David Bowler, understand that my employment with American Water is "at will," which means that I am not guaranteed employment or any particular job for any specified period of time. The Company or I may terminate my employment at any time, for any or no reason, with or without cause.

__/s/ DAVID M. BOWLER_____ 7/31/2024_____
Signature Date

AMERICAN WATER

CONFIDENTIALITY POLICY AND AGREEMENT

This Confidentiality Policy and Agreement ("Confidentiality Agreement") set forth your understanding and agreement with the provisions below which discuss the Company's confidential and propriety information and trade secrets. You acknowledge and agree that you are signing this Confidentiality Agreement for good and adequate consideration including your employment by or continuing employment by American Water or one of its subsidiaries (collectively, the "Company"); the access that the Company is providing you to certain confidential and proprietary information and trade secrets described below; and the Company's willingness to provide you with valuable opportunities, consideration and/or benefits. You further acknowledge that this Confidentially Agreement is in addition to existing American Water policies addressing the handling of sensitive information, cyber and information security.

The Company's Confidentiality Policy

The protection of confidential business information and trade secrets is vital to the interests and the success of the Company. In the course of employment with the Company, employees may create, discover or receive proprietary and/or confidential information including, without limitation: all information about markets, key personnel, operational methods, proprietary intellectual property, real property, plans for future developments, projects in the pipeline, bid information, manuals, books, training materials, forms and procedures, policies, customer or prospective customer lists, customer-related data, marketing plans and strategies, financial information, technical information, technical processes and methods, algorithms, documents relating to any of the foregoing, and other written and oral materials (whether electronic or on hard copy) which are related to the business of the Company (collectively, "Confidential Information"). Confidential Information includes all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if -- (A) the Company has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information. Confidential Information may also be "material, non-public information" as defined by federal securities laws and Company policy, both of which prohibit insider trading. Confidential Information may be contained in Company documents, computer programs, databases, investor documents, trading strategies and analytic models. Confidential Information is related to a product or service used, or intended for use, in interstate or foreign commerce.

Confidential Information must be protected as confidential and not copied, disclosed or used, directly or indirectly, at any time, other than for the Company's benefit (to the extent permitted by law), unless and until such knowledge or information is in the public domain through no wrongful act by the employee(s). Employees must not, directly or indirectly, divulge or disclose to anyone (other than the Company or any of its affiliates or any person employed or designated by such entities who need to know), publish or make use of any Confidential Information without the Company's express prior written consent; provided, however, that nothing shall prohibit or restrict an employee from participating, cooperating, or testifying in any action, investigation, or proceeding with, or providing information to, any governmental agency or legislative body, or any self-regulatory organization (collectively, the "Regulators"). Employees may engage in such activities with the Regulators without notifying or obtaining prior authorization from the Company.

Nothing in this document is intended to interfere with or discourage a good faith disclosure to any governmental entity related to a suspected violation of the law. The employee cannot and will not be held criminally or civilly liable under any federal or state trade secret law for disclosing otherwise protected trade secrets or confidential or proprietary information as long as the disclosure is made in (i) confidence to a federal, state, or local government official, directly or indirectly, or to an attorney and solely for the purpose of reporting or investigating a suspected violation of law; or (ii) a complaint or other document filed in a lawsuit or other proceeding, as long as such filing is made under seal. The Company will not retaliate against any employee in any way for a disclosure made in accordance with the law. In the event that the employee makes a disclosure, and the employee files a lawsuit against the Company alleging that the Company retaliated against the employee because of his or her disclosure, the employee may disclose the relevant trade secret or Confidential Information to his or her attorney and may use the trade secret or Confidential Information in the court proceeding only if (i) the employee ensures that any court filing that includes the trade secret or

Confidential Information at issue is made under seal; and (ii) the employee does not otherwise disclose the trade secret or Confidential Information except as required by court order.

Following the cessation of employment, employees shall deliver to the Company all documents or other materials in their possession, including all copies thereof, which contain or are derived from Confidential Information, and they shall not misappropriate, utilize, disclose or infringe upon the Confidential Information of the Company or any of its affiliates (including the recreation or reconstruction of Confidential Information from memory). At the Company's request, employees must delete or destroy any and all files and/or backup files on any personal computer, telephone or storage device used for Company purposes, and, at the Company's request, deliver and/or provide access to the Company to any such devices, cloud systems, disk, thumb and/or flash drives for the Company's review and permit the Company to delete all Confidential or other Company proprietary material contained on such devices. Employees shall not analyze, reverse engineer, or otherwise seek to determine the composition or structure of any sample or device provided by the Company or the method by which such sample or device was created, except as specifically authorized by the Company in writing. All samples and devices, whether in whole or in pieces, shall be returned to the Company at its request.

A breach of this Agreement would cause irreparable harm and significant injury to the Company, the quantification of which is difficult to ascertain. Because such harm and injury could not be compensable by damages alone, the employee agrees that the Company shall have the right to enforce this Agreement by injunction (without the necessity of a bond or other security and without proving actual damages), specific performance, or other equitable relief without prejudice to any other rights and remedies available to the Company in the event of a breach of this Agreement. The employee acknowledges that: (i) an immediate and irreparable injury would occur without a seizure order; (ii) seizure of the Confidential Information would not interrupt the legitimate business operations of the employee; and (iii) an injunction would not prevent the employee from entering into an employment relationship. You further agree that the Company shall be entitled to its reasonable fees and costs if a court of competent jurisdiction issues a preliminary or permanent injunction against you or a court of competent jurisdiction finds that you breached the terms of the Agreement.

The Defend Trade Secrets Act of 2016 ("DTSA") governs the trade secret aspects of this Agreement. Otherwise, the validity, interpretation, and enforceability of this Agreement shall be governed by the laws of the State of New Jersey and the United States of America without regard to the conflict of laws principles thereof. Employees with questions regarding this Confidentiality Agreement or the Company's Confidentiality Policy including questions regarding whether any particular information constitutes "Confidential Information," the public disclosure of which is prohibited hereunder, should contact their supervisor or the Chief Compliance Officer. Employees who improperly use or disclose trade secrets or Confidential Information may be subject to disciplinary action, up to and including termination of employment, as well as legal action, even if the employee does not actually benefit from the disclosed information.

You acknowledge that you (a) have carefully read and considered the provisions of this Confidentiality Agreement and the Company's Confidentiality Policy (b) have had a reasonable opportunity to consult with an independent legal counsel of your choosing, and (c) accept this Confidentiality Agreement on the terms set forth herein, intending to be legally bound. You understand that it is your responsibility to read and comply with its contents and any revisions made to it.

_/s/ DAVID M. BOWLER_____
Employee Signature

_David M. Bowler_____
Employee Name (Print)

__7/31/2024_____
Date

AMERICAN WATER

INTELLECTUAL PROPERTY AGREEMENT

This Agreement sets forth the agreements between you and AWIP Holdings LLC ("AWIP") concerning any inventions you may make or works you may create in connection with your employment by American Water Works Company, Inc. or one of its affiliates or subsidiaries (collectively, the "Company") and your treatment of the Company's confidential and proprietary information. You acknowledge and agree that you are signing this Agreement for good and adequate consideration including (a) your employment by or continuing employment by the Company; (b) the access that the Company is providing you to certain confidential and proprietary information and trade secrets described below; and (c) the Company's willingness to provide you with valuable opportunities, consideration and/or benefits.

1.0 INVENTIONS. As used in this Agreement, the term "Inventions" means any and all inventions, ideas, and discoveries, including improvements, original works of authorship, designs, formulas, processes, methods, algorithms, computer programs or portions thereof, databases, trade secrets and proprietary information, documentation, and materials made, created, conceived or reduced to practice by you, whether alone or jointly with others.

a. Your Rights in Inventions

(i) Prior Inventions. In the space provided below, or on a separate sheet attached to this Agreement, you may list all Inventions (a) that you made prior to your employment by the Company; (b) that you claim belong to you, or that you claim an ownership interest in, or that you claim any other legal right or title in; and (c) in which you wish to retain any claimed ownership or other legal rights ("Prior Inventions"). If you do list such Prior Inventions, you hereby grant to AWIP a royalty-free, irrevocable, perpetual, worldwide license to any Prior Invention that is now or hereafter infringed by a Company product, process, or method of doing business (hereinafter "AWIP Product") if: (i) you were involved in the development or implementation of that portion of the AWIP Product which infringes your Prior Invention, or (ii) you acquiesced or permitted other Company employees to utilize your Prior Invention in the course of their development or implementation of the AWIP Product, or (iii) upon first learning of the Company's use of your Prior Invention you do not immediately notify in writing the Company's Legal Department of the Company's infringing use of your Prior Invention and the need for a license thereto. If you do not list a Prior Invention, you acknowledge and agree that no such Prior Inventions exist and, to the extent such Prior Inventions do exist, you waive any and all rights or claims of ownership to such Prior Inventions. You understand that your listing of any Prior Invention(s) here does not constitute an acknowledgment by the Company of the existence or extent of such Prior Invention, nor of your ownership of such Prior Inventions. Please do not use this space to disclose an on-going business or project, or a product that you are developing and/or distributing.

Prior Inventions (description and identifying number of patent, copyright, or patent or copyright application, if applicable):

Title Date

Brief Description of Invention

☐ A separate sheet listing Prior Inventions is attached.

(ii) Future Employee inventions. The Company acknowledges and agrees, in accordance with applicable state law, that any Inventions (a) that you develop entirely on your own time; and (b) that you develop without using the Company's equipment, supplies, facilities, or trade secret information; and (c) that do not result from any work performed by you for the Company; and (d) that do not relate, at the time of conception or reduction to practice, to the Company's business or products, or to the Company's actual or demonstrably anticipated research or development, will be owned entirely by you, even if developed by you during the time period in which you are employed by the Company.

b. AWIP's Rights In Inventions

(i) Assignment of Inventions to AWIP. You agree that all Inventions that (a) are developed using the equipment, supplies, facilities, or Proprietary Information of the Company; or (b) result from or are suggested by work performed by you for the Company; or (c) are conceived or reduced to practice during your employment by the Company and relate to the business and products, or to the actual or demonstrably anticipated research or development of the Company ("AWIP Inventions"), are the sole and exclusive property of AWIP, and you hereby assign all your right, title and interest in such AWIP Inventions to AWIP. You agree to perform any and all acts requested by AWIP, if any, to perfect this assignment.

(ii) Disclosure. You agree to make full written disclosure promptly to your direct supervisor at AWIP of any and all AWIP Inventions, and provide access to all notes, materials, source code, or other items related to AWIP Inventions.

(iii) Assignment of Moral Rights to AWIP. In addition, to the extent permitted by law, you hereby transfer and assign any "moral" rights that you may have in any AWIP Invention(s) under any copyright or other law, whether U.S. or foreign. "Moral" rights are defined as (1) the right of attribution (give credit to the author); and (2) the right of integrity in the AWIP Invention (not do something with an AWIP Invention, such as change or add to it, that would have a negative impact on the author's reputation). You agree to waive and never to assert any such "moral" rights in AWIP Inventions during or after the cessation of your employment with by the Company. You agree that AWIP, its subsidiaries, and its licensees are not required to designate you as the author of any AWIP Inventions when distributed. You also agree that the Company retains sole discretion with regard to how and for what purposes, if any, such AWIP Invention(s) are used.

c. Work for Hire

You acknowledge that all original works of authorship that are made by you (solely or jointly with others) within the scope of your employment by the Company, and that are protectable by copyright, are works made for hire, as that term is defined in the United States Copyright Act (17 U.S.C. § 101). To the extent any works created by you within the scope of your employment cannot be characterized as a work made for hire, you hereby grant, assign and transfer to AWIP all right, title and interest, including all intellectual property in and to works.

d. Protection of AWIP Inventions

You agree (at AWIP's expense) to assist AWIP in every proper way to obtain and to help AWIP enforce patents, copyrights, and other legal protections for AWIP Inventions in any and all countries. You agree to promptly execute any documents that American Water may reasonably request, or perform such legal acts that may be required, for use in obtaining or enforcing such patents, copyrights, and other legal protections.

2.0 CONFIDENTIAL AND PROPRIETARY INFORMATION. You understand that your employment by the Company creates a relationship of confidence and trust with respect to any information of a confidential, proprietary, and secret nature that may be disclosed to you or otherwise learned by you in the course of your employment at the Company, including but not limited to any confidential information of third parties disclosed to the Company. Such confidential, proprietary, and secret information includes, but is not limited to, information and material relating to past, present, or future Inventions, marketing plans, manufacturing and product plans, technical specifications, hardware designs and prototypes, business strategies, financial information, forecasts, personnel information, processes, methods, algorithms, and customer lists, and is referred to collectively in this Agreement as "Proprietary Information."

a. Confidentiality of Proprietary Information. You acknowledge and agree that your employment by the Company requires you to keep all Proprietary Information in confidence and trust for the tenure of your employment and thereafter, and that you will not use or disclose Proprietary Information without the written consent of the Company, except as necessary to perform your duties as an employee of the Company. Upon the cessation of your employment with the Company, you will promptly deliver to the Company all documents, electronically-stored information, materials and property of any kind pertaining to your work at the Company, and you agree that you will not take with you any documents, electronically-stored information, materials or copies thereof, or maintain access to such documents, information or materials, through online digital storage services, whether on paper, electronic media or storage devices, magnetic or optical media, or any other medium, containing any Proprietary Information.

3.0 PROTECTION OF INFORMATION OF OTHERS

a. Information of Others. You agree that during your employment by the Company and thereafter, you will not improperly use or disclose to the Company any confidential, or proprietary, or secret information of your former employer(s) or any other person(s). You further agree that you have not, and during your employment with the Company will not, bring any confidential, proprietary or secret information of your former employer(s) or any other person(s) onto the Company's property or place any such information on any of the Company's computer systems or servers.

4.0 NO CONFLICTING OBLIGATIONS

a. No Conflicting Outside Interests. You agree that during your employment by the Company you will not plan or engage in any other employment, occupations, consulting or other business activities or commitments competitive with or directly related to the Company's business or products, or to its actual or demonstrably anticipated research or development, nor will you engage in any other activities that conflict with your employment obligations to the Company. Activities and commitments as used herein do not include passive investments in stocks or other financial instruments.

b. No Conflicting Agreements. You represent to the Company that you have no other commitments that would hinder or prevent the full performance of your duties as a Company employee or your obligations under this Agreement, and you agree not to enter into any such conflicting agreement during your employment by the company.

c. Disclosure of Agreement. You hereby authorize the Company to notify others, including customers of the Company, and any future employers you may have, of the terms of this Agreement and your responsibilities under this Agreement.

5.0 PROTECTION OF COMPANY RELATIONSHIPS

If you are in a supervisory position, except for employees in a supervisory position in California, Illinois, and Oklahoma, during the period of your employment and for a period of one (1) year following the cessation of your employment, you will not, directly or indirectly, solicit, encourage, recruit, or take any action intended to induce Company employees or contractors to terminate their relationship with the Company.

6.0 NO IMPLIED EMPLOYMENT RIGHTS. You understand and agree that no term or provision of this Agreement confers upon you any rights to continued employment by the Company and that no term or provision of this Agreement obligates the Company to employ you for any specific period of time or interferes with or restricts your right or the Company's right to terminate your employment at any time for any reason and with or without notice, or the Company's right to terminate your employment for just cause in accordance with the applicable collective bargaining agreement if you are a union employee.

7.0 EQUITABLE RELIEF. A breach of the provisions of sections 1, 2 or 4 of this Agreement would cause irreparable harm and significant injury to the Company, the quantification of which is difficult to ascertain. Because such harm and injury could not be compensable by damages alone, you agree that the Company will have the right to enforce sections 1, 2 or 4 of this Agreement by injunction (without the necessity of a bond or other security and without proving actual damages), specific performance or other equitable relief in addition to any other rights and remedies available to the Company in the event of a breach of this Agreement. You further agree that the Company shall be entitled to its reasonable fees and costs if a court of competent jurisdiction issues a

preliminary or permanent injunction against you or a court of competent jurisdiction finds that you breached the terms of the Agreement.

8.0 GENERAL PROVISIONS

a. Severability. If one or more of the provisions of this Agreement is or are deemed void or unenforceable by law, then the remaining provisions shall continue in full force and effect.

b. Governing Law. This Agreement shall be governed by the laws of the state of New Jersey, without regard to its conflicts of law principles. Any arbitration or judicial action between the parties relating to this Agreement will take place in Camden County, New Jersey, and you and the Company each consent to the personal jurisdiction of and venue in the state and federal courts within Camden County, New Jersey.

c. Successors and Assigns. This Agreement will be binding upon your heirs, executors, administrators and other legal representatives, and will be for the benefit of the Company, its successors and assigns. You specifically acknowledge and agree that the Company may assign its rights and obligations hereunder to any successor entity to the Company by operation of law or otherwise.

d. Entire Agreement. This Agreement, along with Company's CONFIDENTIALITY POLICY AND AGREEMENT of which you are also required to acknowledge receipt and understanding, sets forth the entire agreement between you and the Company relating to the subject matter of this Agreement. No modification to or amendment of this Agreement, nor any waiver of any rights under this Agreement, will be effective unless in writing signed by both you and a Company officer. Any subsequent changes in your duties, salary or compensation will not affect the validity or scope of this Agreement.

e. Compliance with Laws. You agree that you will comply, and do all things necessary for the Company to comply, with the laws and regulations of all governments where the Company does business, and with provisions of contracts between any such government or its contractors and the Company.

9.0 EMPLOYEE ACKNOWLEDGEMENT. You acknowledge that you have carefully read and considered the provisions of this Agreement, have had a reasonable opportunity to consult with an independent legal counsel of your choosing, and accept this Agreement on the terms set forth herein, intending to be legally bound.

EMPLOYEE

/s/ DAVID M. BOWLER
Employee Signature

7/31/2024
Date

David M. Bowler
Employee Name (Print)

Exhibit 10.6

August 1, 2024

Ms. Stacy Mitchell
[REDACTED]
[REDACTED]

Dear Stacy:

On behalf of American Water Works Service Company, Inc., I am pleased to confirm your position of Executive Vice President and General Counsel reporting to John Griffith, President, at our Camden, New Jersey headquarters office. The effective date of your new position was Wednesday, June 5, 2024. We are confident that you will find your new position to be personally rewarding and one in which you can make significant contributions to the company. ***The terms of and compensation described in this offer letter are subject to the approval of the Executive Development & Compensation Committee (ED&CC) and will not be effective until the ED&CC approves it.***

Safety, trust, teamwork, high performance, and environmental leadership define our culture – a culture where every employee feels valued and lives up to his or her potential. Creating an environment where differences are embraced and where every person feels engaged and included makes us safer, stronger, and more successful. We believe that our success is based upon our employees having a vested interest in our business. As a part of our team, you will be tasked with helping make a great company even better – in doing so, you will be rewarded for your contributions. The following is our offer to you:

Base Salary: Your new annual salary will be approximately $550,000.00, which will be paid on a bi-weekly basis in accordance with American Water's standard payroll practices and will be paid retroactive to the effective date of your new position. Your job performance will be reviewed annually as part of our performance management process, and you may be eligible for a merit increase in 2025.

APP: Your target award eligibility previously at 50% will change to 70% of your annual base salary. For reference purposes, the 2024 cycle covers the period beginning on 01/01/2024 through 12/31/2024 and target awards are prorated based on your effective date. Awards from the Annual Performance Plan are based on several company performance objectives, and payments may be higher or lower than target.

LTPP: You remain eligible to receive a performance award under the 2024 American Water Long Term Performance Plan and your target opportunity under this plan will increase to 150% of your base salary. Effective August 1, 2024, you will receive a second set of grants that reflects the difference between your February 2024 grants and the grant amount based on your new base salary and LTPP target percentage.

For reference purposes, awards are currently granted under the terms and conditions of the Company's 2017 Omnibus Equity Compensation Plan (the "Plan"), in the form of restricted stock units and performance stock units. In the event of any conflict between your offer letter and the terms of the award grant documents and the Plan, the terms of the award documents and the Plan will govern.

Benefits: Your current benefits will remain unchanged and in effect, including your vacation accrual. This change in your position is not an IRS Qualified Life Event allowing you to change your American Water benefit elections, however, it is a notable event in your life. Please take this opportunity to review your health and welfare benefits and 401(k) elections to see how this transition impacts your coverage (e.g., company paid life insurance amount, HSA election, 401(k) paycheck election, beneficiary designations, etc.).

In addition to the benefits you currently hold, American Water believes your health is of critical importance for your family, our customers, shareholders, and the employees you lead. To help you take the best possible care of your health, we also have a company-sponsored Executive Health Program for our key leaders. The program focuses on your physical well-being and long-term health and consists of a thorough risk-factor analysis, advanced diagnostic screenings, extensive laboratory testing, and ongoing coaching and support. Additional services are available throughout the year, including voluntary primary care services.

Non-Qualified Deferred Compensation: You will remain eligible to participate in our Non-Qualified Deferred Compensation Plan. The Company may make Employer Matching and Defined Contribution Account contributions as soon as administratively practicable after the end of the applicable plan year. Under the Non-Qualified Deferred Compensation Plan, Employer Matching contributions are immediately vested; Defined Contribution Account contributions will vest after five years of service.

As you will be a Section 16 officer of the Company, American Water may be required to disclose your compensation and/or this offer letter in an SEC filing. Your signature below indicates your acceptance of our offer and your acknowledgment of this requirement of your position.

We wish you the best of luck in your new role and future opportunities with American Water!

Sincerely,

M. Susan Hardwick
Chief Executive Officer
American Water

cc: Melanie Kennedy, Executive Vice President, Chief Human Resources Officer

I, Stacy Mitchell, understand that my employment with American Water is "at will," which means that I am not guaranteed employment or any particular job for any specified period of time. The Company or I may terminate my employment at any time, for any or no reason, with or without cause.

__/s/ STACY MITCHELL_____ 8/1/24_____
Signature Date

AMERICAN WATER

CONFIDENTIALITY POLICY AND AGREEMENT

This Confidentiality Policy and Agreement ("Confidentiality Agreement") set forth your understanding and agreement with the provisions below which discuss the Company's confidential and propriety information and trade secrets. You acknowledge and agree that you are signing this Confidentiality Agreement for good and adequate consideration including your employment by or continuing employment by American Water or one of its subsidiaries (collectively, the "Company"); the access that the Company is providing you to certain confidential and proprietary information and trade secrets described below; and the Company's willingness to provide you with valuable opportunities, consideration and/or benefits. You further acknowledge that this Confidentially Agreement is in addition to existing American Water policies addressing the handling of sensitive information, cyber and information security.

The Company's Confidentiality Policy

The protection of confidential business information and trade secrets is vital to the interests and the success of the Company. In the course of employment with the Company, employees may create, discover or receive proprietary and/or confidential information including, without limitation: all information about markets, key personnel, operational methods, proprietary intellectual property, real property, plans for future developments, projects in the pipeline, bid information, manuals, books, training materials, forms and procedures, policies, customer or prospective customer lists, customer-related data, marketing plans and strategies, financial information, technical information, technical processes and methods, algorithms, documents relating to any of the foregoing, and other written and oral materials (whether electronic or on hard copy) which are related to the business of the Company (collectively, "Confidential Information"). Confidential Information includes all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if -- (A) the Company has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information. Confidential Information may also be "material, non-public information" as defined by federal securities laws and Company policy, both of which prohibit insider trading. Confidential Information may be contained in Company documents, computer programs, databases, investor documents, trading strategies and analytic models. Confidential Information is related to a product or service used, or intended for use, in interstate or foreign commerce.

Confidential Information must be protected as confidential and not copied, disclosed or used, directly or indirectly, at any time, other than for the Company's benefit (to the extent permitted by law), unless and until such knowledge or information is in the public domain through no wrongful act by the employee(s). Employees must not, directly or indirectly, divulge or disclose to anyone (other than the Company or any of its affiliates or any person employed or designated by such entities who need to know), publish or make use of any Confidential Information without the Company's express prior written consent; provided, however, that nothing shall prohibit or restrict an employee from participating, cooperating, or testifying in any action, investigation, or proceeding with, or providing information to, any governmental agency or legislative body, or any self-regulatory organization (collectively, the "Regulators"). Employees may engage in such activities with the Regulators without notifying or obtaining prior authorization from the Company.

Nothing in this document is intended to interfere with or discourage a good faith disclosure to any governmental entity related to a suspected violation of the law. The employee cannot and will not be held criminally or civilly liable under any federal or state trade secret law for disclosing otherwise protected trade secrets or confidential or proprietary information as long as the disclosure is made in (i) confidence to a federal, state, or local government official, directly or indirectly, or to an attorney and solely for the purpose of reporting or investigating a suspected violation of law; or (ii) a complaint or other document filed in a lawsuit or other proceeding, as long as such filing is made under seal. The Company will not retaliate against any employee in any way for a disclosure made in accordance with the law. In the event that the employee makes a disclosure, and the employee files a lawsuit against the Company alleging that the Company retaliated against the employee because of his or her disclosure, the employee may disclose the relevant trade secret or Confidential Information to his or her attorney and may use the trade secret or Confidential Information in the court proceeding only if (i) the employee ensures that any court filing that includes the trade secret or

Confidential Information at issue is made under seal; and (ii) the employee does not otherwise disclose the trade secret or Confidential Information except as required by court order.

Following the cessation of employment, employees shall deliver to the Company all documents or other materials in their possession, including all copies thereof, which contain or are derived from Confidential Information, and they shall not misappropriate, utilize, disclose or infringe upon the Confidential Information of the Company or any of its affiliates (including the recreation or reconstruction of Confidential Information from memory). At the Company's request, employees must delete or destroy any and all files and/or backup files on any personal computer, telephone or storage device used for Company purposes, and, at the Company's request, deliver and/or provide access to the Company to any such devices, cloud systems, disk, thumb and/or flash drives for the Company's review and permit the Company to delete all Confidential or other Company proprietary material contained on such devices. Employees shall not analyze, reverse engineer, or otherwise seek to determine the composition or structure of any sample or device provided by the Company or the method by which such sample or device was created, except as specifically authorized by the Company in writing. All samples and devices, whether in whole or in pieces, shall be returned to the Company at its request.

A breach of this Agreement would cause irreparable harm and significant injury to the Company, the quantification of which is difficult to ascertain. Because such harm and injury could not be compensable by damages alone, the employee agrees that the Company shall have the right to enforce this Agreement by injunction (without the necessity of a bond or other security and without proving actual damages), specific performance, or other equitable relief without prejudice to any other rights and remedies available to the Company in the event of a breach of this Agreement. The employee acknowledges that: (i) an immediate and irreparable injury would occur without a seizure order; (ii) seizure of the Confidential Information would not interrupt the legitimate business operations of the employee; and (iii) an injunction would not prevent the employee from entering into an employment relationship. You further agree that the Company shall be entitled to its reasonable fees and costs if a court of competent jurisdiction issues a preliminary or permanent injunction against you or a court of competent jurisdiction finds that you breached the terms of the Agreement.

The Defend Trade Secrets Act of 2016 ("DTSA") governs the trade secret aspects of this Agreement. Otherwise, the validity, interpretation, and enforceability of this Agreement shall be governed by the laws of the State of New Jersey and the United States of America without regard to the conflict of laws principles thereof. Employees with questions regarding this Confidentiality Agreement or the Company's Confidentiality Policy including questions regarding whether any particular information constitutes "Confidential Information," the public disclosure of which is prohibited hereunder, should contact their supervisor or the Chief Compliance Officer. Employees who improperly use or disclose trade secrets or Confidential Information may be subject to disciplinary action, up to and including termination of employment, as well as legal action, even if the employee does not actually benefit from the disclosed information.

You acknowledge that you (a) have carefully read and considered the provisions of this Confidentiality Agreement and the Company's Confidentiality Policy (b) have had a reasonable opportunity to consult with an independent legal counsel of your choosing, and (c) accept this Confidentiality Agreement on the terms set forth herein, intending to be legally bound. You understand that it is your responsibility to read and comply with its contents and any revisions made to it.

__/s/ STACY MITCHELL_____
Employee Signature

__Stacy Mitchell_____
Employee Name (Print)

__8/1/24_____
Date

AMERICAN WATER

INTELLECTUAL PROPERTY AGREEMENT

This Agreement sets forth the agreements between you and AWIP Holdings LLC ("AWIP") concerning any inventions you may make or works you may create in connection with your employment by American Water Works Company, Inc. or one of its affiliates or subsidiaries (collectively, the "Company") and your treatment of the Company's confidential and proprietary information. You acknowledge and agree that you are signing this Agreement for good and adequate consideration including (a) your employment by or continuing employment by the Company; (b) the access that the Company is providing you to certain confidential and proprietary information and trade secrets described below; and (c) the Company's willingness to provide you with valuable opportunities, consideration and/or benefits.

1.0 INVENTIONS. As used in this Agreement, the term "Inventions" means any and all inventions, ideas, and discoveries, including improvements, original works of authorship, designs, formulas, processes, methods, algorithms, computer programs or portions thereof, databases, trade secrets and proprietary information, documentation, and materials made, created, conceived or reduced to practice by you, whether alone or jointly with others.

a. Your Rights in Inventions

(i) Prior Inventions. In the space provided below, or on a separate sheet attached to this Agreement, you may list all Inventions (a) that you made prior to your employment by the Company; (b) that you claim belong to you, or that you claim an ownership interest in, or that you claim any other legal right or title in; and (c) in which you wish to retain any claimed ownership or other legal rights ("Prior Inventions"). If you do list such Prior Inventions, you hereby grant to AWIP a royalty-free, irrevocable, perpetual, worldwide license to any Prior Invention that is now or hereafter infringed by a Company product, process, or method of doing business (hereinafter "AWIP Product") if: (i) you were involved in the development or implementation of that portion of the AWIP Product which infringes your Prior Invention, or (ii) you acquiesced or permitted other Company employees to utilize your Prior Invention in the course of their development or implementation of the AWIP Product, or (iii) upon first learning of the Company's use of your Prior Invention you do not immediately notify in writing the Company's Legal Department of the Company's infringing use of your Prior Invention and the need for a license thereto. If you do not list a Prior Invention, you acknowledge and agree that no such Prior Inventions exist and, to the extent such Prior Inventions do exist, you waive any and all rights or claims of ownership to such Prior Inventions. You understand that your listing of any Prior Invention(s) here does not constitute an acknowledgment by the Company of the existence or extent of such Prior Invention, nor of your ownership of such Prior Inventions. Please do not use this space to disclose an on-going business or project, or a product that you are developing and/or distributing.

Prior Inventions (description and identifying number of patent, copyright, or patent or copyright application, if applicable):

Title Date

Brief Description of Invention

☐ A separate sheet listing Prior Inventions is attached.

(ii) Future Employee inventions. The Company acknowledges and agrees, in accordance with applicable state law, that any Inventions (a) that you develop entirely on your own time; and (b) that you develop without using the Company's equipment, supplies, facilities, or trade secret information; and (c) that do not result from any work performed by you for the Company; and (d) that do not relate, at the time of conception or reduction to practice, to the Company's business or products, or to the Company's actual or demonstrably anticipated research or development, will be owned entirely by you, even if developed by you during the time period in which you are employed by the Company.

b. AWIP's Rights In Inventions

(i) Assignment of Inventions to AWIP. You agree that all Inventions that (a) are developed using the equipment, supplies, facilities, or Proprietary Information of the Company; or (b) result from or are suggested by work performed by you for the Company; or (c) are conceived or reduced to practice during your employment by the Company and relate to the business and products, or to the actual or demonstrably anticipated research or development of the Company ("AWIP Inventions"), are the sole and exclusive property of AWIP, and you hereby assign all your right, title and interest in such AWIP Inventions to AWIP. You agree to perform any and all acts requested by AWIP, if any, to perfect this assignment.

(ii) Disclosure. You agree to make full written disclosure promptly to your direct supervisor at AWIP of any and all AWIP Inventions, and provide access to all notes, materials, source code, or other items related to AWIP Inventions.

(iii) Assignment of Moral Rights to AWIP. In addition, to the extent permitted by law, you hereby transfer and assign any "moral" rights that you may have in any AWIP Invention(s) under any copyright or other law, whether U.S. or foreign. "Moral" rights are defined as (1) the right of attribution (give credit to the author); and (2) the right of integrity in the AWIP Invention (not do something with an AWIP Invention, such as change or add to it, that would have a negative impact on the author's reputation). You agree to waive and never to assert any such "moral" rights in AWIP Inventions during or after the cessation of your employment with by the Company. You agree that AWIP, its subsidiaries, and its licensees are not required to designate you as the author of any AWIP Inventions when distributed. You also agree that the Company retains sole discretion with regard to how and for what purposes, if any, such AWIP Invention(s) are used.

c. Work for Hire

You acknowledge that all original works of authorship that are made by you (solely or jointly with others) within the scope of your employment by the Company, and that are protectable by copyright, are works made for hire, as that term is defined in the United States Copyright Act (17 U.S.C. § 101). To the extent any works created by you within the scope of your employment cannot be characterized as a work made for hire, you hereby grant, assign and transfer to AWIP all right, title and interest, including all intellectual property in and to works.

d. Protection of AWIP Inventions

You agree (at AWIP's expense) to assist AWIP in every proper way to obtain and to help AWIP enforce patents, copyrights, and other legal protections for AWIP Inventions in any and all countries. You agree to promptly execute any documents that American Water may reasonably request, or perform such legal acts that may be required, for use in obtaining or enforcing such patents, copyrights, and other legal protections.

2.0 CONFIDENTIAL AND PROPRIETARY INFORMATION. You understand that your employment by the Company creates a relationship of confidence and trust with respect to any information of a confidential, proprietary, and secret nature that may be disclosed to you or otherwise learned by you in the course of your employment at the Company, including but not limited to any confidential information of third parties disclosed to the Company. Such confidential, proprietary, and secret information includes, but is not limited to, information and material relating to past, present, or future Inventions, marketing plans, manufacturing and product plans, technical specifications, hardware designs and prototypes, business strategies, financial information, forecasts, personnel information, processes, methods, algorithms, and customer lists, and is referred to collectively in this Agreement as "Proprietary Information."

a. Confidentiality of Proprietary Information. You acknowledge and agree that your employment by the Company requires you to keep all Proprietary Information in confidence and trust for the tenure of your employment and thereafter, and that you will not use or disclose Proprietary Information without the written consent of the Company, except as necessary to perform your duties as an employee of the Company. Upon the cessation of your employment with the Company, you will promptly deliver to the Company all documents, electronically-stored information, materials and property of any kind pertaining to your work at the Company, and you agree that you will not take with you any documents, electronically-stored information, materials or copies thereof, or maintain access to such documents, information or materials, through online digital storage services, whether on paper, electronic media or storage devices, magnetic or optical media, or any other medium, containing any Proprietary Information.

3.0 PROTECTION OF INFORMATION OF OTHERS

a. Information of Others. You agree that during your employment by the Company and thereafter, you will not improperly use or disclose to the Company any confidential, or proprietary, or secret information of your former employer(s) or any other person(s). You further agree that you have not, and during your employment with the Company will not, bring any confidential, proprietary or secret information of your former employer(s) or any other person(s) onto the Company's property or place any such information on any of the Company's computer systems or servers.

4.0 NO CONFLICTING OBLIGATIONS

a. No Conflicting Outside Interests. You agree that during your employment by the Company you will not plan or engage in any other employment, occupations, consulting or other business activities or commitments competitive with or directly related to the Company's business or products, or to its actual or demonstrably anticipated research or development, nor will you engage in any other activities that conflict with your employment obligations to the Company. Activities and commitments as used herein do not include passive investments in stocks or other financial instruments.

b. No Conflicting Agreements. You represent to the Company that you have no other commitments that would hinder or prevent the full performance of your duties as a Company employee or your obligations under this Agreement, and you agree not to enter into any such conflicting agreement during your employment by the company.

c. Disclosure of Agreement. You hereby authorize the Company to notify others, including customers of the Company, and any future employers you may have, of the terms of this Agreement and your responsibilities under this Agreement.

5.0 PROTECTION OF COMPANY RELATIONSHIPS

If you are in a supervisory position, except for employees in a supervisory position in California, Illinois, and Oklahoma, during the period of your employment and for a period of one (1) year following the cessation of your employment, you will not, directly or indirectly, solicit, encourage, recruit, or take any action intended to induce Company employees or contractors to terminate their relationship with the Company.

6.0 NO IMPLIED EMPLOYMENT RIGHTS. You understand and agree that no term or provision of this Agreement confers upon you any rights to continued employment by the Company and that no term or provision of this Agreement obligates the Company to employ you for any specific period of time or interferes with or restricts your right or the Company's right to terminate your employment at any time for any reason and with or without notice, or the Company's right to terminate your employment for just cause in accordance with the applicable collective bargaining agreement if you are a union employee.

7.0 EQUITABLE RELIEF. A breach of the provisions of sections 1, 2 or 4 of this Agreement would cause irreparable harm and significant injury to the Company, the quantification of which is difficult to ascertain. Because such harm and injury could not be compensable by damages alone, you agree that the Company will have the right to enforce sections 1, 2 or 4 of this Agreement by injunction (without the necessity of a bond or other security and without proving actual damages), specific performance or other equitable relief in addition to any other rights and remedies available to the Company in the event of a breach of this Agreement. You further agree that the Company shall be entitled to its reasonable fees and costs if a court of competent jurisdiction issues a

preliminary or permanent injunction against you or a court of competent jurisdiction finds that you breached the terms of the Agreement.

8.0 GENERAL PROVISIONS

a. Severability. If one or more of the provisions of this Agreement is or are deemed void or unenforceable by law, then the remaining provisions shall continue in full force and effect.

b. Governing Law. This Agreement shall be governed by the laws of the state of New Jersey, without regard to its conflicts of law principles. Any arbitration or judicial action between the parties relating to this Agreement will take place in Camden County, New Jersey, and you and the Company each consent to the personal jurisdiction of and venue in the state and federal courts within Camden County, New Jersey.

c. Successors and Assigns. This Agreement will be binding upon your heirs, executors, administrators and other legal representatives, and will be for the benefit of the Company, its successors and assigns. You specifically acknowledge and agree that the Company may assign its rights and obligations hereunder to any successor entity to the Company by operation of law or otherwise.

d. Entire Agreement. This Agreement, along with Company's CONFIDENTIALITY POLICY AND AGREEMENT of which you are also required to acknowledge receipt and understanding, sets forth the entire agreement between you and the Company relating to the subject matter of this Agreement. No modification to or amendment of this Agreement, nor any waiver of any rights under this Agreement, will be effective unless in writing signed by both you and a Company officer. Any subsequent changes in your duties, salary or compensation will not affect the validity or scope of this Agreement.

e. Compliance with Laws. You agree that you will comply, and do all things necessary for the Company to comply, with the laws and regulations of all governments where the Company does business, and with provisions of contracts between any such government or its contractors and the Company.

9.0 EMPLOYEE ACKNOWLEDGEMENT. You acknowledge that you have carefully read and considered the provisions of this Agreement, have had a reasonable opportunity to consult with an independent legal counsel of your choosing, and accept this Agreement on the terms set forth herein, intending to be legally bound.

EMPLOYEE

/s/ STACY MITCHELL
Employee Signature

8/1/24
Date

Stacy Mitchell
Employee Name (Print)

Exhibit 10.7

OMNIBUS AMENDMENT NO. 1 TO

AMERICAN WATER WORKS COMPANY, INC.
2017 OMNIBUS EQUITY COMPENSATION PLAN
2022, 2023 AND 2024 RESTRICTED STOCK UNIT GRANTS

This AMENDMENT NO. 1 hereby serves to amend certain outstanding RESTRICTED STOCK UNIT GRANTS to each of the participants in the Plan (as defined below) whose names are set forth on Exhibit A attached hereto (each, a "Participant"), and with such dates of grant (each, a "Date of Grant") as set forth on Exhibit A opposite each such Participant's name, and is delivered by American Water Works Company, Inc. (the "Company").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan")) has granted to each Participant grants of Restricted Stock Units (each, a "Grant"), effective as of each Date of Grant as described above, for shares of Common Stock of the Company, par value $0.01 per share (the "Company Stock");

WHEREAS, Section 14(b) of the Plan authorizes the Committee to permit the withholding of Company Stock to satisfy the Company's tax withholding obligations ("Tax Withholding Obligations") with respect to each Grant, at a withholding rate for federal (including FICA), state and local tax liabilities no greater than the maximum rate permitted by U.S. generally accepted accounting principles as applied to the Company (the "Maximum Withholding Rate"); and

WHEREAS, Section 15 of each Grant permits the withholding of Company Stock to satisfy Tax Withholding Obligations at a withholding rate that does not exceed the minimum applicable withholding tax rate for such tax liabilities; and

WHEREAS, Section 3(b) of the Plan permits the Committee, subject to certain limitations, to amend the terms and conditions of any previously issued Grant, and Section 11 of each Grant provides that (i) in the event of any contradictions, distinctions or differences between a Grant and the terms of the Plan, the terms of the Plan will control, and (ii) the Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the Plan, including, but not limited to, the rights and obligations of Participants with respect to withholding taxes; and

WHEREAS, in light of the contradictions, distinctions and differences between Section 14(b) of the Plan and Section 15 of each Grant, and to establish a determination of the rights and obligations of Participants with respect to withholding taxes that is consistent with the Plan, the Committee has approved, in accordance with Section 3(b) of the Plan, an amendment with respect to each Grant to permit the satisfaction of Tax Withholding Obligations by withholding Company Stock at a rate no greater than the Maximum Withholding Rate.

NOW, THEREFORE, the Committee has approved the amendment and modification of each Grant as follows:

1. Amendment to Provision of Grant Related to Tax Withholding Obligations. Section 15 of each Grant is hereby amended and restated in its entirety to read as follows:

> 15. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and redemption of the Restricted Stock Units and payment of dividend equivalents. Any tax withholding obligation of the Employer with respect to the redemption of the Restricted Stock Units may be satisfied by having shares of Company Stock withheld for federal (including FICA), state, local and other tax liabilities, up to an amount that does not exceed the maximum rate permitted by U.S. generally accepted accounting principles.

2. No Other Amendments. All other terms, conditions and requirements of the Plan and each Grant shall remain in full force and effect, and no other amendment or modification is or shall be made hereby.

3. Participant Notice. The Participant shall be bound by the terms and conditions of this Amendment No. 1, notwithstanding any lack of personal notice or delivery thereof to the Participant.

IN WITNESS WHEREOF, the Company has caused this Amendment No. 1 to each Grant to be executed, effective as of September 24, 2024.

AMERICAN WATER WORKS COMPANY, INC.

By: M. Susan Hardwick

Its: Chief Executive Officer

EXHIBIT A

COVERED PARTICIPANTS AND DATES OF GRANT

Participant	**Dates of Grant**
David M. Bowler	February 15, 2022; February 14, 2023; February 13, 2024; and August 1, 2024
John C. Griffith	May 16, 2022; February 14, 2023; February 13, 2024 and August 1, 2024
M. Susan Hardwick	February 15, 2022; February 14, 2023; and February 13, 2024
Melanie M. Kennedy	February 15, 2022; February 14, 2023; and February 13, 2024
Stacy A. Mitchell	February 15, 2022; February 14, 2023; February 13, 2024; and August 1, 2024
Cheryl Norton	February 15, 2022; February 14, 2023; February 13, 2024; and August 1, 2024
Melissa K. Wikle	February 15, 2022; February 14, 2023; February 13, 2024; and May 15, 2024

Exhibit 10.8

OMNIBUS AMENDMENT NO. 1 TO

AMERICAN WATER WORKS COMPANY, INC.
2017 OMNIBUS EQUITY COMPENSATION PLAN
2022, 2023 AND 2024 PERFORMANCE STOCK UNIT GRANTS

This AMENDMENT NO. 1 hereby serves to amend certain outstanding PERFORMANCE STOCK UNIT GRANTS to each of the participants in the Plan (as defined below) whose names are set forth on Exhibit A attached hereto (each, a "Participant"), and with such dates of grant (each, a "Date of Grant") as set forth on Exhibit A opposite each such Participant's name, and is delivered by American Water Works Company, Inc. (the "Company").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan")) has granted to each Participant grants of Performance Stock Units with respect to the Company's relative total stockholder return performance goal, as described therein (each, a "Grant"), effective as of each Date of Grant as described above, for shares of Common Stock of the Company, par value $0.01 per share (the "Company Stock");

WHEREAS, Section 14(b) of the Plan authorizes the Committee to permit the withholding of Company Stock to satisfy the Company's tax withholding obligations ("Tax Withholding Obligations") with respect to each Grant, at a withholding rate for federal (including FICA), state and local tax liabilities no greater than the maximum rate permitted by U.S. generally accepted accounting principles as applied to the Company (the "Maximum Withholding Rate"); and

WHEREAS, Section 16 of each Grant permits the withholding of Company Stock to satisfy Tax Withholding Obligations at a withholding rate that does not exceed the minimum applicable withholding tax rate for such tax liabilities; and

WHEREAS, Section 3(b) of the Plan permits the Committee, subject to certain limitations, to amend the terms and conditions of any previously issued Grant, and Section 12 of each Grant provides that (i) in the event of any contradictions, distinctions or differences between a Grant and the terms of the Plan, the terms of the Plan will control, and (ii) the Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the Plan, including, but not limited to, the rights and obligations of Participants with respect to withholding taxes; and

WHEREAS, in light of the contradictions, distinctions and differences between Section 14(b) of the Plan and Section 16 of each Grant, and to establish a determination of the rights and obligations of Participants with respect to withholding taxes that is consistent with the Plan, the Committee has approved, in accordance with Section 3(b) of the Plan, an amendment with

respect to each Grant to permit the satisfaction of Tax Withholding Obligations by withholding Company Stock at a rate no greater than the Maximum Withholding Rate.

NOW, THEREFORE, the Committee has approved the amendment and modification of each Grant as follows:

1. Amendment to Provision of Grant Related to Tax Withholding Obligations. Section 16 of each Grant is hereby amended and restated in its entirety to read as follows:

> 16. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and payment of dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant may be satisfied by having shares of Company Stock withheld for federal (including FICA), state, local and other tax liabilities, up to an amount that does not exceed the maximum rate permitted by U.S. generally accepted accounting principles.

2. No Other Amendments. All other terms, conditions and requirements of the Plan and each Grant shall remain in full force and effect, and no other amendment or modification is or shall be made hereby.

3. Participant Notice. The Participant shall be bound by the terms and conditions of this Amendment No. 1, notwithstanding any lack of personal notice or delivery thereof to the Participant.

IN WITNESS WHEREOF, the Company has caused this Amendment No. 1 to each Grant to be executed, effective as of September 24, 2024.

AMERICAN WATER WORKS COMPANY, INC.

By: M. Susan Hardwick

Its: Chief Executive Officer

EXHIBIT A

COVERED PARTICIPANTS AND DATES OF GRANT

Participant	**Dates of Grant**
David M. Bowler	February 15, 2022; February 14, 2023; February 13, 2024; and August 1, 2024
John C. Griffith	May 16, 2022; February 14, 2023; February 13, 2024 and August 1, 2024
M. Susan Hardwick	February 15, 2022; February 14, 2023; and February 13, 2024
Melanie M. Kennedy	February 15, 2022; February 14, 2023; and February 13, 2024
Stacy A. Mitchell	February 15, 2022; February 14, 2023; February 13, 2024; and August 1, 2024
Cheryl Norton	February 15, 2022; February 14, 2023; February 13, 2024; and August 1, 2024
Melissa K. Wikle	February 15, 2022; February 14, 2023; and February 13, 2024

Exhibit 10.9

OMNIBUS AMENDMENT NO. 1 TO

AMERICAN WATER WORKS COMPANY, INC.
2017 OMNIBUS EQUITY COMPENSATION PLAN
2022, 2023 AND 2024 PERFORMANCE STOCK UNIT GRANTS

This AMENDMENT NO. 1 hereby serves to amend certain outstanding PERFORMANCE STOCK UNIT GRANTS to each of the participants in the Plan (as defined below) whose names are set forth on Exhibit A attached hereto (each, a "Participant"), and with such dates of grant (each, a "Date of Grant") as set forth on Exhibit A opposite each such Participant's name, and is delivered by American Water Works Company, Inc. (the "Company").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan")) has granted to each Participant grants of Performance Stock Units with respect to the achievement of the Company's compounded earnings per share growth goal, as described therein (each, a "Grant"), effective as of each Date of Grant as described above, for shares of Common Stock of the Company, par value $0.01 per share (the "Company Stock");

WHEREAS, Section 14(b) of the Plan authorizes the Committee to permit the withholding of Company Stock to satisfy the Company's tax withholding obligations ("Tax Withholding Obligations") with respect to each Grant, at a withholding rate for federal (including FICA), state and local tax liabilities no greater than the maximum rate permitted by U.S. generally accepted accounting principles as applied to the Company (the "Maximum Withholding Rate"); and

WHEREAS, Section 16 of each Grant permits the withholding of Company Stock to satisfy Tax Withholding Obligations at a withholding rate that does not exceed the minimum applicable withholding tax rate for such tax liabilities; and

WHEREAS, Section 3(b) of the Plan permits the Committee, subject to certain limitations, to amend the terms and conditions of any previously issued Grant, and Section 12 of each Grant provides that (i) in the event of any contradictions, distinctions or differences between a Grant and the terms of the Plan, the terms of the Plan will control, and (ii) the Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the Plan, including, but not limited to, the rights and obligations of Participants with respect to withholding taxes; and

WHEREAS, in light of the contradictions, distinctions and differences between Section 14(b) of the Plan and Section 16 of each Grant, and to establish a determination of the rights and obligations of Participants with respect to withholding taxes that is consistent with the Plan, the Committee has approved, in accordance with Section 3(b) of the Plan, an amendment with

respect to each Grant to permit the satisfaction of Tax Withholding Obligations by withholding Company Stock at a rate no greater than the Maximum Withholding Rate.

NOW, THEREFORE, the Committee has approved the amendment and modification of each Grant as follows:

1. Amendment to Provision of Grant Related to Tax Withholding Obligations. Section 16 of each Grant is hereby amended and restated in its entirety to read as follows:

> 16. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and payment of dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant may be satisfied by having shares of Company Stock withheld for federal (including FICA), state, local and other tax liabilities, up to an amount that does not exceed the maximum rate permitted by U.S. generally accepted accounting principles.

2. No Other Amendments. All other terms, conditions and requirements of the Plan and each Grant shall remain in full force and effect, and no other amendment or modification is or shall be made hereby.

3. Participant Notice. The Participant shall be bound by the terms and conditions of this Amendment No. 1, notwithstanding any lack of personal notice or delivery thereof to the Participant.

IN WITNESS WHEREOF, the Company has caused this Amendment No. 1 to each Grant to be executed, effective as of September 24, 2024.

AMERICAN WATER WORKS COMPANY, INC.

By: M. Susan Hardwick

Its: Chief Executive Officer

EXHIBIT A

COVERED PARTICIPANTS AND DATES OF GRANT

Participant	**Dates of Grant**
David M. Bowler	February 15, 2022; February 14, 2023; February 13, 2024; and August 1, 2024
John C. Griffith	May 16, 2022; February 14, 2023; February 13, 2024 and August 1, 2024
M. Susan Hardwick	February 15, 2022; February 14, 2023; and February 13, 2024
Melanie M. Kennedy	February 15, 2022; February 14, 2023; and February 13, 2024
Stacy A. Mitchell	February 15, 2022; February 14, 2023; February 13, 2024; and August 1, 2024
Cheryl Norton	February 15, 2022; February 14, 2023; February 13, 2024; and August 1, 2024
Melissa K. Wikle	February 15, 2022; February 14, 2023; and February 13, 2024

Exhibit 10.10

OMNIBUS AMENDMENT NO. 1 TO

AMERICAN WATER WORKS COMPANY, INC.
2017 OMNIBUS EQUITY COMPENSATION PLAN
2024 PERFORMANCE STOCK UNIT GRANTS

This AMENDMENT NO. 1 hereby serves to amend certain outstanding PERFORMANCE STOCK UNIT GRANTS to each of the participants in the Plan (as defined below) whose names are set forth on Exhibit A attached hereto (each, a "Participant"), and with such dates of grant (each, a "Date of Grant") as set forth on Exhibit A opposite each such Participant's name, and is delivered by American Water Works Company, Inc. (the "Company").

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan")) has granted to each Participant one or more grants of Performance Stock Units with respect to the achievement of the Company's return on equity goal, as described therein (each, a "Grant"), effective as of each Date of Grant as described above, for shares of Common Stock of the Company, par value $0.01 per share (the "Company Stock");

WHEREAS, Section 14(b) of the Plan authorizes the Committee to permit the withholding of Company Stock to satisfy the Company's tax withholding obligations ("Tax Withholding Obligations") with respect to each Grant, at a withholding rate for federal (including FICA), state and local tax liabilities no greater than the maximum rate permitted by U.S. generally accepted accounting principles as applied to the Company (the "Maximum Withholding Rate"); and

WHEREAS, Section 16 of each Grant permits the withholding of Company Stock to satisfy Tax Withholding Obligations at a withholding rate that does not exceed the minimum applicable withholding tax rate for such tax liabilities; and

WHEREAS, Section 3(b) of the Plan permits the Committee, subject to certain limitations, to amend the terms and conditions of any previously issued Grant, and Section 12 of each Grant provides that (i) in the event of any contradictions, distinctions or differences between a Grant and the terms of the Plan, the terms of the Plan will control, and (ii) the Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the Plan, including, but not limited to, the rights and obligations of Participants with respect to withholding taxes; and

WHEREAS, in light of the contradictions, distinctions and differences between Section 14(b) of the Plan and Section 16 of each Grant, and to establish a determination of the rights and obligations of Participants with respect to withholding taxes that is consistent with the Plan, the Committee has approved, in accordance with Section 3(b) of the Plan, an amendment with

respect to each Grant to permit the satisfaction of Tax Withholding Obligations by withholding Company Stock at a rate no greater than the Maximum Withholding Rate.

NOW, THEREFORE, the Committee has approved the amendment and modification of each Grant as follows:

1. Amendment to Provision of Grant Related to Tax Withholding Obligations. Section 16 of each Grant is hereby amended and restated in its entirety to read as follows:

> 16. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and payment of dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant may be satisfied by having shares of Company Stock withheld for federal (including FICA), state, local and other tax liabilities, up to an amount that does not exceed the maximum rate permitted by U.S. generally accepted accounting principles.

2. No Other Amendments. All other terms, conditions and requirements of the Plan and each Grant shall remain in full force and effect, and no other amendment or modification is or shall be made hereby.

3. Participant Notice. The Participant shall be bound by the terms and conditions of this Amendment No. 1, notwithstanding any lack of personal notice or delivery thereof to the Participant.

IN WITNESS WHEREOF, the Company has caused this Amendment No. 1 to each Grant to be executed, effective as of September 24, 2024.

AMERICAN WATER WORKS COMPANY, INC.

By: M. Susan Hardwick

Its: Chief Executive Officer

EXHIBIT A

COVERED PARTICIPANTS AND DATES OF GRANT

Participant	**Dates of Grant**
David M. Bowler	February 13, 2024 and August 1, 2024
John C. Griffith	February 13, 2024 and August 1, 2024
M. Susan Hardwick	February 13, 2024
Melanie M. Kennedy	February 13, 2024
Stacy A. Mitchell	February 13, 2024 and August 1, 2024
Cheryl Norton	February 13, 2024 and August 1, 2024
Melissa K. Wikle	February 13, 2024

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, M. Susan Hardwick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2024

By: /s/ M. SUSAN HARDWICK

M. Susan Hardwick
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, David M. Bowler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2024

By: /s/ DAVID M. BOWLER

David M. Bowler
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Susan Hardwick, Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ M. SUSAN HARDWICK

M. Susan Hardwick
Chief Executive Officer
(Principal Executive Officer)
October 30, 2024

Exhibit 32.2

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David M. Bowler, Executive Vice President and Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ DAVID M. BOWLER

David M. Bowler
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

October 30, 2024

TENNESSEE AMERICAN WATER COMPANY
TENNESSEE PUBLIC UTILITY COMMISSION
DOCKET NO. 24-00032
SECOND DISCOVERY REQUEST OF THE TPUC STAFF

Responsible Witness: Robert Lane

Question 3:

Provide the final order for each rate proceedings referenced in the American Water Works 2023 Annual report submitted as MFG 4, Attachment 3 on attachment index pages 126 through 128. Any final order for a rate proceeding that is discussed in the 20024 10-Q filings provided in response to question 2 that are not discussed in the American Water Works 2023 Annual Report should also be provided.

Response:

Please see TAW_R_TPUCDR2_003_111424_Attachments 1 – 10.

Please note that the following cases are mentioned in the 10 Q filings, but no final orders have been entered in those cases yet: Missouri: WR-2024-0320 – GRC; Illinois: 24-0097 – GRC; Iowa RPU-2024-0002; Virginia: PUR-2023-00194 (the stipulation of settlement is attached).

Attachment 1

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17120

Public Meeting held July 11, 2024

Commissioners Present:

Stephen M. DeFrank, Chairman
Kimberly Barrow, Vice Chair, Dissenting
Ralph V. Yanora
Kathryn L. Zerfuss, Statement
John F. Coleman, Jr.

Pennsylvania Public Utility Commission	R-2023-3043189 (Water)
Office of Consumer Advocate	C-2023-3044289
Office of Small Business Advocate	C-2023-3044375
Mark Henderson	C-2023-3044156
Kathleen Schwartz	C-2023-3044190
Amanda Johnsen	C-2023-3044185
Adam Nemchick	C-2023-3044191
Kirk Spencer	C-2023-3044189
Keith Sauer	C-2023-3044218
Andrew Kulp	C-2023-3044225
Jim Davidson	C-2023-3044223
Robert K. Ralls	C-2023-3044220
Richard Tawadros	C-2023-3044244
Natalie Rarick	C-2023-3044234
Tracy M. Rutherford	C-2023-3044293
David Ross	C-2023-3044348
Phyllis Connelly	C-2023-3044352
Thomas J. Hollenbach	C-2023-3044389
Alecia M. Lilley	C-2023-3044359
Lynn Mugno	C-2023-3044365
Michelle White	C-2023-3044369
Dr. Mostafa Easa	C-2023-3044567
Lynn DeAcosta	C-2023-3044380
Jeff Henry	C-2023-3044406
Anh Duong	C-2023-3044354

William Cameron & Linda Long	C-2023-3044355
Nicole Glimp	C-2023-3044565
Anthony McCann	C-2023-3044578
Shanna Weagle	C-2023-3044399
Brian Dugas	C-2023-3044563
Todd Blum	C-2023-3044583
Jennifer Dianna	C-2023-3044394
Mallory & Glenn Kercher	C-2023-3044686
Danielle Gabriel	C-2023-3044683
Devon Landis	C-2023-3044442
Morgan Wengert	C-2023-3044426
Angelica Alvarez	C-2023-3044405
John P. Dolekary	C-2023-3044580
John Miller	C-2023-3044416
Carl & Sharon Winter	C-2023-3044607
Paul & Catherine Brown	C-2023-3044611
Raymond Volsario	C-2023-3044614
Matthew J. Miller	C-2023-3044429
William R. Thomas	C-2023-3044601
Horace R. Battle	C-2023-3044600
Chirstopher Blake	C-2023-3044443
Laura Semel	C-2023-3044461
Robert M. Nowotarski	C-2023-3044676
Matthew & Melissa Mengel	C-2023-3044673
Tracy Cosgrove	C-2023-3044672
Richard Peal	C-2023-3044622
Patricia A. Finley	C-2023-3044504
Joseph Donahue	C-2023-3044524
Robert Bifano	C-2023-3044534
Gary Sirois	C-2023-3044830
Michelle Zebrowski	C-2023-3044868
Mary Ann Maro	C-2023-3044869
Joel Hernandez	C-2023-3044872
Dan Nebeker o/b/o Coldwater Lemoyne Carwash	C-2023-3044874
Mary Chibatar	C-2023-3044876
Mary Tanealian	C-2023-3044576
Tao Lu	C-2023-3044585
Jennifer Cohen	C-2023-3044682
Carla Seidel	C-2023-3044679
Amy E. Dalton	C-2023-3044677
Nicholas Orman	C-2023-3044642
Jay Phillips	C-2023-3044707
Carl W. Tunall, Jr.	C-2023-3044725

Steven Solomon	C-2023-3044733
Debora A. Sokol	C-2023-3044768
Shaun Keperling	C-2023-3044801
Audrey Gerold	C-2023-3044785
Robert Anderson	C-2023-3044799
Carl Kupchunas	C-2023-3044826
Matthew Jordan	C-2023-3044813
Cindy Cabrera	C-2023-3044816
Marie Sweeney	C-2023-3044918
Pennsylvania-American Water Large Users Group	C-2023-3044871
West Norriton Township	C-2023-3044965
John J. Heilenman	C-2023-3044908
Thalia Karalis	C-2023-3044929
Daniel Bergey	C-2023-3044984
Richard Matijasich	C-2023-3044981
Nicholas Collette	C-2023-3045023
Angela P. Kern	C-2023-3045039
Dennis McConnell	C-2023-3045053
James & Peggy Lingwall	C-2023-3045054
Wolfram Milz	C-2023-3045055
Donald Jones	C-2023-3045059
Marie Dougherty	C-2023-3045061
Michael & Mary Weishner	C-2023-3045062
Michelle R. Miller	C-2023-3045063
Carol Patterson	C-2023-3045064
Zachary Sprowls	C-2023-3045072
Elizabeth Sprowls	C-2023-3045073
Catharine Anderson	C-2023-3045082
Kathleen Donell	C-2023-3045083
Paul & Eileen Miller	C-2023-3045084
Norman T. Carpenter	C-2023-3045085
David Duquette	C-2023-3045087
Wesley Hartman	C-2023-3045088
Don Anderson	C-2023-3045089
Melissa Harper	C-2023-3045090
Charles E. Schwering	C-2023-3045093
Beth A. Gandelman	C-2023-3045094
Catherine & Kenneth Green	C-2023-3045095
Violet B. Kern	C-2023-3045105
Paul J. Walaski	C-2023-3045113
Cindy Murphy	C-2023-3045123
Gino Purchiaroni	C-2023-3045124
Christopher Nicholson	C-2023-3045134

Richard Small	C-2023-3045121
Nancy and Charles Wilson	C-2023-3045138
Harry Haas	C-2023-3045137
Jean Ustaszewski	C-2023-3045146
Kathryn Wilson	C-2023-3045152
Thomas McAuliffe	C-2023-3045156
Keith Pinkerton	C-2023-3045159
Kelly Knapp	C-2023-3045185
Alicia W. Shussett	C-2024-3045187
Patrick F. Boyle	C-2024-3045190
Jefferson Township Municipal Authority, c/o Patricia Lawrence, Secretary	C-2024-3045202
Juan F. Ramos	C-2024-3045208
Kyle Donahue	C-2024-3045210
John Erbicella	C-2024-3045209
Angela Gilmore	C-2024-3045212
Tracy L. Duff	C-2024-3045220
Timothy J. Creelman	C-2024-3045249
Frank Cerra	C-2024-3045257
Thomas F. Miller	C-2024-3045261
Mark Schuette	C-2024-3045263
Andrea Devlin	C-2024-3045285
Alena Trently	C-2024-3045258
Vicki DiArchangelo	C-2024-3045278
Thomas C. Kidwell	C-2024-3045315
Barry S. & Ethel Wagner	C-2024-3045320
Priscilla T. Gentry	C-2024-3045341
Matthew & Heather Heliger	C-2024-3045343
Barbara Stettenbauer	C-2024-3045360
Elizabeth Clark	C-2024-3045366
East Norriton Township	C-2024-3045399
Beth A. Gandelman	C-2024-3045422
Naomi Conte	C-2024-3045457
Ryan Gandelman	C-2024-3045467
Priscilla Jovais & Walter Baginski	C-2024-3045871
George M. Kamage, Jr.	C-2024-3045968
Julia Wright	C-2024-3045983
Anita Sakevich	C-2024-3045907
Michael W. Knoll	C-2024-3045985
Joseph Koza	C-2024-3045992
Randy McDaniels	C-2024-3045701
Christine Janiga	C-2024-3045987
Nereida Colon-Gonzalez	C-2024-3045788

Ruth McMullan	C-2024-3045997
Miranda Connors	C-2024-3046001
Deborah Nystrom	C-2024-3046000
Lora Gibb	C-2024-3045999
Ernest & Kathy Mayer	C-2024-3046292
Kathleen & William Nole	C-2024-3046296
Frances S. Kearney	C-2024-3046246
William Stevens	C-2024-3046071
Joe Dominick	C-2024-3046262
Andrea O'Neill-Hoffman	C-2024-3046195
Leslie Spindler	C-2024-3046230
Richard Brill	C-2024-3046111
Josephine Roman	C-2024-3046059
Mildred Decelles	C-2024-3046085
Gerald Smurl	C-2024-3046220
William Roman	C-2024-3046082
Harold Kiefer	C-2024-3046263
James G. Haggerty	C-2024-3046164
Ronald Benke	C-2024-3046112
Jodi Mayer	C-2024-3046291
James Wynder	C-2024-3046294
Billydon Hickson	C-2024-3046079
Elaine F. Campbell	C-2024-3046261
John Borer	C-2024-3046172
Thomas Tomeo	C-2024-3046047
Mary McKenna	C-2024-3046218
Bill Gaughan	C-2024-3046094
Jimmy Allen	C-2024-3046080
Mark Mecca	C-2024-3046055
Chris Casciano	C-2024-3046114
John Laskowski	C-2024-3045814
Colleen M. Gaughan	C-2024-3046044
Sean McAndrew	C-2024-3046252
Brian Cadugan	C-2024-3046169
Timothy Brier	C-2024-3046254
Joseph Baronski	C-2024-3046170
Michael Bussacco	C-2024-3046240
Robert Meyers	C-2024-3046219
Arthur F. Werner, Jr.	C-2024-3045244
Marianne Vergnetti	C-2024-3046108
Edmund Moroney	C-2024-3046061
Alice Lord	C-2024-3046043
Giselle Rutchford	C-2024-3046095

Ann McDermott	C-2024-3046046
Patricia Shultz	C-2024-3046050
Frank S. Sislo	C-2024-3046087
Linda Kiefer	C-2024-3046265
Dominic Cuchara	C-2024-3046109
Anthony Palmere, Jr.	C-2024-3046243
Debbie Wilson	C-2024-3046276
Gerard Dombroski	C-2024-3046259
Roberta Brentano	C-2024-3046098
William Seeger	C-2024-3046057
Elizabeth Zangardi	C-2024-3046226
Paul DelRossso	C-2024-3046217
Joseph Guerra	C-2024-3046168
Michael Shafer	C-2024-3046215
Marty Flynn	C-2024-3046257
Patrick H. Brentano	C-2024-3046099
Gary Shiner	C-2024-3046166
David F. Sevensky	C-2024-3046267
Susan Gilday	C-2024-3046238
Bernadette Bussacco	C-2024-3046221
Theodore Parchinski	C-2024-3046053
John Blackledge	C-2024-3046274
John Kulick	C-2024-3046353
Richard & Carmella Zaleski	C-2024-3046482
Nadine Simms	C-2024-3046351
James P. McDermott	C-2024-3046301
Lucy Jason	C-2024-3046302
Lynn King	C-2024-3046249
John McAuliffe	C-2024-3046392
Laura Virtue-Delayo	C-2024-3046397
Jessica Libassi	C-2024-3045805
David A. Grecco	C-2024-3046096
Leroy James Watters	C-2024-3046404
James Metzer	C-2024-3046411
Lorraine Perry	C-2024-3046408
Stephen Marr	C-2024-3046410
Brian A. McDonald	C-2024-3046741
Patricia A. Perri	C-2024-3046970
Patricia Barbuti	C-2024-3046810
Ryan & Leslie Ferguson	C-2024-3046467
Natalie Davis	C-2024-3046744
Patricia A. Perri	C-2024-3046745
Gary Graziano	C-2024-3046736

Joseph & Erin Kreis	C-2024-3046470
Caesar Bordo	C-2024-3046870
Ann McDonald	C-2024-3046746
Janice M. Mcdonald	C-2024-3046874
Jennifer Comparetta	C-2024-3046471
Sharon Cuff	C-2024-3046477
Karen Schuster	C-2024-3046742
Valerie Mendicino	C-2024-3046737
William J. O'Malley, III	C-2024-3046734
Louis Guzzi, Jr.	C-2024-3046406
Francis Kranick, Jr.	C-2024-3046811
Tara & Tom Schuster	C-2024-3046738
Colleen Demuro	C-2024-3046867
Charlotte DeRosier	C-2024-3046466
Albert Denunzio	C-2024-3046871
Mary C. Jennings	C-2024-3046743
James F. McCormick	C-2024-3046873
Laura A. O'Malley	C-2024-3046405
Mary & David Dobrzyn	C-2024-3046875
Gene Stanavitch	C-2024-3046403
Pat Stanavitch	C-2024-3046402
Robert Barry	C-2024-3046399
John Borgia	C-2024-3047073
Domenic P. Cafarella	C-2024-3046878
Michael D. Brooks	C-2024-3046880
Daniel E. Skvarla	C-2024-3046881
Donna Antonelli	C-2024-3046882
Michael Dempsey	C-2024-3046884
Marianne Brown	C-2024-3046886
Sharon Soudas	C-2024-3046885
Gina McCarthy	C-2024-3047515
Gerald Fabricatore	C-2024-3047312
Gerald R. Fabricatore	C-2024-3047375
Laura Wisniewski	C-2024-3047521
Julie Janosy	C-2024-3047695
Lackawanna County	C-2024-3048333
Vincent Ennis	C-2024-3048341
Clyde H. Morgan	C-2024-3045569
Colleen Adams	C-2024-3045573
Mark J. Mazurkiewicz	C-2024-3045579
Linda Culbertson	C-2024-3045650
Larry Wise	C-2024-3045668
James Lyband Jackson	C-2024-3045674

Gail Y. Gayeski	C-2024-3045666
Veronica A. Hannevig	C-2024-3045667
Theresa Skobel	C-2024-3045670
Jordan Henning	C-2024-3045678
Kyle & Lori Rompella	C-2024-3045681
Stefanie Adams	C-2024-3045685
Deborah & Robert May	C-2024-3045687
David & Lynn Griffith	C-2024-3045686
Paul Krammes	C-2024-3045690
Thomas Campisano	C-2024-3045691
Nelson Moeller	C-2024-3045703
Paulette Knott	C-2024-3045741
Gene & Patricia Malaspina	C-2024-3045750
Stephanie Sienkel	C-2024-3045767
Robert Boni	C-2024-3045765
Janice M. Reynolds	C-2024-3045768
Bilal Salaam	C-2024-3045812
Michael Troutman	C-2024-3045835
Kendra Robinson	C-2024-3045838
Gertrude Terrell	C-2024-3045842

v.

Pennsylvania-American Water Company

Pennsylvania Public Utility Commission	R-2023-3043190 (Wastewater)
Office of Consumer Advocate	C-2023-3044292
Office of Small Business Advocate	C-2023-3044377
Mark Henderson	C-2023-3044159
Brian Gottschall	C-2023-3044170
Leroy Bumbarger	C-2023-3044169
Kathleen Schwartz	C-2023-3044193
Amanda Johnsen	C-2023-3044187
Adam Nemchick	C-2023-3044192
Anne Lockwood & Michael Haehnel	C-2023-3044168
Keith Sauer	C-2023-3044219
Natalie Rarick	C-2023-3044239
Darlene Hamilton	C-2023-3044170
Tracy M. Rutherford	C-2023-3044333
David Ross	C-2023-3044349
Alecia M. Lilley	C-2023-3044367

Lynn DeAcosta	C-2023-3044401
Nicole Glimp	C-2023-3044564
William H. Rissmiller	C-2023-3044569
Michelle White	C-2023-3044371
Jennifer Dianna	C-2023-3044395
Thomas J. Hollenbach	C-2023-3044685
Mallory Kercher	C-2023-3044681
Devon Landis	C-2023-3044448
Morgan Wengert	C-2023-3044427
Jeff Henry	C-2023-3044407
John Miller	C-2023-3044413
Angelica Alvarez	C-2023-3044566
Andrew Kulp	C-2023-3044468
Sharon Winter	C-2023-3044615
Paul Brown	C-2023-3044616
Charles L. Heydt	C-2023-3044618
William R. Thomas	C-2023-3044604
Linda Allison	C-2023-3044595
Chirstopher Blake	C-2023-3044444
Richard Peal	C-2023-3044620
Tracy Cosgrove	C-2023-3044667
Donald D. Dickerson	C-2023-3044662
Patricia A. Finley	C-2023-3044505
Jennifer Cohen	C-2023-3044671
Michael D. Fletcher	C-2023-3044688
Mary Tanealian	C-2023-3044577
Tao Lu	C-2023-3044573
Amy E. Dalton	C-2023-3044678
Mark Coogan	C-2023-3044704
Carla Seidel	C-2023-3044732
Anh Duong	C-2023-3044353
Borough of St. Lawrence	C-2023-3044757
Debora A. Sokol	C-2023-3044767
Audrey Gerold	C-2023-3044786
Matthew Jordan	C-2023-3044814
Laura Semel	C-2023-3044821
Lynn Mugno	C-2023-3044366
Pennsylvania-American Water Large Users Group	C-2023-3044873
Joel Hernandez	C-2023-3044877
Mary Chibatar	C-2023-3044879
Dennis McConnell	C-2023-3044880
Marie T. Ratchford-Demkosky	C-2023-3044881
Cindy Cabrera	C-2023-3044916

Thalia Karalis	C-2023-3044915
Richard Matijasich	C-2023-3044982
Daniel B. Fletcher	C-2023-3045056
James Lingwall	C-2023-3045065
Donald Jones	C-2023-3045066
Marie Dougherty	C-2023-3045067
Jay Phillips	C-2023-3045069
Carl W. Tunall, Jr.	C-2023-3045070
Catharine Anderson	C-2023-3045074
Kathleen Donell	C-2023-3045075
Paul & Eileen Miller	C-2023-3045077
Norman T. Carpenter	C-2023-3045079
David Duquette	C-2023-3045091
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Shaun Keperling	C-2023-3044802
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Dayna Gardecki	C-2023-3045167
Kelly Knapp	C-2023-3045186
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Patrick F. Boyle	C-2024-3045191
Juan F. Ramos	C-2024-3045206
Kyle Donahue	C-2024-3045211
Angela Gilmore	C-2024-3045213
John Erbicella	C-2024-3045255
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Alena Trently	C-2024-3045259
Andrea Devlin	C-2024-3045296
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Lloyd Simmers	C-2024-3045332
Anne-Marie Trace	C-2024-3045331
Borough of Port Vue	C-2024-3045334
Christopher Nicholson	C-2024-3045337
Priscilla T. Gentry	C-2024-3045342
Ruth & Craig Benderoth	C-2024-3045346
Matthew & Heather Heliger	C-2024-3045344
Barbara Stettenbauer	C-2024-3045362
Elizabeth Clark	C-2024-3045367
Catherine & Kenneth Green	C-2023-3045441
Naomi Conte	C-2024-3045464

Clyde H. Morgan	C-2024-3045571
Colleen Adams	C-2024-3045572
Mark Pezone	C-2024-3045574
Mark J. Mazurkiewicz	C-2024-3045582
Larry Wise	C-2024-3045669
James Lyband Jackson	C-2024-3045673
Janice M. Reynolds	C-2024-3045684
Veronica A. Hannevig	C-2024-3045694
Theresa Skobel	C-2024-3045695
David & Lynn Griffith	C-2024-3045696
Thomas Campisano	C-2024-3045723
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Kyle & Lori Rompella	C-2024-3045779
Richard Hamilton	C-2024-3045806
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Bilal Salaam	C-2024-3045826
Ashley Sanchez	C-2024-3045815
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Anita Sakevich	C-2024-3045902
George M. Kamage, Jr.	C-2024-3045967
Michael W. Knoll	C-2024-3045984
Joseph Koza	C-2024-3045989
Ruth McMullan	C-2024-3045994
Thomas Tomeo	C-2024-3046051
David A. Grecco	C-2024-3046052
Theodore Parchinski	C-2024-3046054
Mark Mecca	C-2024-3046056
William Seeger	C-2024-3046058
Josephine Roman	C-2024-3046060
Edmond Maroney	C-2024-3046062
Nereida Colon-Gonzalez	C-2024-3046072
William Roman	C-2024-3046081
Frank S. Sislo	C-2024-3046088
Patrick H. Brentano	C-2024-3046083
Bill Gaughan	C-2024-3046089
Giselle Rutchford	C-2024-3046091
Roberta Brentano	C-2024-3046093
Brian Cadugan	C-2024-3046119
John Fletcher	C-2024-3046121
Marianne Vergnetti	C-2024-3046126

Dominic Cuchara	C-2024-3046128
Richard Brill	C-2024-3046130
Ronald & Lucy Benke	C-2024-3046133
Gary Shiner	C-2024-3046134
Suzanne Horishny	C-2024-3046145
Chris Casciano	C-2024-3046150
James G. Haggerty	C-2024-3046152
Joseph Baronski	C-2024-3046154
Joseph Guerra	C-2024-3046156
John Borer	C-2024-3046159
Michael Shafer	C-2024-3046160
Joel Hoffman	C-2024-3046185
Paul DelRosso	C-2024-3046193
Ferentz Irrevocable Grantor Trust c/o Joseph Surenko	C-2024-3046197
Robert Meyers	C-2024-3046198
Bernadette Bussacco	C-2024-3046222
Susan Gilday	C-2024-3046223
Arthur F. Werner, Jr.	C-2024-3046242
Timothy Brier	C-2024-3046239
Frances S. Kearney	C-2024-3046251
Sean McAndrew	C-2024-3046255
Elaine F. Campbell	C-2024-3046256
Marty Flynn	C-2024-3046258
Gerard Dombroski	C-2024-3046260
Harold Kiefer	C-2024-3046264
Linda Kiefer	C-2024-3046266
David F. Sevensky	C-2024-3046268
John Blackledge	C-2024-3046273
John Mayer	C-2024-3046280
Lucy Jason	C-2024-3046247
Lynn King	C-2024-3046248
Ernest & Kathy Mayer	C-2024-3046293
James & Marie Wynder	C-2024-3046295
Kathleen Nole	C-2024-3046297
James P. McDermott	C-2024-3046300
Nadine Simms	C-2024-3046350
David A. Grecco	C-2024-3046352
John Kulick	C-2024-3046354
Richard & Carmella Zaleski	C-2024-3046355
John McAuliffe	C-2024-3046393
Laura Virtue-Delayo	C-2024-3046398
Robert Barry	C-2024-3046400
Mark Perry	C-2024-3046407

Rebecca Pesyna	C-2024-3046409
Louis Guzzi, Jr.	C-2024-3046472
Maureen Guzzi	C-2024-3046473
David Dobrzyn	C-2024-3046474
Albert Denunzio	C-2024-3046475
Caesar Bordo	C-2024-3046476
Gary & Beth Graziano	C-2024-3046739
Valerie Mendicino	C-2024-3046740
Tara & Tom Schuster	C-2024-3046752
Karen Schuster	C-2024-3046807
Mary C. Jennings	C-2024-3046808
Patricia Barbuti	C-2024-3046809
Francis Kranick, Jr.	C-2024-3046812
Natalie Davis	C-2024-3046863
Sharon Cuff	C-2024-3046869
Colleen Demuro	C-2024-3046868
Domenic P. Cafarella	C-2024-3046879
Michael Dempsey	C-2024-3046883
Marianne Brown	C-2024-3046887
Gerald Fabricatore	C-2024-3047362
Gerald R. Fabricatore	C-2024-3047371
Gina McCarthy	C-2024-3047533
Julie Janosy	C-2024-3047696

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BY THE COMMISSION:

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 Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA), Pennsylvania-American Water Large Users Group (PAWLUG), Cleveland-Cliffs Steel (Cleveland-Cliffs), and the City of Scranton, filed on May 17, 2024, to the Recommended Decision (R.D.) of Deputy Chief Administrative Law Judge (ALJ) Christopher P. Pell and ALJ John M. Coogan (collectively, the ALJs), issued on May 7, 2024,[1] in the above -captioned consolidated general rate increase proceedings.[2] PAWC, I&E, the OCA, the OSBA, CAUSE-PA, PAWLUG, and Cleveland-Cliffs filed Replies to Exceptions on May 22, 2024. Additionally, on May 22, 2024, the OCA filed a Motion for Relief Regarding Ex Parte Communications by PAWC (OCA Motion). PAWC filed an Answer to the OCA Motion (Motion Answer) on June 18, 2024.

For the reasons stated, *infra*, we shall: (1) grant, in part, and deny, in part, the Exceptions filed by I&E, the OCA, and CAUSE-PA; (2) deny the Exceptions filed by PAWC, PAWLUG, Cleveland-Cliffs, and the City of Scranton; and (3) deem the OCA Motion to be moot, consistent with this Opinion and Order.

As discussed below, through its consolidated general rate increase request, *as revised*, PAWC proposed base rate changes that would have increased its total annual operating revenues by $202.4 million, or approximately 20.0%, based on a fully projected

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[1] The Office of Small Business Advocate (OSBA) submitted a letter on May 7, 2024, indicating that it would not be filing Exceptions.

[2] By Prehearing Order #1, dated January 5, 2024, Docket Nos. R-2023-3043189 and R-2023-3043190 and all Formal Complaints filed with respect thereto, were consolidated for further proceedings and disposition, without objection.

future test year (FPFTY) ending June 30, 2025.[3] PAWC M.B., Appendix A, Table Act 11 – Step 2. The proposed rate increase for PAWC's water customers comprised $198.9 million (24.1% increase) of the combined $202.4 million rate increase, including $69.5 million of the wastewater revenue requirement re-allocated to water customers

[3] In its initial filing, PAWC proposed base rate changes that would have increased its total annual operating revenues by $203.9 million, or approximately 20.2%. *See*, PAWC Exh. 3-A. As shown in Table 1, during the rebuttal phase of the proceeding, PAWC prepared a revised statement of its revenue requirement, shown in PAWC Exhibit 3-A Revised, which supported an increase in revenue requirement of $204.3 million. PAWC St. 1-R at 3. Ultimately, in light of the concerns Parties have raised in this proceeding with the Company's acquisitions that have not yet closed, PAWC revised its request for rate relief to remove the Brentwood acquisition and to incorporate Step 2 Rates for the Butler Area Sewer Authority (BASA) acquisition to ensure that customers do not pay rates reflecting the Commission-approved BASA ratemaking rate base until that transaction closes. PAWC M.B. at 10.

Table 1: PAWC's Requested Increase

	Pro Forma Present Rate Revenue 6/30/25	Additional Revenue Requirement	Act 11 Allocation	Rate Increase/Decrease		Pro Forma Revenues Under ProposedRates 6/30/25
As-Filed (PAWC Exh. 3-A)						
Water	$824,117,186	$128,149,690	$71,087,394	$199,237,084		$1,023,354,270
WW SSS General	$95,470,867	$31,793,150	($31,962,411)	($169,261)		$95,301,606
CSS WW	$78,636,216	$15,780,126	($16,007,052)	($226,926)		$78,409,290
BASA WW	$11,847,402	$26,288,308	($21,552,699)	$4,735,609		$16,583,011
Brentwood WW	$1,824,191	$1,934,637	($1,565,232)	$369,405		$2,193,596
Total Company	**$1,011,895,862**	**$203,945,911**	**$0**	**$203,945,911**	**20.2%**	**$1,215,841,773**
Rebuttal Testimony (PAWC Exh. 3-A Revised)						
Water	$824,117,186	$129,343,180	$71,087,394	$200,430,574		$1,024,547,760
WW SSS General	$95,470,867	$31,855,090	($31,962,411)	($107,321)		$95,363,546
CSS WW	$78,636,216	$15,834,928	($16,007,052)	($172,124)		$78,464,092
BASA WW	$12,814,193	$25,322,947	($21,552,699)	$3,770,248		$16,584,441
Brentwood WW	$1,824,191	$1,935,019	($1,565,232)	$369,787		$2,193,978
Total Company	**$1,012,862,653**	**$204,291,164**	**$0**	**$204,291,164**	**20.2%**	**$1,217,153,817**
Main Brief (PAWC M.B., Appendix A, Table Act 11 – Step 2)						
Water	$824,117,186	$129,343,180	$69,522,162	$198,865,342		$1,022,982,528
WW SSS General	$95,470,867	$31,855,090	($31,962,411)	($107,321)		$95,363,546
CSS WW	$78,636,216	$15,834,928	($16,007,052)	($172,124)		$78,464,092
BASA WW	$12,814,193	$25,322,947	($21,552,699)	$3,770,248		$16,584,441
Brentwood WW	$0	$0	$0	$0		$0
Total Company	**$1,011,038,462**	**$202,356,145**	**$0**	**$202,356,145**	**20.0%**	**$1,213,394,607**

pursuant to Act 11 of 2012.[4] Regarding wastewater rates, PAWC's proposal would have increased its total operating revenues for its wastewater service by approximately $3.5 million, or approximately 1.9%.[5] *Id.* PAWC also requested approval for a Revenue Decoupling Mechanism (RDM), an Environmental Compliance Investment Charge (ECIC), and deferral accounting mechanisms for pension, Other Post-Employment Benefits (OPEB), and production expenses. PAWC St. 1 at 23-27; PAWC St. 8 at 11-12, 21-30; PAWC St. 10 at 86-106.

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[4] Act 11 of 2012 (Act 11), amending Chapters 3, 13 and 33 of the Pennsylvania Public Utility Code (Code), provides, *inter alia*, the opportunity for wastewater utilities to allocate a portion of their revenue requirement to the combined wastewater and water utility customer base. Specifically, Section 1311(c) of the Code, 66 Pa.C.S. § 1311(c), provides that, upon petition of a utility that provides water and wastewater utility service, the Commission may, *after notice and opportunity to be heard*, allocate a portion of the wastewater utility's revenue requirement to the combined water and wastewater customer base if deemed to be "in the public interest." The benefits of this provision are that the costs of necessary upgrades to wastewater systems to maintain safe and reliable service, which can be substantial on a stand-alone basis, can be spread among the common customer base of the water and wastewater utilities.

[5] Broken down further, as shown in Table 1, this represents a reduction of $107,321 to PAWC Wastewater Sanitary Sewer System (SSS) General operations (Wastewater SSS); a reduction of $172,124 to PAWC Combined Sewer System (CSS) Wastewater operations (CSS Wastewater) (collectively, Wastewater SSS and CSS Wastewater are referred to as Wastewater); and an increase of $3,770,248 to BASA wastewater operations. *See*, PAWC M.B., Appendix A, Table Act 11 – Step 2. The separate revenue requirements for BASA and Brentwood are the result of commitments made by the Company in each acquisition proceeding. *See*, *Application of Pennsylvania-American Water Company under Section 1329 for Acquisition of the Butler Area Sewer Authority*, Docket No. A-2022-3037047 (Opinion and Order entered November 16, 2023) (*BASA*); *see also*, *Application of Pennsylvania-American Water Company under Section 1329 for Acquisition of the Borough of Brentwood*, Docket No. A-2021-3024058 (Opinion and Order entered March 4, 2024) (*Brentwood*). Further, it should be noted that, in *BASA*, PAWC's application was modified by a settlement of the parties in that application proceeding, and the Commission approved that settlement; however, the Commission's decision was appealed to the Commonwealth Court by Center and Summit Townships, Butler County, on due process grounds. Additionally, recently in *Brentwood*, the Commission rejected PAWC's application for the acquisition of Brentwood on the grounds that the transaction did not meet the requirements of Sections 1102 and 1103 of the Code.

In this Opinion and Order, we shall approve an annual revenue increase of $88,121,069 to the Company's *pro forma* revenue at present rates of $820,869,547, or approximately 10.74%, for its water service and an annual revenue increase of $11,207,944 to the Company's *pro forma* revenue at present rates of $173,308,937, or approximately 6.47%, for its wastewater service.

I. Introduction and Background

PAWC provides jurisdictional water and wastewater services to approximately 780,000 customers in its service territory, which covers 37 counties across the Commonwealth of Pennsylvania. PAWC St. 2 at 2-3. PAWC is a subsidiary of American Water Works Company, Inc. (AWK) and is a public utility and jurisdictional water distribution and wastewater company as those terms are defined in Section 102 of the Code, 66 Pa.C.S. § 102.

According to PAWC, this rate increase is driven by the need to earn a fair return on investments; to reflect capital additions that the Company has placed into service since its last base rate proceeding and the estimated $1 billion in capital additions that are projected to be placed in service during the future test year (FTY) ending June 30, 2024 and the FPFTY ending June 30, 2025, including acquired troubled water utilities' distribution systems; and to recover higher levels of operating and maintenance (O&M) expenses resulting from increases in production costs, employee-related expenses, and the cost of bringing high quality and reliable water service to additional communities in the Commonwealth. PAWC St. 1 at 7-9.

II. History of the Proceeding

On November 8, 2023, the Company filed Supplement No. 45 to Tariff Water – Pa. P.U.C. No. 5 (Water Tariff Supplement) and Supplement No. 47 to

Tariff Wastewater – Pa. P.U.C. No. 16 (Wastewater Tariff Supplement) to become effective on January 7, 2024. PAWC's supporting financial data for the Water Tariff Supplement and Wastewater Tariff Supplement reflected an increase in total annual operating revenues of approximately $203.9 million.[6]

On November 17, 2023, the OCA filed Formal Complaints, Public Statements, and Notices of Appearances. On November 20, 2023, the OSBA filed Formal Complaints and Notices of Appearances. On November 21, 2023, I&E filed Notices of Appearances. Formal Complaints were also filed by various PAWC customers.[7] Notices of Appearances were also filed by PAWLUG and Cleveland-Cliffs. Additionally, Petitions to Intervene were received by the Commission on Economic Opportunity (CEO), CAUSE-PA, Cleveland-Cliffs, the City of Scranton, Victory Brewing Company (Victory Brewing), and Exeter Township.

By separate Orders entered December 21, 2023, pursuant to 66 Pa.C.S. § 1308(d) (Suspension Orders), the Commission instituted a formal investigation at Docket Nos. R-2023-3043189 (Water) and R-2023-3043190 (Wastewater) to determine the lawfulness, justness, and reasonableness of the Company's existing and proposed

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[6] Under the Company's proposal, the Water Tariff Supplement would increase PAWC's total annual operating revenues for water service by approximately $199.2 million, or 24.2%, and the Wastewater Tariff Supplement would increase PAWC's total annual operating revenues for wastewater service by approximately $4.7 million, or 2.5%. As previously noted, subsequently, the Company updated its requested increase. Therefore, the Company's final proposed increase was an increase of approximately $202.4 million in total annual operating revenues, including an increase of approximately $198.9 million in total annual operating revenues for its water service and approximately $3.5 million in total annual operating revenues for its wastewater service. *See*, PAWC M.B., Appendix A, Table Act 11 – Step 2.

[7] Additionally, opposition to the proposed rate increases was filed by various individuals and placed into the Public Comment file associated with this proceeding, including a letter filed by AARP Pennsylvania on June 11, 2024, requesting that the Commission deny the proposed rate increases.

rates, rules and regulations. Per the Suspension Orders, the Water Tariff Supplement and Wastewater Tariff Supplement were suspended, by operation of law until August 7, 2024, unless permitted by Commission order to become effective at an earlier date. The matter was assigned to the Office of Administrative Law Judge (OALJ) for the prompt scheduling of hearings culminating in the issuance of a Recommended Decision. This matter was subsequently assigned to the ALJs for the purposes of conducting hearings and issuing a Recommended Decision.

On December 28, 2023, PAWC filed its Petition for Protective Order at Docket Nos. R-2023-3043189 and R-2023-3043190. Additionally, PAWC filed its Petition for Consolidation of Rate Proceedings at the aforementioned dockets. None of the Parties objected to PAWC's Petition for Consolidation.

A Prehearing Conference was held on January 3, 2024, at which two consumer Complainants requested active status in this proceeding, Robert Ralls, and Kyle Donahue. Also, during the Prehearing Conference, the ALJs granted PAWC's Motion to Consolidate these proceedings.

On January 5, 2024, the ALJs issued an order granting PAWC's Petition for Protective Order.

A series of twelve public input hearings were held as scheduled,[8] at which a total of 217 people testified:

- January 29, 2024 – two in-person public input hearings in Port Vue, PA;

[8] Vice Chair Kimberly Barrow attended the Scranton public input hearings on January 30, 2024, and the 6 p.m. Harrisburg public input hearing on February 6, 2024. Commissioner Kathryn L. Zerfuss attended the Scranton public input hearings and the Harrisburg public input hearings.

- January 30, 2024 – two in-person public input hearings in Scranton, PA;
- January 31, 2024 – two in-person public input hearings in Exeter Township, PA;
- February 5, 2024 – two telephonic public input hearings;
- February 6, 2024 – two in-person public input hearings in Harrisburg, PA; and
- February 7, 2024 – two telephonic public input hearings.

The evidentiary hearings were held as scheduled on March 7 and 8, 2024. The list of the pre-served testimony and exhibits that were admitted into the record at the evidentiary hearings were attached as Appendix A to the Recommended Decision.[9]

On March 26, 2024, Main Briefs were filed. Reply Briefs were filed on April 5, 2024.

In the Recommended Decision, issued on May 7, 2024, the ALJs recommended that PAWC's Water Tariff Supplement and its Wastewater Tariff Supplement, and the associated proposed revenue increases, be denied because the Company did not meet its burden of proving by a preponderance of the evidence the justness and reasonableness of every element of its requested increases. Instead, the ALJs recommended the approval of an increase in annual water operating revenues in the amount of approximately $92.6 million, or approximately 11.3% over present rates, and an increase in annual wastewater operating revenues in the amount of approximately $11.5 million, or approximately 6.6% over present rates. R.D. at 1.

As previously noted, PAWC, I&E, the OCA, CAUSE-PA, PAWLUG, Cleveland-Cliffs, and the City of Scranton filed Exceptions to the Recommended

[9] *See*, R.D. at 394-400.

Decision on May 17, 2024. On May 22, 2024, PAWC, I&E, the OCA, the OSBA, CAUSE-PA, PAWLUG, and Cleveland-Cliffs filed Replies to Exceptions.

Additionally, on May 22, 2024, the OCA filed its Motion wherein it alleged that the Company had engaged in ex parte communications with Commission employees, when it gave a video presentation on May 20, 2024, at the annual meeting of the Pennsylvania Chapter of the National Association of Water Companies (NAWC). On May 31, 2024, the Commission issued a Secretarial Letter (*May 2024 Secretarial Letter*), wherein it, *inter alia*: (1) served a copy of the OCA Motion on all Parties of Record to this Proceeding; (2) provided a link to the video presentation; and (3) directed interested parties to file an Answer to the OCA Motion within twenty (20) days of the date of issuance of the *May 2024 Secretarial Letter* (*i.e.*, no later than June 19, 2024).[10] On June 18, 2024, PAWC filed its Motion Answer.

III. Public Input Hearings, Comments, and *Pro Se* Complaints

As noted above, in the History of Proceeding, the Commission took extensive public input throughout the course of this rate case proceeding and hosted twelve public input hearings. More specifically, eight in-person public input hearings were convened between January 29, 2024 and February 6, 2024. Additionally, four telephonic public input hearings were held between February 5, 2024 and February 7, 2024. These hearings were held in light of significant public interest in this proceeding, in addition to requests from several Pennsylvania state legislators. During these hearings, PAWC's customers provided public input testimony regarding the Company's proposed water and wastewater rate increases. A total of 217 witnesses testified: 32 in Port Vue, 52 in Scranton, 58 in Exeter, 10 in Harrisburg and 65 by telephone. The Recommended Decision tallied the content of these customers'

[10] As June 19, 2024, was a state holiday, the actual deadline to file an Answer to the OCA Motion was on June 20, 2024.

comments into four categories: affordability, quality of service, PAWC supportive, and other. Table 2, below, indicates the topics covered by location.

Table 2: Public Input Hearing Summary[11]

Location (Date/Time)	Affordability	Quality of Service	PAWC supportive	Other
Port Vue (1/29/24 1pm)	10	3	7	1
Port Vue (1/29/24 6pm)	12	2	0	7
Scranton (1/30/24 1pm)	23	11	6	11
Scranton (1/30/24 6pm)	22	16	0	12
Exeter (1/31/24 1pm)	31	18	1	22
Exeter (1/31/24 6pm)	17	6	1	10
Telephonic (2/5/24 1pm)	9	3	13	4
Telephonic (2/5/24 6pm)	4	0	2	2
Harrisburg (2/6/24 1pm)	1	2	4	1
Harrisburg (2/6/24 1pm)	1	0	3	1
Telephonic (2/7/24 1pm)	6	3	11	3
Telephonic (2/7/24 6pm)	9	3	5	7
TOTAL	**145**	**67**	**53**	**81**

R.D. at 35-36.

[11] Table 2 displays more than 217 topics testified on because a public input witness may have testified regarding more than one topic. *See*, R.D. at 36, n.4.

A. Quality of Service[12]

Reviewing the transcripts of the various public-input hearings uncovers a trend of customers claiming negative quality of service experiences mainly due to a lack of water quality. This is especially true in the northeastern Pennsylvania region of PAWC's service territory encompassing the City of Scranton and the greater Lackawanna County region. We note the following examples, below.

Scranton Hearings – January 30th:

- Senator Marty Flynn testified about dirty water issues. Tr. at 400.
- Scranton City Councilmember Jessica Rothchild testified that PAWC is providing dirty water to customers. Tr. at 645-46.
- Scranton School Board Director Sean McAndrew testified that several times throughout the summer he had dirty water or no water at all. Tr. at 670.
- Several PAWC customers complained of having to buy filtered water because their water has rust contaminants, is cloudy, smells funny, tastes like metal, and is not good to drink or use. Tr. at 539, 554-55.
- Several PAWC customers in Scranton claimed their water is dirty, lacking quality, is unpalatable, and smells of excessive chlorine. They noted they were afraid to consume it because of the odor and appearance. Tr. at 677, 726.

Telephonic Hearings:

- Customers claimed poor water quality, including dirt particles in the water, a chlorine odor, and hardness causing harm to appliances. Tr. at 1170, 1270.

[12] In our summary of the public input hearings in this Opinion and Order, we shall focus on the testimony related to quality of service from the Company. For a more detailed summary of the public input hearings, see pages 35-54 of the Recommended Decision.

- Customers contended poor water quality with a chlorine odor and mineral deposits found in toilet water tanks. Tr. at 1701, 1712.

- Customers claimed there was strong chlorine odor and taste. Tr. at 1847.

In addition to the above public input hearing testimony, we note that various comments and complaints filed in this case further exhibit a trend in customer concerns for the quality of service provided in PAWC's northeastern territory. Over thirty *pro se* complaints and over fifty comments were filed asserting negative quality of service. Tables 3 and 4, below, provide a summary of these comments and complaints.

Table 3: Comments Regarding Quality of Service

Quality of Service Comments		
Customer Name	**Town**	**Notes**
Diane McLaughlin	Mechanicsburg	Water bubbly with soap suds in it
Arthur Lucarelli	Old Forge	Water occasionally dirty, cloudy
Anthony Reakes	Moscow	Cloudy water; air in lines; excessive chlorine. Leak in line closer to home.
Nadine Ghosn	Dunmore	Water is discolored, yellow on occasion.
Jeff Vesnesky	Scranton	Water stains everything
Teresa and Eldon Parks	Morrisdale	Poor water pressure
William Robison	Camp Hill	Had to install a whole house filter to make water drinkable and not hard on plumbing
Sheila Eboli	Dunmore	Subjected to multiple water breaks; water often brownk; water smells like chlorine and is not drinkable; filters water for her pets
Johanna F. Salazar and Jorge M. Salazar	East Stroudsbury, PA	Quality of water is subpar; water color is yellow/ brown; stains applicances and clothing; chlorine taste and smell
Jeanne Schneider	Scranton	discolored water numerous times out of the year
Lucinda Klahr	Annville	Water is whhite and cloudy; feels that it is not safe to drink due to chemicals
Natalya Krapman	East Stroudsbury, PA	Quality of water is subpar; water color is yellow/ brown; stains applicances and clothing; chlorine taste and smell
David and Mary Lazarony	East Stroudsbury, PA	Quality of water is subpar; water color is yellow/ brown; stains applicances and clothing; chlorine taste and smell
Mark Johansen	East Stroudsbury, PA	Quality of water is subpar; water color is yellow/ brown; stains applicances and clothing; chlorine taste and smell
Raymond Volsario	East Stroudsbury, PA	Quality of water is subpar; water color is yellow/ brown; stains applicances and clothing; chlorine taste and smell
Loretta and Thomas Kaczmarek	Grindstone	Water smells like chlorine; customer buys bottled water
Marian Reidenbach	Scranton	Dirty, unclean water; has to buy water to drink
Albert Collins	Dunmore	Water quality is subpar; has to buy water to drink
Louise Kurechka	Scranton	Water is cloudy and dirty
Dominic Farino	Scranton	Water is dirty; reliability issues
Andrea Sable	Scranton	Discolored water after pipe replacement; pipes break every winter; has to go without water or with cloudy/ dirty water for hours
Kelly Wary	Clarks Summit	Deals with water main breaks every few months. Water is dirty and laundry needs to be re-washed.
Walter Garner	McKeesport	Water smells like chlorine and other odors. Purchases water to drink.
Lynn Daroczy	East Stroudsburg	Water is yellow and brown and stains clothing and appliances
Nancy A. Edmunds	Archbald, PA	Water is undrinkable; contains sediment
John Orbin	Dickson City	Water tastes poor and ruins the taste of food if food is boiled in the water
Ronald Pavlisko	Washington, PA	Bad water quality; undrinkable; has to uses filters
Joanne Galette	Norriston	2-day water outage resulted in a faulty repair that caused a leak in her utility closet
Andrew H. Lake	Coatesville	Water has a foul odor; tastes bad;
Mike Sabin	Coatesville	Water smells like chlorine; uses water filter
Mariam Mahmoud	East Stroudsburg	Water is yellow and brown and stains clothing and appliances
Erin Maloney	Scranton	Experiences brown water 1 to 2 times per month. Significant increase in undrinkable/unusable water despite increased pricing
Jennifer Dougherty	East Stroudsburg	Water is yellow and brown and stains clothing and appliances
Jessica Ruhl	East Stroudsburg	Lines are frequently flushed producing a brown sediment and residue; Water is high in iron and copper leaving rust and lime colored stains. Filtered water still tastes like chlorine
Elizabet and Sergio Ferro	East Stroudsburg	Lines are frequently flushed producing a brown sediment and residue; Water is high in iron and copper leaving rust and lime colored stains. Filtered water still tastes like chlorine
Melissa Conniff-Fox	Scranton	Has dirty water
Daniel Tedesco	Shiremanstown	There are days when the water is cloudy and has a slight odor
Guillaume Durand	East Stroudsburg	Water is subpar; yellow/ brown stains on appliances and clothing; water smells and tastes like chlorine
Carl Battistone	McDonald	No alert that customer was under a boil water advisory after a water main break occurred
James Defrancesco Jr.	Pittsburgh	Water is undrinkable; brown color
Robert and Emily Ott	East Stroudsburg	Water is yellow and brown and stains clothing and appliances
Marylo Bonadonna	East Stroudsburg	Water is yellow and brown and stains clothing and appliances
Shanna McDonald-Campbell	East Stroudsburg	Water is yellow and brown and stains clothing and appliances
Michael Grier	Douglassville	Bad water quality
Scott Repella	Carbondale	Water has a mildew, rotten egg smell on a daily basis
Anthony Pennino	East Stroudsburg	Water is yellow and brown and stains clothing and appliances
Susan Brace	Dunmore	Water is yellow and has an overwhelming chlorine smell. Installed a whole-home water filter
Neil Bossart	McDonald	Does not have access to safe, clean, and reliable drinking water
James Faye	Nanticoke	Water has a strong chlorine taste. Needed to install a whole home filtration system. Has a buildup of solid sludge like substance that forms in the screens in the faucets and toilets.
Jessica Diaz	East Stroudsburg	Water is yellow and brown and stains clothing and appliances
Debra Borosky	Dalton	Corrosion ruined faucets and tiles in bathrooms; water has strong chlorine smell and is not drinkable
Anthony Buffardi	Roaring Brook	Water flows gray from the tap; dark brownish sludge builds up and almost blocks the faucet. Water is not drinkable.

Table 4: *Pro Se* Complaints Regarding Quality of Service

Quality of Service Complaints		
Customer Name	**Town**	**Notes**
Michelle R. Miller	Carbondale, PA	Needs filter to drink water; old pipes not replaced until there is an issue
Raymond Volsario	East Stroudsbury, PA	Unclean water; has to change filter every 3 weeks
Nicole Glimp	Reading, PA	Water is "very hard" and tastes "awful"
Susan Gilday	Scranton	Water is discolored; dirty
Gary Shiner	Scranton	Needs to buy bottled water to drink; water is rusty and sometimes is unable to do laundry or dishes
Gene and Patricia Malaspina	Coatesville, PA	Water tastes like chlorine
Paul Walaski	Forest City	Water smells, is discolored and has residue
Mary Ann Maro	Scranton	Pipes are dirty; has purchaseed water when there is a water main break and no water available
Roberta Brentano	Scranton	Has experienced no water due to broken lines
Tara and Tom Schuster	Scranton	Water line in front yard has been shut off and on, resulting in a subsidence; company not responsive to complaint
Deborah and Robert M. May	Scranton	Dirty water notifications
LeRoy James Watters III	West Norriton	Company "does nothing to protect the watersheds from pollution of stormwater"; previous stormwater flooding complaints remain unfixed
James McDermott	Scranton	Poor service; dirty water
Gerald Fabricatore	Scranton	Overpriced for quality of service received
Julie Janosy	Scranton	Strong chlorine smell; afraid to drink water unfiltered
Gary Graziano	Scranton	Water smells like chemicals
Frank Sislo	Scranton	Water smells like iodine. Purchases drinking water and filters tap water
Janice Reynolds	Reading, PA	Water is yellow or brown
Michael and Mary Weishner	Washington, PA	Dirt in water; had to replace filters multiple times
Paula Krammes	Reading, PA	Water not safe to drink without being filtered
Miranda Connors	Pittsburgh, PA	Lack of support or service; company does not "fix any type of water lines"
Nelson Moeller	Reading, PA	Lack of improvement or extension in water or sewer services
Randy McDaniels	West Mifflin, PA	Water is dirty and smells; needs to purchase a filer to drink it. Water leaks have lasted for many months before addressed.
Vicki DiArchangelo	Reading, PA	Water is distasteful; needs to purchase water from store. Has a whole house water softener and filter but this still does not help
Robert Boni	Reading, PA	Low water quality; must filter drinking water
James Metzer	West Mifflin, PA	Water lines ruptured and unfixed for months; water smells like chlorine; had to purchase water filter
Andrea Devlin	Reading, PA	Water quality hard; needed to purchase a water softener
Gerald R. Fabricatore	Scranton	Bad quality of service; details not provided
Robert Barry	Scranton	Claims that "water quality is terrible"
Keith Sauer	Reading, PA	Bad water quality; uses bottled water for unboiled consumables
Jim Davidson	Reading, PA	Unjustified rate increases compared to the poor water quality
Lynn Mugno	Reading, PA	Bad water flavor and smell; added an "expensive treatment just to shower and do laundry"
Anh Duong	Reading, PA	Water quality is "hard" and "borderline undrinkable"
Laura Semel	Parkesburg, PA	Long sewer line replacement times; brown and white water in pipes; had to run the water to clear sediment "due to their contstant interruption of service (without notification)"
Robert Bifano	Archbald, PA	Low water pressure
Debora A. Sokol	Reading, PA	Bad water quality; water has "oily film to it"

We specifically highlight the following comments and complaints:

Comments

- Susan Brace from Dunmore stated her water is yellow, has an overwhelming chlorine smell, and therefore she installed a whole-home water filter.

- Sheila Eboli from Dunmore asserted the company had multiple water main breaks, her water is often brown, it smells like chlorine, is not drinkable, and she filters water for her pets.

- Marian Reidenback from Scranton submitted that her water is dirty and that she has to buy water to drink.

Complaints

- Michelle R. Miller from Carbondale stated that she needs filters to drink water and that old pipes are not replaced until there is an issue.

- Gary Shiner of Scranton asserted that he needs to buy bottled water to drink, his water is rusty, and that he is unable to do his laundry or dishes.

- Frank Sislo of Scranton submitted that his water smells like iodine. He stated that he purchases his drinking water and filters the tap water.

B. Disposition

Based upon the cumulative number of quality-of-service concerns raised in this proceeding via hearing, comments, and complaints, we find that further investigation by this Commission is warranted. Forty percent of such comments, and thirty-eight percent of such complaints raised pertain to the Lackawanna County region. As such, an investigation is necessary to determine the cause of these service quality issues, and, to ensure the Company effectively manages these issues toward remediation. In an effort to carry out this task, we shall direct the Commission's Law Bureau, in conjunction with the Bureau of Technical Utility Services (TUS), to implement an investigation into the quality-of-service issues in PAWC's northeastern service territory. Such investigation may entail conferencing with the utility, issuing data requests, or any other action deemed necessary by Commission Staff to explicate these issues. The Law Bureau, in conjunction with TUS, should coordinate with the Pennsylvania Department of Environmental Protection (PADEP), as it deems necessary, and should complete the investigation within nine months of the effective date of rates in this proceeding.

This investigation should culminate with the issuance of a root cause analysis report exhibiting any key findings. Further, the Bureaus' Staff may make recommendations for future actions by PAWC, including but not limited to, modification to Company practices, procedures, or its Long-Term Infrastructure Investment Plan (LTIIP). Finally, the Law Bureau, in conjunction with TUS, may refer its findings to I&E, the PADEP, or both, should it deem such action necessary.

IV. Legal Standards and Additional Preliminary Matters

A. Legal Standards

At issue here is the Company's request for a general base rate increase, which is governed by Section 1308(d) of the Code, 66 Pa.C.S. § 1308(d). Section 1308(d) of the Code provides the procedures for changing base rates, the time limitations for the suspension of the new rates, and the time limitations on the Commission's actions. 66 Pa.C.S. § 1308(d).[13] "Under traditional ratemaking, utilities may not change rates charged to customers outside of a base rate case." *McCloskey v. Pa. PUC*, 127 A.3d 860, 863 n.2 (Pa. Cmwlth. 2015).

Section 1301(a) of the Code mandates that "[e]very rate made, demanded, or received by any public utility . . . shall be just and reasonable, and in conformity with [the] regulations or orders of the [C]ommission." 66 Pa.C.S. § 1301(a). Pursuant to the just and reasonable standard, a utility may obtain "a rate that allows it to recover those expenses that are reasonably necessary to provide service to its customers[,] as well as a reasonable rate of return on its investment." *City of Lancaster Sewer Fund v. Pa. PUC*, 793 A.2d 978, 982 (Pa. Cmwlth. 2002) (*City of Lancaster*). There is no single way to arrive at just and reasonable rates, and "[t]he [Commission] has broad discretion in determining whether rates are reasonable" and "is vested with discretion to decide what

[13] Among other things, Section 1308(d) of the Code requires the Commission to render a final decision granting or denying, in whole or in part, the general rate increase requested by a public utility, within a general time frame not to exceed seven months from the proposed effective date of the utility's proposed tariff supplement. *See*, 66 Pa.C.S. § 1308(d); *see also*, 52 Pa. Code § 53.31 (requiring a tariff proposing a rate increase to be effective upon sixty days' advance notice). Unless the utility voluntarily extends the suspension period, the Commission's non-action within this timeframe means, by operation of law, the utility's proposed general rate increase will go into effect, as proposed, at the end of such period. *See*, 66 Pa.C.S. § 1308(d).

factors it will consider in setting or evaluating a utility's rates." *Popowsky v. Pa. PUC*, 683 A.2d 958, 961 (Pa. Cmwlth. 1996) (*Popowsky*).

A public utility is entitled to an opportunity to earn a fair rate of return on the value of the property dedicated to public service. *Pennsylvania Gas and Water Co. v. Pa. PUC*, 341 A.2d 239, 251 (Pa. Cmwlth. 1975) (citations omitted). In determining a fair rate of return, the Commission must adhere to the constitutional standards established by the United States Supreme Court in the seminal cases *Bluefield Water Works and Improvement Co. v. Public Service Comm'n of West Virginia*, 262 U.S. 679, 692-93 (1923) (*Bluefield*) and *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) (*Hope Natural Gas*). In *Bluefield*, the Supreme Court stated:

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should 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. A rate of return may be too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.

Bluefield, 262 U.S. at 692-93. Twenty years later, in *Hope Natural Gas*, the Supreme Court reiterated:

> From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that

> standard the return to equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

Hope Natural Gas, 320 U.S. at 603.

The Commission is required to investigate all general rate increase filings. *Popowsky*, 683 A.2d at 961. The burden of proof to establish the justness and reasonableness of every element of a public utility's rate increase request rests solely upon the public utility in all proceedings filed under Section 1308(d) of the Code. 66 Pa.C.S. § 315(a); *see also, Lower Frederick Twp. Water Co. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980) (*Lower Frederick*); *see also, Brockway Glass Co. v. Pa. PUC*, 437 A.2d 1067 (Pa. Cmwlth. 1981). Section 315(a) of the Code provides as follows:

> **Reasonableness of rates.** – In any proceeding upon the motion of the commission, involving any proposed or existing rate of any public utility, or in any proceedings upon complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.

66 Pa.C.S. § 315(a). The evidence necessary to meet that burden must be substantial. *Lower Frederick* at 507.

In general rate increase proceedings, the burden of proof does not shift to parties challenging a requested rate increase. Rather, the utility's burden of establishing the justness and reasonableness of every component of its rate request is an affirmative one, and that burden remains with the public utility throughout the course of the rate

proceeding. There is no similar burden placed on parties to justify a proposed adjustment to the Company's filing. The Pennsylvania Supreme Court has held:

> [T]he appellants did not have the burden of proving that the plant additions were improper, unnecessary or too costly; on the contrary, that burden is, by statute, on the utility to demonstrate the reasonable necessity and cost of the installations, and that is the burden which the utility patently failed to carry.

Berner v. Pa. PUC, 116 A.2d 738, 744 (Pa. 1955).

However, in proving that its proposed rates are just and reasonable, a public utility need not affirmatively defend every claim it has made in its filing, even those which no other party has questioned. As the Pennsylvania Commonwealth Court has held:

> While it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged.

Allegheny Center Assocs. v. Pa. PUC, 570 A.2d 149, 153 (Pa. Cmwlth. 1990) (citation omitted); *see also, Pa. PUC v. Equitable Gas Co.*, 73 Pa. P.U.C. 301, 359-360 (1990).

Additionally, Section 315(a) of the Code cannot reasonably be read to place the burden of proof on the utility with respect to an issue the utility did not include in its general rate case filing and which, frequently, the utility would oppose. 66 Pa.C.S. § 315(a). The burden of proof must be on the party who proposes a rate increase beyond that sought by the utility. *Pa. PUC v. Metropolitan Edison Company*, Docket No. R-00061366, 2007 Pa. PUC LEXIS 5 (Order entered January 11, 2007). The mere rejection of evidence contrary to that presented by the public utility is not an

impermissible shifting of the evidentiary burden. *United States Steel Corp. v. Pa. PUC,* 456 A.2d 686 (Pa. Cmwlth. 1983).

In their Recommended Decision, the ALJs made 194 Findings of Fact and reached 14 Conclusions of Law. R.D. at 5-35, 389-91. The Findings of Fact and Conclusions of Law are incorporated herein by reference and are adopted without comment unless they are either expressly or by necessary implication rejected or modified by this Opinion and Order.

Finally, any issue or Exception that we do not specifically address shall be deemed to have been duly considered and denied without further discussion. The Commission is not required to consider expressly or at length each contention or argument raised by the parties. *Consolidated Rail Corp. v. Pa. PUC,* 625 A.2d 741 (Pa. Cmwlth. 1993); *see also, generally, University of Pennsylvania v. Pa. PUC,* 485 A.2d 1217 (Pa. Cmwlth. 1984).

B. The OCA's Motion

1. The OCA's Motion and PAWC's Answer

The OCA Motion was filed pursuant to 66 Pa.C.S. § 334(c) and 52 Pa. Code § 5.103, alleging that PAWC had engaged in ex parte communications with Commission employees, and requesting that the Commission: (1) find that PAWC engaged in prohibited ex parte communications under 66 Pa.C.S. § 334(b)-(c) when it gave a video presentation on May 20, 2024 at the annual meeting of the Pennsylvania Chapter of the NAWC relating to PAWC's receivership of the East Dunkard Water Authority (EDWA); (2) direct PAWC to cure the ex parte communication violation by circulating the video presentation to all the active parties in this proceeding; (3) admonish PAWC for its attempt to proffer extra-record evidence through prohibited ex parte

communications; (4) ensure that the Commission and Commission advisory staff assigned to this proceeding will not consider the extra-record video presentation as it relates to the issue of PAWC's claim for a management performance adder and its receivership of the EDWA system; and (5) consistent with paragraph 19 of the March 11, 2024 Order on Briefs and Closing of the Record issued by the ALJs, assure the parties that the Commission will not consider PAWC's position on its management performance adder claim as it pertains to PAWC's receivership of the EDWA system. OCA Motion at 1-2.

In support of its Motion, the OCA contends that the video presentation given by PAWC at the NAWC – Pennsylvania Chapter's annual meeting on May 20, 2024, contained information regarding PAWC's managerial performance, capital contributions, operational expenses, and improvements to the EDWA system, which PAWC manages in a receivership appointed by the Commonwealth Court of Pennsylvania, along with asserted improvements to communications to customers served by the EDWA system. The OCA states that, in the instant proceeding, PAWC is requesting up to twenty-five (25) basis points be added to its cost of equity for management performance and efficiency, including its receivership of EDWA; however, the OCA avers that PAWC did not present any record evidence in this proceeding regarding its management of the EDWA system. The OCA further states that the Recommended Decision in this proceeding only makes mention of the EDWA by way of reference to Public Input Hearing testimony and citation to PAWC's Reply Brief regarding how the Company has been appointed as receiver, and that there is no discussion in the Recommended Decision regarding capital improvements to the EDWA system or the efficacy of PAWC's management as receiver. OCA Motion at 5-7.

With respect to the video presentation on May 20, 2024, the OCA argues that PAWC's video presentation consisted of factual averments and images regarding PAWC's management of the EDWA water system. The OCA submits that evidence of the

efficacy of PAWC's management of the EDWA system as receiver is not admissible in this proceeding because it was presented after the close of record and is not otherwise admissible under the Commission's Regulations or Pennsylvania Rules of Evidence. In addition, the OCA avers that the NAWC annual meeting was not a public event, but open only to those who were invited, and included Commission staff that were present during the video presentation and who are responsible for advising Commissioners on decisions for proceedings before them, such as the instant proceeding. The OCA stated that not all of the Parties to the instant proceeding were invited to the NAWC annual meeting or present for PAWC's presentation. OCA Motion at 7-8.

The OCA submits that the PAWC presentation constitutes an ex parte communication, which is prohibited pursuant to 66 Pa.C.S. § 334 (b)-(c), because: (1) it was given to an invited audience that included employees of the Commission; (2) it pertained to the merits of PAWC's request for a cost of equity adder for management efficiency in the instant proceeding; (3) the instant proceeding constitutes a contested, on-the-record proceeding; and (4) any factual averments made by a party to this proceeding are off-the-record communications because the proceeding is still pending before the Commission after hearings were conducted and the record was closed. OCA Motion at 8-9. Moreover, the OCA avers that in prior proceedings before the Commission, Commission staff in receipt of ex parte communications have distributed such communications to the parties to the proceeding to ensure all parties remain appraised of all information provided to Commission staff. *Id*. at 9 citing *Zenmon v. Pa. Power Co.*, C-2022-3030679 (October 27, 2022) (*Zenmon*).

The OCA argues that the Commission should admonish PAWC because the Company is sophisticated legally and technically, and its counsel and management are well versed in the rules of process and procedure. In addition, the OCA states that admonishment may deter similar ex parte communications from occurring in the future. The OCA contends that PAWC knew, had reason to know, or should have known that:

(1) the instant proceeding was a contested, on-the-record proceeding that was currently pending before the Commission; (2) the information contained in the video and accompanying oral presentation was relevant to the Company's request for a management adder to its rate of return request; (3) PAWC did not present any evidence on the efficacy of its management of or capital improvements to the EDWA system following receipt of receivership; (4) PAWC was not obligated to provide a presentation on the EDWA at the NAWC annual meeting to which Commission staff were specifically invited; and (5) Commission staff who may influence the outcome of the instant proceeding would be in attendance at the presentation, the presentation before such Commission staff constituted an ex parte communication in violation of 66 Pa.C.S. § 334(c). OCA Motion at 10-11.

The OCA contends that PAWC must be directed to cure the violation by distributing its video presentation to all parties in the proceeding to ensure that procedural due process is considered by providing all parties with the opportunity to review the information provided in PAWC's video presentation at the NAWC annual meeting on May 20, 2024. Also, the OCA requests assurance that no information offered during PAWC's presentation will be considered by Commission employees when advising the Commission on its decision on the instant proceeding and that the Commission will rely solely on the record evidence presented prior to the close of record. Finally, the OCA argues that PAWC's claim for the management performance adder as premised on its management and receivership of the EDWA should not be considered as an appropriate sanction for the attempt to inject extra-record evidence into the instant proceeding through prohibited ex parte communications. OCA Motion at 11-13.

In conclusion, the OCA requests that the Commission grant the Motion and: (1) find that PAWC engaged in prohibited ex parte communications under 66 Pa.C.S. § 334(b)-(c) when it gave its video presentation on May 20, 2024 at the NAWC annual meeting; (2) direct PAWC to cure the ex parte communication violation by circulating the

video presentation to all the active parties in this proceeding; (3) admonish PAWC for its attempt to proffer extra record evidence through strictly prohibited ex parte communications; (4) ensure that the Commission and Commission advisory staff assigned to this proceeding will not consider the extra-record presentation as it relates to the issue of PAWC's claim for a management performance adder and its receivership of the EDWA system; and (5) assure the parties that the Commission will not consider PAWC's position on its management performance adder claim as it pertains to PAWC's receivership of the EDWA system. OCA Motion at 14.

In its Motion Answer, PAWC urges the Commission to reject the OCA Motion and OCA's attempt to prevent the Commission from considering PAWC's assistance to the community served by the EDWA through this allegation of ex parte communications. PAWC argues that the OCA is wrongly trying to do so by falsely claiming that a short, publicly-available video (video) played during a widely-attended annual meeting of a trade association (event) somehow constitutes an ex parte off-the-record communication. Motion Answer at 1.

PAWC portrays the event in question, at which the video was viewed, as an annual meeting of the Pennsylvania chapter of the NAWC, with chapters spread across the United States. PAWC states that this annual meeting was held on May 20, 2024, from 8:30 a.m. to 1:30 p.m., at which seven presentations were made, including one presentation, which was a 45-minute panel entitled "Executives' Panel Discussion" consisting of executives from regulated utilities and chaired by the NAWC-Pennsylvania Chapter leader. In that session, PAWC avers that the PAWC panelist presented a two-minute and forty-five second video that focused on PAWC's actions as a receiver of the troubled EDWA system, a system that is the subject of a separate and uncontested proceeding. PAWC explains that the panelist from PAWC, Justin Ladner, is President of PAWC and was one of several panelists, including the presidents of Aqua PA, Veolia, the York Water Company, and Columbia Water Company. PAWC emphasizes that the panel

topic was focused on timely issues facing the Commonwealth's regulated water and wastewater utilities, of which PAWC was one, and not this proceeding. Motion Answer at 2.

PAWC claims that the Section 334 prohibition in the Code regarding ex parte communications defines an ex parte communication as limited to any "off-the-record communication to or by any member of the commission," and that the video in question was neither "to or by" a member of the Commission nor did it address the merits of any "fact or issue" in this proceeding. PAWC further stresses that the event and the video are publicly available, and that the event at which the video was played was open to members and non-members with over 100 people in attendance. Motion Answer at 2.

PAWC disputes the OCA's claim as a mischaracterization of the video as part of its effort to have the Commission disregard the undisputed record evidence related to PAWC's appointment as a receiver for EDWA when deliberating on a management performance adjustment to their authorized Return on Equity (ROE) sought by PAWC in this proceeding. PAWC dismisses this OCA effort, to undermine PAWC's demonstrated management performance, as entirely inappropriate.[14] Motion Answer at 2-3.

PAWC also disputes the OCA's requests to have the Commission circulate the video to all Parties and provide assurances that no information offered by PAWC during the NAWC meeting will be considered by the Commission. PAWC states that the video had already been distributed by the Commission and PAWC does not object to the

[14] PAWC notes that prior to being publicized on YouTube, the video presented at the event was slightly revised to address a safety concern by replacing a brief image that was in the original version. Motion Answer at 3, n. 6. PAWC further states that the video uploaded to the Commission's Sharepoint site, in response to the *May 2024 Secretarial Letter*, was the same version of the video shown at the NAWC event. *Id*. at 4, n. 8.

Commission assuring the OCA that the video played no role in the recommendations or determinations in this proceeding. Motion Answer at 4.

Furthermore, PAWC asks the Commission to deny the OCA Motion because the video is not an ex parte communication in violation of Section 334 of the Code. PAWC avers that the video was not a communication "by or to" the Commission or Commission staff, the subject matter of the video was not "regarding the merits of any fact in issue" in the proceeding. PAWC claims that watching the video at the event was no different than coming across a newspaper article or televised news event on PAWC's actions as a receiver. PAWC submits that the presentation of the video was to a public audience during an industry meeting that happened to include some Commission employees, and that this bears no resemblance to those off-the-record communications that are relied upon as precedent in the OCA Motion. Motion Answer at 6-7.

PAWC contends that precedent has not classified filings that pointed out a calculation error, after the Commission adopted a motion, regarding the amortized return of taxes, as ex parte communications. Moreover, PAWC argues that the video does not address the merits of PAWC's rate case nor the receivership that is the subject of an uncontested docketed proceeding. PAWC further notes that no Commission staff raised concerns about the video being an ex parte communication at the event. Motion Answer at 6-10.

2. Disposition

These currently pending rate proceedings contain contested on the record matters before the Commission for disposition. Consequently, these proceedings are subject to the statutory prohibition on ex parte communications under Section 334(c) of the Code. 66 Pa.C.S. § 334(c).

Upon review of the OCA Motion and PAWC's Motion Answer, we deem the OCA Motion to be moot and find that there is no need to consider or take any further action with respect to the issues raised in the OCA Motion. We conclude that determining whether or not the video presentation provided by PAWC at the NAWC annual meeting held on May 20, 2024 may constitute an ex parte communication, as defined and prohibited by 66 Pa.C.S. § 334, is not necessary at this time.

Assuming otherwise, *arguendo,* in the event an ex parte communication occurs, the proper remedy is to circulate all such communications received to all parties to the contested, on the record proceeding. *See*, *Zenmon*; *Haverstick v. Pa. Office of Att'y Gen.*, 273 A.3d 600; *Pa. PUC v. Pennsylvania Electric Co.*, Docket Nos. R-80051197; C-80072106, 54 Pa. PUC 436 (Order entered December 4, 1980). Upon receipt of the OCA Motion, out of an abundance of precaution, the Commission, in its *May 2024 Secretarial Letter:* (1) provided notice to the Parties in this proceeding concerning the video; (2) created a link on its website for interested Parties to access the video; (3) enclosed a copy of the OCA Motion; and (4) provided an opportunity for Parties to file a response to the OCA Motion. *See*, *May 2024 Secretarial Letter* at 1-2.

Inasmuch as the *May 2024 Secretarial Letter* provided the Parties to this proceeding with notice of, and access to, the video presentation, as well as an opportunity to comment on the OCA Motion, we find that any potential ex parte communication violation was appropriately and successfully remedied. Therefore, there is no reason to consider further or take action regarding this issue at this time. Accordingly, the OCA's Motion is deemed to be moot.

V. Rate Base

Rate base, also known as measure of value, is the depreciated original cost of a utility's investment in plant a utility has in place to serve customers plus other

additions and deductions that the Commission determines to be necessary in order to keep the utility operating and providing safe and reliable service to its customers. I&E St. 3 at 78. Rate base is one part of the financial equation used by the Commission to determine the appropriate revenue that a utility is granted in a rate proceeding.

According to PAWC, its final total claimed rate base of $6,071,315,148 for the FPFTY ending June 30, 2025, reflects the culmination of four separate rate base claims: (1) $4,700,940,379 associated with the proposed revenue requirement of its water operations; (2) $649,336,105 associated with the proposed revenue requirement of its wastewater SSS operations; (3) $489,501,661 associated with the proposed revenue requirement of its CSS wastewater operations; and (4) $231,537,003 associated with the proposed revenue requirement of its anticipated acquisition of BASA.[15] The calculations of each of these amounts are shown in PAWC Exhibit 3-A Revised under the respective rate base sections for each revenue requirement, which are summarized in Table 5, as follows:

[15] As previously noted, in light of the concerns raised by the Parties in this proceeding regarding the Company's acquisitions that have not yet closed, PAWC revised its request for rate relief to remove the Brentwood acquisition and to incorporate Step 2 rates for the BASA acquisition, reflecting the Commission-approved BASA ratemaking rate base only after the transaction closes. PAWC M.B. at 10.

Table 5: PAWC's FPFTY Rate Base Claim

	Water	WW SSS General	WW CSS	BASA	Total
Utility Plant in Service	$7,350,692,906	$1,011,374,526	$867,858,794	$243,068,327	$9,472,994,553
Less:					
Reserve for Depreciation	$1,241,627,202	$256,394,760	$297,870,665	$8,496,233	$1,804,388,860
Total Depreciated Plant in Service	$6,109,065,704	$754,979,766	$569,988,129	$234,572,094	$7,668,605,693
Add:					
Materials and Supplies	$21,781,099	$439,941	$492,348	$117,597	$22,830,985
Cash Working Capital -Expenses	$23,152,054	$2,235,324	$1,881,933	$373,674	$27,642,985
Accrued and Prepaid Taxes	$1,684,837	$352,273	$245,319	$65,342	$2,347,771
Acquisition Adjustments	$13,205,080	$3,749,235	$3,686,015	$1,092,393	$21,732,723
Other Addiitons	$327,057	$0	$0	$0	$327,057
Deduct:					
CIAC	$290,552,978	$50,089,276	$12,011,932	$0	$352,654,186
Customer Advances	$63,679,220	$833,590	$0	$0	$64,512,810
Excluded Property	$1,558,014	$0	$0	$0	$1,558,014
CWC - Int and Div	$8,347,179	$1,186,101	$894,111	$422,915	$10,850,306
Unamortized Itc (3%)	$213,324	$0	$0	$0	$213,324
Extension Deposits in Suspense	$20,895	$0	$0	$0	$20,895
Citizens Acquisition CIAC & CAC	$17,729,494				$17,729,494
Tax Cuts and Jobs Act - Stub Period	$1,508,401	$84,324	$64,842	$0	$1,657,567
Other Deductions	$431,508	$0	$0	$0	$431,508
Deferred Income Taxes	$1,084,234,439	$60,227,143	$73,821,198	$4,261,182	$1,222,543,962
PAWC's Rate Base Claim	**$4,700,940,379**	**$649,336,105**	**$489,501,661**	**$231,537,003**	**$6,071,315,148**

See, PAWC Exh. 3-A Revised at 25R, 96R, 145R, 217R.

The depreciated plant-in-service is determined by subtracting the book reserve, which is the accumulation of all prior annual depreciation expense, and other items such as retirements and salvage value, from the original cost of the plant-in-service that is projected to be used and useful in the public service at the end of the FPFTY. I&E St. 3 at 78.

Further, for a utility plant to be included in rates, the plant must be used and useful in the provision of utility service to the customers. Therefore, by definition, only plant currently providing or capable of providing utility service to customers or plant

projected to be completed and in service by the end of the FPFTY is eligible to be reflected in rates.

PAWC has proposed the inclusion of two water system acquisitions in this base rate proceeding: (1) Farmington Township (Farmington); and (2) Audubon Water Company (Audubon),[16] as well as three wastewater system acquisitions: (1) Farmington;[17] (2) Sadsbury Township Municipal Authority (STMA),[18] and (3) BASA. Therefore, the Company's rate base claims include the cost of water assets to be acquired from Farmington and Audubon, and the wastewater assets to be acquired from Farmington, STMA, and BASA. PAWC M.B. at 5.

I&E and the OCA contended that the five[19] anticipated acquisitions should be excluded from this base rate proceeding, as it would be improper to approve rate recovery at this time-because there is no way to know whether, and when, those

[16] On September 21, 2023, PAWC filed an application for Commission approval to acquire Audubon at Docket No. A-2023-3043194.

[17] On August 28, 2023, PAWC filed an application for Commission approval to acquire Farmington (wastewater) at Docket No. A-2023-3042587 and Farmington (water) at Docket No. A-2023-3042567.

[18] On August 3, 2023, PAWC filed an application for Commission approval to acquire STMA at Docket No. A-2023-3042058.

[19] Including Brentwood, *supra*, the Company originally proposed to include six anticipated acquisitions in this rate proceeding.

transactions will be approved.[20, 21] I&E M.B. at 11; OCA M.B. at 10. The arguments surrounding these objections to the Company's claim for rate recognition of the pending acquisitions, as it relates to its impact on rate base, are discussed below.[22]

The second remaining point of contention regarding the calculation of the appropriate rate base is the OCA's disagreement with the service life/survivor curve information used in PAWC's depreciation studies for its water operations, and therefore, proposed adjustments to the Company's claimed depreciation reserve.

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[20] The OSBA did not propose any adjustments pertaining to the STMA or the Farmington acquisitions. However, with respect to the acquisitions of BASA and Audubon, the OSBA stated that, if any acquisition does not close, all of the costs of the non-closing acquisition should be removed from PAWC's revenue requirement. If the BASA and Audubon acquisitions do close, however, the OSBA proposed "mitigation" adjustments that would: (1) deny the Company recovery of all amortization expense and rate base related to the Audubon acquisition in excess of the net book value of Audubon's assets; and (2) require PAWC shareholders to absorb a portion of the PUC-approved ratemaking rate base for the BASA acquisition. OSBA St. 1 at 20-26, 28-30. The BASA mitigation adjustment is discussed more fully in Section VI.D of this Opinion and Order, *infra.*

[21] PAWC stated that if, however, the Commission agrees with the OCA, I&E, and the OSBA with respect to the certainty of closing the BASA acquisition, PAWC's proposed two-step rate increase structure addresses this concern. *See*, PAWC St. 1-R at 4. According to PAWC's proposal, Step 1 rates would become effective on August 7, 2024 (the end of the normal suspension period in this case). Step 2 rates would become effective on one day's notice, no earlier than August 7, 2024, and only after the Company has certified to the Commission that it closed on the BASA acquisition. If, for any reason, the BASA acquisition does not close, Step 2 rates would never become effective. PAWC stated that this two-step methodology ensures that customers are protected by not allowing any rate changes to occur until the Company has closed on the purchase of the BASA system. PAWC R.B. at 12-13.

[22] As discussed, *infra*, the denial of any rate base recognition related to these pending acquisitions, as claimed by the Company, results in concomitant adjustments to O&M expenses, operating revenue, taxes, amortization expense, and depreciation expense.

A. Utility Plant-in-Service

1. Positions of the Parties

PAWC's revenue requirement, as presented in PAWC's Exhibit 3-A Revised, reflected a ratemaking rate base claim for each of the five not yet completed acquisitions. According to PAWC, these acquisitions were included in the filing because the Company anticipates them closing before the end of the FPFTY. *See*, PAWC St. 6-R at 12. PAWC's witness, Mr. E. Christopher Abruzzo, estimated that each of the acquisitions discussed above could be closed within a few weeks following approval. PAWC St. 6-R at 3-5. PAWC cited to its two prior base rate cases in *Pa. PUC v. Pennsylvania American Water Company*, Docket Nos. R-2020-3019369 and R-2020-3019371 (Opinion and Order entered February 25, 2021) (*PAWC 2020*) and *Pa. PUC v. Pennsylvania American Water Company*, Docket No. R-2022-3031672 (Order entered December 8, 2022) (*PAWC 2022*). PAWC asserted that there is no reason to treat the pending acquisitions at issue in this current base rate proceeding any differently than any other plant that the utility places in service during the FPFTY or any differently than the Commission treated the Company's pending acquisitions in *PAWC 2020* and *PAWC 2022*, wherein the Commission allowed the Company's then-pending acquisitions to be included in PAWC's rates.[23] PAWC M.B. at 12-14.

[23] *See*, PAWC M.B. at 13-14 (citing *Application of PAWC, Pursuant to the Pennsylvania Public Utility Code, 66 Pa.C.S. § 1102(a) and 1329, for Approval of the Transfer, by Sale, of the Wastewater Collection and Treatment System of the Borough of Kane Authority*, Docket No. A-2019-3014248 (Order entered June 18, 2020); *Pa. PUC v. Winola Water Co.*, Docket No. P-2018-3006216 (Order entered August 6, 2020) (*Winola Water 2020*) (Section 529 acquisition); *Investigation Instituted per Section 529 Into Whether the Commission Shall Order a Capable Public Utility to Acquire Delaware Sewer Company*, Docket No. I-2016-2526085 (Opinion and Order entered March 26, 2020) (*Delaware Sewer 2020*); *Application of PAWC to Acquire the Wastewater Collection and Treatment System Owned by the York City Sewer Authority*, Docket No. A-2021-3024681 (Order entered April 14, 2022) (Section 1329 transaction); *Application of PAWC under Sections 1102 and 1329 of the Pa. Public Utility Code, to*

PAWC characterized its dispute with I&E, the OCA, and the OSBA regarding the pending acquisitions at issue in this current proceeding as one of timing. PAWC stated that as explained in its Main Brief, including assets in a rate case is appropriate, if those assets will be used and useful by the end of the FPFTY. According to the Company, the Commission should not find that closing on an acquisition must occur prior to the closing of the record in a rate case. Instead, PAWC contended that when the Commission enters its final order in this proceeding, it should review the status of the acquisition proceedings and determine whether closing is reasonably certain to occur before the end of the FPFTY. PAWC R.B. at 10-11.

According to PAWC's filing, of its claimed $4,700,940,379 rate base related to its water operations, the Company is reflecting $2,502,811 of net plant as a result of the Farmington (water) acquisition and $360,229 as a result of the Audubon acquisition. Likewise, of its claimed $649,336,105 Wastewater SSS rate base, PAWC is reflecting $2,826,700 and $1,935,612 of net plant as a result of the Farmington (wastewater) and STMA acquisitions, respectively, as illustrated in Table 6 below.

Acquire the Wastewater Collection and Conveyance System of Upper Pottsgrove Twp., Docket No. A-2020-3021460 (Order entered September 15, 2021); *Application of PAWC to Acquire Certain Wastewater Assets from Foster Township*, Docket No. A-2021-3028676 (Order entered July 14, 2022) (Section 1102 acquisition); *Application of PAWC to Acquire Certain Water System Assets from Creekside Homeowners Association*, Docket No. A-2022-3031020 (Order entered May 18, 2023) (Section 1102 acquisition)).

Table 6: PAWC's FPFTY Rate Base Attributable to Pending Acquisitions

		Water		Wastewater SSS General	
		Farmington (Water)	**Audubon**	**Farmington (WW)**	**STMA**
Utility Plant in Service					
Total Utiity Plant in Service	*	$5,257,100	$9,187,482	$5,720,178	$3,390,193
Depreciation Reserve	**	($1,079,659)	($6,101,415)	($1,689,290)	($849,730)
Depreciated Utility Plant in Service		$4,177,441	$3,086,067	$4,030,888	$2,540,463
CIAC	**	($1,674,630)	($2,725,838)	($1,204,188)	($604,851)
Net Utility Plant in Service		$2,502,811	$360,229	$2,826,700	$1,935,612
Acquisition Costs					
Acquisition Adjustment	***	$195,736	$6,939,459		
Transaction Costs	***	$49,799	$107,142	$51,761	$83,085
Total Acquisition Adjustment		$245,535	$7,046,601	$51,761	$83,085
Claimed FPFTY Rate Base		$2,748,346	$7,406,830	$2,878,461	$2,018,697

* *See* , PAWC Exh. 3-A at 26, 97

** *See* , PAWC Exh. 3-C at 14-15, 21, 23, 28-31

*** *See* , PAWC Exh. 3-A at 36, 106

I&E's and the OCA's opposition to the inclusion of these not-yet-acquired systems in the Company's FPFTY ratemaking rate base is based largely on the fact that PAWC does not own the systems, and the transaction closing dates, if any, are unknown. I&E St. 3 at 6; I&E St. 4 at 5-6; I&E M.B. at 10-11; OCA M.B. at 22. I&E asserted that PAWC has the burden to demonstrate that the property is actually used and useful in the public service, and since the Audubon, Farmington, STMA, and BASA acquisitions have not closed, the property is not owned by PAWC nor is the property used and useful in service to its customers. I&E M.B. at 10-11. The OCA's witness, Mr. Ralph Smith, proposed two conditions precedent for inclusion of the to-be-acquired systems in rates: (1) a final Commission Order approving the acquisition; and (2) no uncertainty as to

whether the utility will close on the acquisition for reasons other than Commission approval. OCA St. 2 at 19; OCA St. 2-SR at 21.

Therefore, according to I&E, given that there is no reasonable certainty that the Audubon, Farmington, STMA, or BASA systems will be acquired and used and useful by the end of the FPFTY, I&E proposed that the revenue requirement associated with these systems be removed from the present proceeding, including all costs, revenues, taxes, and amortizations. I&E M.B. at 13-15. Likewise, the OCA argued that the Commission should deny PAWC's utility plant-in-service claims for property the Company aspires to own but does not yet own because PAWC has failed to demonstrate, by a preponderance of evidence, that there is reasonable certainty that the property will be acquired and used and useful by PAWC by the end of the FPFTY. OCA M.B. at 22.

Further, the OCA rejected PAWC's proposed multi-step revenue increase for two main reasons. First, Step 1 of the proposal allows the proposed acquisitions for Audubon, Farmington (water and wastewater), or STMA to be included for ratemaking purposes. Second, the OCA stated that it is not known under what terms or conditions any of these acquisitions would close, or if they will close. For example, the OCA reasoned, BASA could be remanded by an appellate court and conditions or renegotiations could impact ratemaking rate base or result in other costs. But under PAWC's multi-step proposal, rates would increase in Step 2 as claimed in PAWC's filing, with no recognition of those changes. OCA St. 2-SR at 16-17. The OCA argued this presents due process concerns because parties present evidence in response to the Company's proposal regarding utility property in an acquisition proceeding only to have to respond to the Company's different proposal about the same utility property in the parallel rate proceeding. The OCA posited that it also has the effect of usurping the Commission's authority to make decisions on legal issues as the Company presents its position in one proceeding (*i.e.*, an acquisition proceeding) only to "pull the rug out from under" that position in a parallel proceeding (*i.e.*, the base rate case). Additionally, the

OCA stated that the Company's rebuttal proposal, as modified in rejoinder, would circumvent the procedural due process afforded to parties by PAWC needing to petition to reopen the record. OCA M.B. at 30-31 (citing OCA St. 2-SR at 18).

2. Recommended Decision

In their Recommended Decision, the ALJs agreed with the positions of I&E and the OCA that it would be premature to include the five anticipated acquisitions in PAWC's FPFTY rate base, and therefore, recommended that PAWC's rate base exclude utility plant-in-service related to Audubon, Farmington (water and wastewater), STMA, and BASA.[24, 25] R.D. at 73-77. The ALJs noted that, with the exception of BASA, these acquisitions are currently pending before the Commission, and Commission action could necessitate a change to depreciated original cost or any acquisition adjustment for the difference between purchase price and depreciated original cost or may deny the proposed transaction in its entirety. R.D. at 75 (citing I&E M.B. at 12-13; OCA R.B. at 22-23).

Further, the ALJs found that I&E and the OCA adequately distinguished the disputed acquisitions from the pending acquisitions that were allowed to be included in the Company's rates in *PAWC 2020* and *PAWC 2022*, reasoning as follows:

> First, I&E detailed how the Commission had entered orders approving the acquisitions for the Borough of Kane Authority, Winola Water Company, Delaware Sewer

[24] As discussed in Section VI.D, *infra*, the ALJs noted that they did not make a recommendation concerning the OSBA's advocated BASA mitigation adjustment since they did not recommend that BASA be included in PAWC's FPFTY rate base. *See*, R.D. at 77, 94.

[25] The ALJs also agreed with the OCA, recommending that, since the BASA and Brentwood systems should be excluded from the FPFTY rate base, PAWC's claims for rate base additions for improvements to these systems should similarly be excluded. R.D. at 77.

> Company, York City Sewer Company, and Upper Pottsgrove Township before the record had closed in the relevant rate cases. Although not included in I&E's Reply Brief, the Commission similarly approved the Foster Township acquisition by an order entered on July 14, 2022, which was before the record closed in PAWC's 2022 base rate proceeding. In this proceeding, as shown by PAWC's status descriptions above, the Commission has not approved any of the disputed Acquisitions, except BASA. The Commission did not approve the Creekside Development acquisition until May 2023, which was after 2022 base rate case record had closed. However, we agree with I&E that this case is distinguishable as a non-litigated proceeding involving only 49 residential customers. We also agree with the OCA that the acquisitions included in the 2020 and 2022 rate cases are distinguishable because acquisitions in those proceeding were in the context of cases where there were settlements.

R.D. at 75-76 (citations omitted).

Additionally, the ALJs concluded that the BASA acquisition should not be included in PAWC's FPFTY rate base at this time because there is no basis to predict how the Commonwealth Court or, if the case is appealed, the Supreme Court of Pennsylvania will act on the BASA acquisition with any certainty. Likewise, the ALJs agreed with the concerns outlined by the OCA and recommended that the proposed two-step rate increase, conditioned upon the closing date of the BASA transaction, not be approved, since there is no certainty that the BASA acquisition will close with the same terms approved by the Commission because an appellate court could remand the case to the Commission for further proceedings. R.D. at 76-77.

3. PAWC Exception No. 3 and Replies

In its Exception No. 3, PAWC objects to the ALJs' recommendation to deny the two-step rate increase proposal and exclude the BASA acquisition from rates,

contending that BASA is distinguishable from the STMA, Farmington, and Audubon acquisitions, since it has been approved by the Commission and has a separate revenue requirement, such that the rate impact can be implemented conditioned on the transaction closing as approved before the end of the FPFTY.[26] PAWC Exc. at 13.

In support, PAWC maintains that "Section 315(e) does not require *absolute certainty* that the facilities will be in service by the end of the FPFTY." PAWC Exc. at 14. PAWC submits that, as noted in the Recommended Decision, in *PAWC 2020* and *PAWC 2022*, the Commission approved including several acquisitions in PAWC's rates before closing occurred. *Id*. (citing R.D. at 75). PAWC explains that while the Commission's decision in *BASA* has been appealed to the Commonwealth Court, it expects to close as soon as a decision becomes final and unappealable and that it is reasonably certain that BASA will close prior to the end of the FPFTY. PAWC Exc. at 13-14.

Asserting that it is prudent and fair for the BASA acquisition to be timely integrated into PAWC's rates in order to mitigate regulatory lag, the Company notes that it does not object to the Step 2 rates being conditioned on a final, non-appealable Commonwealth Court order affirming the Commission's decision in *BASA* approving the BASA transaction without modification. PAWC Exc. at 15.

In their Replies, I&E, the OCA, and the OSBA each assert that the ALJs correctly determined that all six of the acquisitions, including BASA, should be excluded from this base rate proceeding. I&E R. Exc. at 6-7; OCA R. Exc. at 2; OSBA R. Exc. at 2.

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[26] PAWC notes that it does not except to the ALJs' recommendation to exclude the STMA, Farmington, and Audubon acquisitions from the Company's rates at this time. PAWC Exc. at 13. Thus, PAWC has waived any claim that it has to include each of those systems in ratemaking rate base for the FPFTY in this proceeding.

The OCA maintains that it does not dispute that the Commission can take official notice of a final, unappealable order in another proceeding, pursuant to 52 Pa. Code § 5.408. However, the OCA explains that what PAWC is asking the Commission to do is to take official notice that the acquisitions at issue will close in the FPFTY – a fact that does not exist in the record – and to simultaneously adopt PAWC's ratemaking claims related thereto without modification. OCA R. Exc. at 3 (citing OCA R.B. at 22). The OCA argues that, given that the record is closed, the Parties to the instant base rate case must have an opportunity to respond to the new fact of the occurrence of an acquisition closing, the determinations of the final, unappealable order, and the resulting impact on PAWC's ratemaking claims related thereto. The OCA contends that to hold otherwise would create an undue burden on party litigants in base rate cases to take multiple positions on the same issue in a rate case based on various steps of acquisitions being approved by the end of the FPFTY despite none of the closings having occurred on or before the close of the record in the base rate case. OCA R. Exc. at 4.

On the issue of regulatory lag, the OCA submits that the FPFTY is designed to reduce regulatory lag for utilities; however, for the concept to not be abused, there must be reasonable certainty by the close of the record in the rate case that the property claimed in rate base will be used and useful by the end of the FPFTY. OCA R. Exc. at 4 (citing *Pa. PUC v. UGI Utilities, Inc. - Electric Division*, Docket No. R-2017-2640058, at 27-31 (Opinion and Order entered October 25, 2018) (*UGI Electric 2018*) *aff 'd by McCloskey v. Pa. PUC*, 225 A.3d 192 (Pa. Cmwlth. 2020)).

In its Replies, the OSBA argues that "PAWC's torturing of the statutory language ('absolute certainty!') is a baseless argument that should be rejected by the Commission." Rather, the OSBA explains that Section 315(e) of the Code requires "appropriate data evidencing the accuracy of the estimates contained in the future test year," and as no one can predict the actions of the Commonwealth Court, no such

"accuracy" regarding the outcome of the BASA case can be ascertained. OSBA R. Exc. at 2.

4. Disposition

PAWC's original request for rate relief included six acquisitions that had not yet closed; two water system acquisitions: (1) Farmington (water) and (2) Audubon, as well as four wastewater system acquisitions: (1) Farmington (wastewater); (2) STMA; (3) BASA; and (4) Brentwood. Ultimately, in light of the concerns the Parties have raised in this proceeding with the Company's acquisitions that have not yet closed, PAWC revised its request for rate relief to remove the Brentwood[27] acquisition and to incorporate Step 2 Rates for the BASA acquisition to ensure that customers do not pay rates reflecting the Commission-approved BASA ratemaking rate base until that transaction closes. PAWC M.B. at 10.

As discussed, *supra*, I&E and the OCA argued against the inclusion of utility plant-in-service related to Audubon, Farmington, STMA, and BASA in PAWC's claimed FPFTY rate base. Upon review, we agree with the ALJs that it would be premature to include the five anticipated acquisitions, including BASA, in PAWC's FPFTY rate base, and therefore, PAWC's rate base should exclude utility plant-in-service related to Audubon, Farmington (water and wastewater), STMA, and BASA.

The Company's position is based on the assumption that the Commonwealth Court will find in PAWC's favor with respect to *BASA,* and that if it does, no party to that proceeding will file a further appeal. PAWC's prediction is pure speculation; the Commission cannot assume that PAWC correctly knows with any

[27] The Commission's decision in *Brentwood* ultimately denied PAWC's acquisition application.

certainty how the Commonwealth Court will rule on this matter. Therefore, accepting such assumptions is not in the public interest.

Further, PAWC's suggestion – that the frequency of its rate cases may increase if the Commission's decision in *UGI Electric 2018* is followed here – rings hollow given the frequency of PAWC's filings. PAWC uses a Distribution System Improvement Charge (DSIC)[28] and the FPFTY,[29] and both tools are meant to reduce rate case frequency; yet this is PAWC's rate case in four years, even though it was allowed to include not-yet-acquired property in the rate case settlements in both *PAWC 2020* and *PAWC 2022*. It is within PAWC's discretion as to when it files a base rate case and a decision by this Commission will not dictate its timing. Indeed, it was PAWC that decided to file the current base rate case within the same year that base rates increased from its 2022 rate filing, rather than waiting until the BASA acquisition could be properly included in the FPFTY.

Therefore, BASA should be excluded from the Company's rate base claim in this proceeding, including PAWC's claims for rate base additions for improvements to this system. Additionally, related revenue, expenses, taxes, and the corresponding revenue shortfall of $25,322,947[30] from the BASA system should be similarly excluded

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[28] A DSIC is a surcharge on customers' bills that is revised quarterly and allows recovery of costs to replace aging infrastructure between rate cases. 66 Pa.C.S. §§ 1353, 1357. Therefore, it "provides utilities with an additional rate mechanism to recover the capitalized costs related to repair, improvement, and replacement [of] utility infrastructure. A DSIC can reduce regulatory lag, improve access to capital at lower rates, and accelerate infrastructure improvement and replacement." *Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (Final Implementation Order entered August 2, 2012) at 57 (*Act 11 Implementation Order*).

[29] An FPFTY was implemented by the Pennsylvania legislature to "reduce regulatory lag due to the use of rate case inputs that are outdated by the time new base rates become effective and, further, to provide more ratemaking flexibility for the timely recovery of prudently incurred infrastructure costs." *Act 11 Implementation Order* at 4.

[30] *See*, PAWC M.B., Appendix A, Table Act 11 – Step 2.

from this proceeding. Excluding such property in this case protects the public interest by ensuring that utility consumers, who ultimately pay the revenue requirement to the utility, will pay enough, *but no more than is necessary*, to ensure that service remains adequate, reliable and safe, while allowing the utility to have the opportunity to recover its costs and earn a fair rate of return on its investments. Accordingly, we shall deny PAWC's Exception No. 3.

Consistent with the above, as set forth in Table II-Water and Table II-Wastewater SSS, in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, we shall remove the following claimed net utility plant-in-service amounts: (1) $360,229 of net utility plant-in-service associated with the Audubon system; (2) $2,502,811 of net utility plant-in-service associated with the Farmington (water) system; (3) $1,935,612 of net utility plant-in-service associated with the STMA system; and (4) $2,826,700 of net utility plant-in-service associated with the Farmington (wastewater) system.

B. Depreciation Reserve

1. Positions of the Parties

The Company's depreciation reserve, based upon the Straight-Line Average Remaining Life Method, was calculated by the Company's witness, Mr. John J. Spanos, and was applied to the original costs of Company plant-in-service on June 30, 2023,

June 30, 2024, and June 30, 2025.[31] *See*, PAWC St. 4 at 21; *see also generally*, PAWC St. 11.

As discussed, *supra*, I&E and the OCA argued against the inclusion of utility plant-in-service related to Audubon, Farmington, STMA, and BASA in PAWC's claimed FPFTY rate base. Concomitant to I&E's and the OCA's previously discussed proposals are adjustments to the Company's claimed depreciation reserve at the end of the FPFTY. These adjustments remove the amount of depreciation reserve that the Company included in the FPFTY related to the Audubon, Farmington, STMA, and BASA pending acquisitions, as shown in Tables 5 and 6, above.

In order to estimate the Company's depreciation reserve as of June 30, 2023, June 30, 2024, and June 30, 2025, Mr. Spanos completed depreciation studies to estimate the annual depreciation accruals related to water and wastewater plant-in-service. *See generally*, PAWC St. 11. PAWC stated that service life studies were the basis for the service lives and survivor curves Mr. Spanos used to calculate annual accruals. PAWC's most recent service life studies were performed in 2022 for the Company's water assets (based on plant data through 2021) and in 2020 for its wastewater assets (based on plant data through 2019). *Id.* at 7.

The OCA has raised concerns regarding service lives for some water plant accounts and corresponding annual depreciation expense. The OCA argued that recent shortening of service lives has increased annual depreciation expense for PAWC's water

[31] PAWC Exhs. 11-A, 11-D, and 11-K present the results of the depreciation studies for each water and wastewater operation as of June 30, 2023, except BASA and Brentwood because PAWC was not anticipating acquiring those systems until the FTY. PAWC Exhs. 11-B, 11-E, 11-G, 11-I, and 11-L present the results of the depreciation study for each water and wastewater operation as of June 30, 2024. PAWC Exhs. 11-C, 11-F, 11-H, 11-J, and 11-M present the results of the depreciation study for each water and wastewater operation as of June 30, 2025.

operations by $15.479 million. OCA St. 2 at 64-66. Specifically, the OCA's witness, Mr. Smith, objected to PAWC's use of service life/survivor curve information from the most recent water asset service life study (the 2021 Water Service Life Study) for three water accounts, as follows:

Account (Water)	Prior Approved Useful Life R-2022-3031673	PAWC's Proposed Useful Life	Years shortened by PAWC	OCA's Recommended Useful Life
Acct. 304.15, Other Water Source Structures	60	50	10	60
Acct. 331.00, Mains and Accessories	110	90	20	110
Acct. 335.00, Fire Hydrants	75	60	15	75

See, OCA M.B. at 44. Contending that PAWC has not justified the shortening of useful service lives for certain water plant, which was a change from PAWC's last base rate case in *PAWC 2022*, the OCA proposed a downward adjustment to depreciation expense of $15.479 million. *See*, OCA Exh. LA-2, Sch. C-17.

PAWC asserted that Mr. Smith's objections have no reasonable basis and should be rejected by the Commission. First, regarding water accounts 304.15 (Other Water Source Structures), 331.00 (Mains and Accessories), and 335.00 (Fire Hydrants), Mr. Smith argued that information from the 2021 Water Service Life Study should not be used solely because the life parameters were "drastically shortened" as compared to the service life information presented in PAWC's 2022 rate case proceeding that was taken from an earlier service life study (the 2016 Water Service Life Study). For these three water accounts only, he recommended use of the outdated service life information from the 2016 Water Service Life Study. In his rebuttal testimony, Mr. Spanos provided detailed survivor curve information for the three water accounts at issue and shows that, for each account, the updated information from the 2021 Water Service Life Study was a better statistical fit with the most current historical data than the 2016 Water Service Life Study. PAWC M.B. at 18-19 (citing PAWC St. 11-R at 5-10).

2. Recommended Decision

In their Recommended Decision, the ALJs agreed with PAWC that it demonstrated that its 2021 Water Service Life Study was a better statistical fit with the most current historical data than the 2016 Water Service Life Study. Therefore, the ALJs recommended that the Commission adopt PAWC's claim for depreciation reserve; however, the ALJs noted that consistent with their recommendation regarding utility plant-in-service, above, depreciation reserve related to Audubon, Farmington, STMA, and BASA should be excluded. R.D. at 79-80.

3. OCA Exception Nos. 3 and 9 and Replies

In its Exception Nos. 3 and 9, the OCA objects to the ALJs' recommendation that the Commission accept PAWC's use of service life/survivor curve information from the 2021 Water Service Life Study, rather than utilizing data from the previous 2016 Water Service Life Study. OCA Exc. at 5-6,12.

For the reasons argued, *supra*, as well as summarized in the Section VII.O of this Opinion and Order, *infra*, PAWC asserts that the Commission should reject the OCA's proposed $15.5 million downward adjustment to depreciation expense, as it ignores the most recent and complete information available. PAWC R. Exc. at 11-12.

4. Disposition

For the reasons set forth in our disposition of the issue pertaining to the OCA's proposed $15.5 million downward adjustment to depreciation expense, contained in Section VII.O of this Opinion and Order, we shall deny the OCA's Exception Nos. 3 and 9 and adopt the ALJs' recommendation, which accepts PAWC's claim for depreciation reserve with one exception. Consistent with our decision regarding utility

plant-in-service, *supra*, depreciation reserve related to Audubon, Farmington, STMA, and BASA should be excluded.

C. Cash Working Capital (CWC) Addition to Rate Base

For ratemaking purposes, CWC is the capital needed to operate a utility between the rendition of service and the receipt of revenues in payment for services rendered. In short, CWC covers the lag between the payment of operating expenses and the receipt of revenues from ratepayers. All cash-based expenses are included in the Company's overall CWC claim; therefore, any adjustments to the Company's O&M expense claims impact the CWC allowance. I&E M.B. at 15-16.

1. Positions of the Parties

In the current proceeding, PAWC proposed the following CWC amounts:[32]

- Water Operations – Approximately $23.2 million for O&M expenses and negative $8.35 million for Interest and Dividend expenses;
- Wastewater SSS Operations - $2.2 million for O&M expenses and negative $1.19 million for Interest and Dividend expenses;
- CSS Wastewater Operations - $1.9 million for O&M expenses and negative $894,111 for Interest and Dividend expenses; and

[32] For the calculations of the water, wastewater SSS, CSS wastewater, and BASA operations' rate base claims, a net offset to CWC requirements was deducted from each to reflect the timing of the payment of interest and preferred dividends. *See*, PAWC St. 4 at 8.

- BASA Operations - $373,674 for O&M expenses and negative $422,915 for Interest and Dividend expenses.

See, PAWC Exh. 3-A Revised at 25R, 96R, 145R, 217R.

The Company represented that its CWC allowance was derived using the Commission-approved lead-lag method, by which the CWC component of rate base is calculated by multiplying the net lag days (revenue lag days less expense lag days) by the average operating expenses per day (total operating expenses ÷ 365 days). PAWC St. 4 at 13-15.

While I&E and the OCA did not dispute the Company's method of calculating CWC, as shown in Table 7 below, I&E and the OCA both recommended downward adjustments to the Company's claim because of their respective adjustments to the Company's claimed operating expenses.

Table 7: I&E and the OCA Proposed Adjustments to PAWC's CWC Claim

	PAWC's Claim	**I&E**		**OCA**	
		Adjustment	**Proposed**	**Adjustment**	**Proposed ***
	PAWC Exh. 3-A Revised at 25R, 96R, 217R	I&E Exh. 1-SR, Sch. 1			OCA Exh. LA-2 Schs. B-5.B, B-5.C and B-5.D
Water					
CWC - Expenses	$23,152,054	($1,088,631)	$22,063,423	($812,585)	$22,339,469
CWC - Int and Div	($8,347,179)	$0	($8,347,179)	($941,091)	($9,288,270)
	$14,804,875	($1,088,631)	$13,716,244	($1,753,676)	$13,051,199
Wastewater SSS					
CWC - Expenses	$2,235,324	($30,925)	$2,204,399	($56,107)	$2,179,217
CWC - Int and Div	($1,186,101)	$0	($1,186,101)	($100,225)	($1,286,326)
	$1,049,223	($30,925)	$1,018,298	($156,332)	$892,891
CSS Wastewater					
CWC - Expenses	$1,881,933	$0	$1,881,933	($17,767)	$1,864,166
CWC - Int and Div	($894,111)	$0	($894,111)	($82,363)	($976,474)
	$987,822	$0	$987,822	($100,130)	$887,692
TOTAL	**$16,841,920**	**($1,119,556)**	**$15,722,364**	**($2,010,138)**	**$14,831,782**

***** It should be noted that the OCA's adjustments shown on OCA Exhibit LA-2 were calculated using the Company's request in PAWC Exhibit 3-A, prior to the Company's updates provided in PAWC Exhibit 3-A Revised.

Specifically, I&E ultimately recommended that PAWC's O&M expense claims be reduced by $8,111,532 for water operations and $504,709 for wastewater SSS operations, which reduced the Company's CWC allowance by $1,119,556, as shown in Table 7 above. No O&M adjustments were made by I&E to CSS wastewater operations; therefore, there is no corresponding CWC adjustment shown in the above table. I&E averred that because its recommended expense adjustments are prudent, I&E's recommended $1,119,556 reduction to PAWC's CWC claim is reasonable. I&E M.B. at 16-17.

The OCA's proposed adjustments to PAWC's CWC claim are based on the OCA's proposed adjustments to PAWC's O&M expenses and interest and dividend expenses, and the capital structure recommended by the OCA's witness, Mr. David Garrett. The OCA's proposals regarding CWC are summarized in Table 7 above and are derived on Schedules B-5.B, B-5.C, and B-5.D of OCA Exhibit LA-2 for water operations, wastewater SSS operations, and CSS wastewater operations, respectively.[33] The OCA asserted that should the Commission adopt the OCA's recommended adjustments to expenses, the Commission should also adopt the OCA's resulting adjustments to CWC for PAWC's existing systems. OCA M.B. at 33.

2. Recommended Decision

Based on the ALJs' other recommendations in their Recommended Decision, the ALJs recommended that PAWC's claim for CWC should be adjusted for interest and dividends, taxes, and O&M expenses detailed in Tables II, IV, V, and VI for Water, Wastewater SSS, and CSS Wastewater in the Appendix to the Recommended Decision. R.D. at 82.

[33] Since the BASA and Brentwood revenue requirements have been proposed to be removed in their entirety, no separate adjustments to BASA and Brentwood CWC requirements were made by the OCA.

3. OCA Exception No. 4 and Replies

In its Exception No. 4, the OCA disputes the basis for the ALJs' CWC adjustment, to the extent that the ALJs failed to account for the proper adjustment based on a capital structure of 51% equity and 49% debt. The OCA's dispute is not with the methodology used by the ALJs, but with the underlying calculations, which rejected the capital structure adjustment proposed by the OCA, as explained at length in the OCA's Exception No. 10, *infra*. Therefore, the OCA submits that the ALJs' recommendation regarding CWC must be adjusted accordingly if the OCA's proposed use of a hypothetical capital structure is accepted by the Commission. OCA Exc. at 7.

In Replies, PAWC argues that for the reasons discussed in response to OCA Exception No. 10, objecting to the OCA's hypothetical capital structure, the OCA's Exception No. 4 should also be denied. PAWC R. Exc. at 12.

4. Disposition

As noted by the ALJs, none of the Parties opposed the methodology used by PAWC for determining its claim for CWC. However, the CWC calculation, known as an iteration, effectively prevents the determination of a precise calculation until such time as all proposed adjustments to PAWC's claims have been considered by the Commission.

We concur with the ALJs and the Parties that the methodology utilized by the Company is appropriate for calculating CWC. Therefore, the CWC allocation is based on our adjustments to PAWC's expenses and denial of the OCA's Exception No. 10, in Section VII.U of this Opinion and Order, *infra*. Accordingly, we shall deny the OCA's Exception No. 4.

D. Acquisition Adjustment and Amortization Expense

An acquisition adjustment occurs when a utility purchases another system for more or less than the book value. It can also include transaction costs incurred to acquire a system and is typically claimed in rate base and amortized over a reasonable period of time. Annual amortization expense is an operating expense. It represents the recovery or refund of regulatory assets and liabilities over an agreed upon period of time. Regulatory assets and liabilities may or may not be included in a company's rate base. I&E M.B. at 18.

1. Positions of the Parties

PAWC claimed acquisition adjustments of $13,205,080, $3,749,235, and $3,686,015 for its water, wastewater SSS, and CSS wastewater operations, respectively. *See*, PAWC Exh. 3-A Revised at 25R, 96R, 217R.

As previously discussed, four small water and wastewater acquisitions are contemplated as part of this base rate filing, with applications pending before the Commission: (1) Farmington (water); (2) Audubon; (3) Farmington (wastewater); and (4) STMA; however none of these are being acquired under 66 Pa.C.S. § 1329 (Section 1329) for fair market value. As such, there are acquisition adjustment proposals associated with each of these pending acquisitions.

Regarding its water operations, the Company has included positive acquisition adjustments in its rate base claim related to the Farmington (water) and Audubon systems. For the Farmington (water) system, PAWC proposed to amortize the difference between the purchase price and the net book value, $215,489, over ten years as a utility plant acquisition adjustment and to include the unamortized balance in rate base. PAWC St. 4 at 5-6; PAWC Exh. 3-B at 341. Similarly, PAWC is proposing to acquire

Audubon's assets through a merger transaction valued at $8.0 million[34] even though the net book value of the Audubon assets is only $360,229 as of December 31, 2024. PAWC proposed to amortize the difference between the purchase price and the net book value, $7,639,771, over ten years as a utility plant acquisition adjustment and to include the unamortized balance in rate base. PAWC St. 4 at 6; PAWC Exh. 3-B at 341. As shown in Table 6, *supra*, PAWC proposed to include $195,736 ($215,489 – $19,753)[35] in its FPFTY rate base related to the unamortized balance of the $215,489 acquisition adjustment associated with the Farmington (water) system and $6,939,459 ($7,639,771 – $700,312)[36] related to the unamortized balance of the $7,639,771 acquisition adjustment associated with the Audubon system. In addition, as illustrated in Table 6, *supra*, PAWC's total acquisition adjustment claimed in its Water operations rate base included $49,799 of transaction costs related to the Farmington (water) system and $107,142 of transaction costs related to the Audubon system. *See*, PAWC Exh. 3-C at 72.

Regarding the wastewater SSS operations, the Company also claimed a negative plant acquisition adjustment in the total amortization expense related to the STMA system. For the STMA system, the Company projected that the purchase price will be $945,612 less than the net book value of the STMA plant. PAWC Exh. 3-B at 344. Because it is a negative acquisition adjustment, the Company is required to amortize the adjustment as a credit back to customers over ten (10) years. While there is no rate base adjustment, the Company is claiming a negative $94,561 ($945,612 /10) acquisition adjustment expense be credited back to customers over ten (10) years. *See*, PAWC Exh. 3-A at 130. In addition, as illustrated in Table 6, *supra*, PAWC's total acquisition adjustment claimed in its wastewater SSS operations rate base includes

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[34] *See*, PAWC St. 6 at 11-12, 18.

[35] Amortized 11 months starting August 2024. PAWC Exh. 3-C at 72.

[36] Amortized 11 months starting August 2024. PAWC Exh. 3-C at 72.

$51,761 of transaction costs related to the Farmington (wastewater) system and $83,085 of transaction costs related to the STMA system. *See*, PAWC Exh. 3-C at 79.

I&E and the OCA proposed to remove the acquisition adjustments, transaction costs, and amortization expenses related to the Audubon, Farmington (water), Farmington (wastewater), and STMA systems concomitant to their proposed exclusion of the disputed acquisitions discussed previously. I&E M.B. at 12-13, 21, 29; OCA M.B. at 41-43.

As I&E and the OCA have recommended the Audubon and Farmington (water) acquisitions be removed from this proceeding in total, I&E and the OCA argued that it will also be necessary to remove from rate base the acquisition adjustments of $195,736 and $6,939,459 related to the Farmington (water) and Audubon systems, respectively. I&E M.B. at 12-13, 21, 29; OCA M.B. at 41-43. Additionally, both Parties argued that $49,799 of transaction costs related to the Farmington (water) system and $107,142 of transaction costs related to the Audubon system included in the acquisition adjustments should be removed from the total acquisition adjustment claimed in rate base. *See*, OCA Exh. LA-2, Schs. B-1 and B-2.

If the Commission adopts I&E's and the OCA's recommendation to exclude the Audubon and Farmington (water) systems, I&E and the OCA argued that there should be a corresponding $775,772 ($763,977 + $11,795) reduction of amortization expense claimed for the Audubon system and $27,032 ($21,549 + $5,483) claimed for the Farmington (water) system. *See*, PAWC Exh. 3-A at 67.

As I&E and the OCA have recommended the STMA acquisition be removed from this proceeding in total, I&E stated that it will also be necessary to remove the negative $94,561 acquisition adjustment claimed in the Company's total amortization expense related to the STMA system. I&E M.B. at 18; OCA M.B. at 41-43.

I&E's witness, Mr. Joseph Kubas, argued that $83,085 of transaction costs related to the STMA system and $51,761 of transaction costs related to the Farmington (wastewater) system included in the acquisition adjustments should be removed from the total acquisition adjustment claimed in rate base. These systems are not yet owned by PAWC; therefore, I&E contended that PAWC should not be able to include the corresponding transaction costs incurred to acquire these systems as part of the total acquisition adjustment in rate base from these systems in the wastewater SSS operations. I&E M.B. at 18-19; OCA Exh. LA-2, Schs. B-3 and B-4.

If the Commission adopts I&E's and the OCA's recommendations to exclude the STMA and Farmington (wastewater) system, I&E argued that there should be a corresponding $9,147 reduction of amortization expense claimed for the STMA system and $5,699 claimed for the Farmington (wastewater) system. I&E M.B. at 19; *See also*, PAWC Exh. 3-A at 130.

In addition, if the $83,085 of transaction costs related to the STMA system and $51,761 of transaction costs related to the Farmington (wastewater) system are removed from the total acquisition adjustment claimed in rate base, I&E contended there should be a corresponding reduction of $8,385 of annual amortization related to the STMA system and a reduction of $5,224 of annual amortization related to the Farmington (wastewater) system. I&E M.B. at 19.

2. Recommended Decision

In their Recommended Decision, the ALJs agreed with I&E and the OCA and recommended that if the disputed acquisitions are removed from rate base, the Commission should also remove the acquisition adjustments, transaction costs, and related amortization expenses, for the Audubon, Farmington (water), Farmington

(wastewater) and STMA systems. The ALJs' recommendation is reflected in Table II Water and Wastewater SSS in the Appendix attached to the Recommended Decision.

3. Disposition

None of the Parties filed Exceptions to the ALJs' recommendation. We find the ALJs' recommendation to be reasonable and shall adopt it. Accordingly, as set forth in Table II Water and Table II-Wastewater SSS, in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, we shall remove the following amounts claimed by the Company, which are outlined in Table 6, *supra*: (1) the acquisition adjustments of $195,736 and $6,939,459 related to the Farmington (water) and Audubon systems, respectively; (2) the transaction costs included in the acquisition adjustments of $49,799 related to the Farmington (water) system and $107,142 related to the Audubon system; (3) the transaction costs of $51,761 related to the Farmington (wastewater) system and $83,085 related to the STMA system.[37]

E. Annual Depreciation Expense

1. Positions of the Parties

Annual depreciation expense is an operating expense that represents the loss of service value of plant over the life of the plant. I&E St. 3 at 80. PAWC is claiming $214,460,165, $27,482,112, and $20,500,959 of annual depreciation expense for the FPFTY for its water, wastewater SSS, and CSS wastewater operations, respectively. *See*, PAWC Exh. 3-A Revised at 1R, 76R, 204R.

[37] The related amortization expenses are addressed in Section VII.M of this Opinion and Order, *infra.*

Concomitant to its proposed exclusion of the disputed acquisitions discussed previously, I&E proposed that $310,188 of annual depreciation expense associated with the Audubon system and $607,272 of annual depreciation expense associated with the Farmington (water) system be removed from the water operations annual depreciation expense. *See*, I&E M.B. at 14. Similarly, I&E submitted that $24,342[38] of annual depreciation expense associated with the STMA system and $11,611 associated with the Farmington (wastewater) system should be removed from the Wastewater SSS operations annual depreciation expense.[39] I&E M.B. at 19-20.

Concomitant to its proposed exclusion of the disputed acquisitions discussed previously, the OCA similarly proposed that $269,599 of annual depreciation expense associated with the Audubon system and $101,751 of annual depreciation expense associated with the Farmington (water) system be removed from the Water operations annual depreciation expense, and $51,847 of annual depreciation expense associated with the STMA system and $137,987 associated with the Farmington (wastewater) system be removed from the wastewater SSS operations annual depreciation expense.[40] OCA St. 2 at 52-54.

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[38] *See*, PAWC Exh. 3-C at 30-31.

[39] I&E's witness, Mr. Kubas, explained that the filing did not contain a breakdown of annual depreciation expense for the Farmington system; therefore, he applied the approximately 1.26% composite depreciation rate applicable in the STMA system to the Farmington (wastewater) system net plant to arrive at the $11,611 ($923,272 x 0.012576) of Farmington (wastewater) annual depreciation expense. I&E St. 3 at 81.

[40] OCA's witness, Mr. Smith, utilized plant amounts from pages 26 and 97 of PAWC Exhibit 3-A and depreciation rates from PAWC Exhibit 11-C, Water Operations, June 30, 2025 Depreciation Study, Table 2 and PAWC Exhibit 11-F, Wastewater SSS General Operations, June 30, 2025 Depreciation Study, Table 2. *See*, OCA Exh. LA-2, Schs. C-5, C-6, C-7, C-8.

In addition to depreciation expense adjustments associated with acquisitions, the OCA proposed adjustments to depreciation expense concomitant to its objections to service life/survivor curves employed in the depreciation studies prepared by PAWC's witness, Mr. Spanos, as discussed in Section V.B above.

2. Recommended Decision

In their Recommended Decision, the ALJs agreed with I&E and the OCA and recommended that, if the disputed acquisitions are removed from rate base, the Commission should also remove annual depreciation expense for the Audubon, Farmington (water), Farmington (wastewater), and STMA systems. The ALJs' recommendation, reflecting agreement with the OCA's calculated amounts, is reflected in Table II Water and Wastewater SSS attached to the Appendix of the Recommended Decision.

The ALJs noted that further adjustments to depreciation expense concomitant to the OCA's objections to service life/survivor curves employed in the depreciation studies prepared by PAWC' witness, Mr. Spanos, would be discussed in the Expenses section of the Recommended Decision. R.D. at 85-86.

3. OCA Exception Nos. 3 and 9 and Replies

As discussed, *supra*, in its Exception Nos. 3 and 9, the OCA objects to the ALJs' recommendation that the Commission accept PAWC's use of service life/survivor curve information from the 2021 Water Service Life Study, rather than utilizing data from the previous 2016 Water Service Life Study. OCA Exc. at 5-6,12.

For the reasons argued, *supra*, as well as summarized in the Depreciation Expense section in Section VII.O of this Opinion and Order, *infra*, PAWC asserts that the

Commission should reject the OCA's proposed $15.5 million downward adjustment to depreciation expense, as it ignores the most recent and complete information available. PAWC R. Exc. at 11-12.

4. Disposition

I&E's and the OCA's proposed adjustments to the Company's claimed annual depreciation expense are, in part, concomitant to their proposed exclusion of the Audubon, Farmington (water), Farmington (wastewater), and STMA acquisitions. As none of the Parties filed Exceptions to the ALJs' recommendation on this issue, we find the ALJs' recommendation to be reasonable and, therefore, adopt it, concomitant with our disposition regarding utility plant-in-service, *supra.* Accordingly, we shall exclude the Company's claimed depreciation expense related to Audubon, Farmington (water and wastewater), and STMA.[41] As set forth in Table II-Water and Table II-Wastewater SSS, in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, we shall remove the following claimed annual depreciation amounts: (1) $269,599 of annual depreciation expense associated with the Audubon system; (2) $101,751 of annual depreciation expense associated with the Farmington (water) system; (3) $51,847 of annual depreciation expense associated with the STMA system; and (4) $137,987 associated with the Farmington (wastewater) system. These amounts reflect our agreement with the OCA's calculated amounts, *supra.*

Additionally, as previously discussed, the OCA proposed further adjustments to annual depreciation expense concomitant to its objections to service life/survivor curves employed in the depreciation studies prepared by PAWC's witness, Mr. Spanos. For the reasons set forth in our disposition of the issue pertaining to the

[41] As we are excluding BASA in this proceeding, we shall also exclude all depreciation amounts related to BASA.

OCA's proposed $15.5 million downward adjustment to depreciation expense, contained in Section VII.O of this Opinion and Order, *infra*, we shall deny the OCA's Exception Nos. 3 and 9 and adopt the ALJs' recommendation, which accepts PAWC's claim for depreciation reserve with one exception. Consistent with our decision regarding utility plant-in-service, *supra*, amounts related to Audubon, Farmington (water), Farmington (wastewater), STMA, and BASA should be excluded, as described above.

F. Reporting – Utility Plant-in-Service

1. Positions of the Parties

I&E proposed that the Company provide I&E and the OCA with updates to PAWC Exhibit 3-A, pages 26, 97, 146, 179, and 218 no later than December 1, 2025, under this docket number. I&E stated that PAWC's updates should include actual plant additions and retirements for the twelve months ending June 30, 2024, and for the twelve months ending June 30, 2025. I&E M.B. at 20.

The Company is estimating that it will add approximately $742,020,740 of plant additions in the FTY ending June 30, 2024, and approximately $797,874,110 of plant additions in the FPFTY. PAWC St. 3 at 9. I&E averred that there is value in determining how closely PAWC's projected investments in future facility comport with the actual investments that are made by the end of the FTY and the FPFTY. Determining the correlation between PAWC's projected and actual plant additions and retirements will help verify the validity of PAWC's projections. I&E M.B. at 20.

PAWC has indicated that it agrees with I&E's reporting requirement recommendation and that it will provide the updates as requested. PAWC St. 4-R at 7.

2. Recommended Decision

The ALJs recommended that the Company provide I&E and the OCA with updates to PAWC Exhibit 3-A, pages 26, 97, 146, 179, and 218 no later than December 1, 2025, under the R-docket numbers in this proceeding, and PAWC's updates should include actual plant additions and retirements for the twelve months ending June 30, 2024, and for the twelve months ending June 30, 2025. R.D. at 86-87.

3. Disposition

None of the Parties filed Exceptions to the ALJs' recommendation. Finding the ALJs' recommendation to be reasonable, we adopt it without further comment.

VI. Revenues at Present Rates, Revenue Increase, and Revenue Requirement

A. Present Rate Revenue / Revenues Related to the Six Proposed Acquisitions

1. Positions of the Parties

PAWC's overall claim for *pro forma* revenue at present rates for the FPFTY was $1,011,038,462.[42] The Company developed this claim using the level of water and wastewater sales revenue generated during the historic test year (HTY) ended

[42] PAWC's claim consisted of the sum of its Water, Wastewater SSS, Wastewater CSS, and BASA Operations, respectively, as follows: [$824,117,186 + $95,470,867 + $78,636,216 + $12,814,193 = $1,011,038,462]. PAWC represented that its claimed revenues did not include any impacts of the Company's attempt to acquire Brentwood. PAWC M.B. at Appendix A, Table Act 11 – Step 2. We further note that in the body of its Main Briefs, the Company stated that its claim for *pro forma* revenue at present rates was $1,213,394,607. However, this figure is the Company's proposed overall revenue requirement on a total company basis, as discussed, *infra.*

June 30, 2023, and, in accordance with well-established Commission practice, PAWC made appropriate adjustments to eliminate non-recurring items and to annualize the effect of known or anticipated changes. These included adjustments: (1) to eliminate unbilled revenue; (2) to annualize revenues associated with acquired systems; (3) to reflect changes affecting the consumption of specific large customers; and (4) to reflect changes in the number of customers during the HTY and as projected for the FTY ending June 30, 2024, and the FPFTY ending June 30, 2025. Additionally, for residential, commercial, and municipal customers, PAWC proposed adjustments to the actual FTY billing determinants related to trends in declining use, weather normalization, and the impact of the COVID-19 pandemic on water consumption. PAWC M.B. at 20, Appendix A, Table Act 11 – Step 2.

I&E argued that $12,814,193 of present rate revenue from the Company's pending acquisition of BASA and $1,824,191 of present rate revenue from the Company's attempted acquisition of Brentwood should be excluded from rate recovery.[43] I&E also argued that the following additional present rate revenues should be excluded: (1) $2,965,024 from the Company's pending acquisition of Audubon; (2) $266,371 from the Company's pending acquisition of Farmington (water); (3) $322,926 from the Company's pending acquisition of Farmington (wastewater); and (4) $471,228 from PAWC's pending acquisition of STMA. I&E restated its argument, *supra,* that because PAWC does not yet own these systems, nor is it clear at what point the Company will own these systems, the associated revenue impacts should be removed from the Company's claims in this proceeding. I&E M.B. at 22; I&E St. 4 at 10.

[43] I&E acknowledged that the Company already excluded any Brentwood impacts from its revenue claim. Nonetheless, I&E explained that, for purposes of clarity, it noted its recommendation related to the exclusion of revenue impacts from Brentwood. I&E M.B. at 22, n.59.

The OCA, likewise, maintained that because the Company does not currently own any of the property associated with its six proposed acquisitions, the following should be excluded from PAWC's revenue claims: (1) the $2.965 million and $266,371 in operating revenues at present rates related to Audubon and Farmington (water), respectively; (2) the $322,926 and $471,228 in operating revenues at present rates related to Farmington (wastewater) and STMA, respectively; and (3) all revenues associated with BASA and Brentwood. OCA M.B. at 34.

The OSBA proposed a BASA mitigation adjustment, which is discussed in Section VI.D, below. OSBA M.B. at 8-9. The OSBA added that if the Audubon acquisition is rejected by the Commission, or if the Commission does not issue a final order in the Audubon acquisition proceeding prior to the record closing in the instant proceeding, all costs related to Audubon should be removed from the revenue requirement in this case. Additionally, the OSBA submitted that once the Commission decides the PAWC/Audubon case, that result can be addressed in the Company's next rate case. OSBA R.B. at 7-8.

2. Recommended Decision

As previously noted, the ALJs concluded that it would be premature to include the BASA acquisition in PAWC's FPFTY rate base. Consistent with this finding, the ALJs found that PAWC's operating revenues should be adjusted downward to remove revenues associated with BASA, Audubon, Farmington, and STMA, consistent with the positions of I&E and the OCA. The ALJs explained that these downward revenue adjustments require concomitant adjustments for bad debt and general assessment expenses and forfeited discounts/late payment fee/penalties revenues that are determined as a percentage of revenues. R.D. at 90-91.

3. PAWC Exception No. 3 and Replies

As noted in Section V.A of this Opinion and Order, PAWC, in its Exception No. 3, objects to the ALJs' recommendation that the Commission disallow the Company's revenue requirement claims related to the acquisition of BASA. PAWC submits, *inter alia*, that the ALJs' conclusion, that the BASA acquisition should not be included in PAWC's rates at this time because there is no certainty that the Company will close on the BASA acquisition during the FPFTY, was in error. According to PAWC, Section 315(e) of the Code does not require absolute certainty that the facilities will be in service by the end of the FPFTY. PAWC reasons that if the Commission desires absolute certainty that the Company will close on the BASA acquisition prior to the end of the FPFTY before including BASA in PAWC's rate base, then the Company supports the Commission imposing a condition. Namely, PAWC supports the Commission requiring that the Company certify that closing has occurred on the BASA acquisition prior to the end of the FPFTY in order to implement Step 2 of its stepped rate increase proposal. PAWC reasons that if closing on the BASA acquisition does not occur by the end of the FPFTY, its proposed Step 2 rates will not be implemented. PAWC Exc. at 12-16.

In its Replies to Exceptions, I&E argues, *inter alia*, that PAWC's position is based on its assumption that the Commonwealth Court will find in PAWC's favor, and that if it does, no party to that proceeding will file for a further appeal. I&E cautions, however, that accepting those assumptions is not in the public interest, nor can the Commission assume PAWC knows with absolute certainty how the Commonwealth Court will rule. Therefore, I&E maintains that the BASA present rate revenues must be removed from PAWC's revenues. I&E R. Exc. at 6-7.

In its Replies to Exceptions, the OCA argues, *inter alia*, that the ALJs were correct in recommending that BASA and the other not-yet-acquired systems, *supra*,

should be excluded from the Company's claimed rate base and revenues. OCA R. Exc. at 1-6.

Similarly, the OSBA, in its reply, submits that the ALJs properly recommended that the BASA acquisition be excluded from the Company's rates. The OSBA stresses that this acquisition is still before the Commonwealth Court, and there is no certainty as to when the Court will reach a decision. OSBA R. Exc. at 2-3.

4. Disposition

We have previously determined, in Section V.A, *supra,* that it would be premature to include the acquisitions of BASA, Audubon, Farmington (water), Farmington (wastewater), and STMA in PAWC's rate base. As noted above, because the Company does not yet own these systems, they are not yet used and useful in the provision of utility service to PAWC's customers. I&E M.B. at 10. Further, there is no certainty as to when the Company will own these systems. OSBA R. Exc. at 3. Therefore, we shall also adopt the associated recommendation of the ALJs that the revenues related to these proposed acquisitions be removed from the Company's claim for *pro forma* revenue at present rates. Accordingly, we shall remove: (1) $12,814,193 of present rate revenue from the Company's pending acquisition of BASA; (2) $2,965,024 from the Company's pending acquisition of Audubon; (3) $266,371 from the Company's pending acquisition of Farmington (water); (4) $322,926 from the Company's pending acquisition of Farmington (wastewater); and (5) $471,228 from PAWC's pending acquisition of STMA.[44] Our above adjustments for the Audubon, Farmington (water), Farmington (wastewater) and STMA systems are set forth in Table II-Water and Table II-Wastewater SSS, in the rate tables that outline the Commission

[44] As previously noted, PAWC has already removed its claimed present rate revenues related to the Brentwood system.

Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order.

PAWC's Exception No. 3, as it relates to the Company's revenue at present rates and its revenues related to its proposed acquisitions at issue in this proceeding is denied.

B. Late Payment Revenue

1. Positions of the Parties

I&E explained that late payment revenue is received from customers when they are assessed late payment charges for not paying their bills on time. I&E reasoned that because such revenues are based upon a percentage of a customer's bill, an increase in base rates will generally result in late payment revenues increasing by the same percentage as the bills' increase. I&E M.B. at 9. I&E noted that in its wastewater SSS operations, PAWC included late payment fees under "Other Operating Revenue." Accordingly, I&E proposed an increase of $154,448 in Other Operating Revenue, or from $3,241,057 to $3,395,505, to appropriately reflect additional late payment revenues. I&E multiplied the present rate late payment revenue of $463,681 by the 35.1% increase in tariff rates and then subtracted the $8,332 increase the Company reflected to arrive at its proposed late payment revenue increase of $154,448.[45] *Id.* (citing PAWC Vol. 9, Exh. 10-B at 33).

The Company did not oppose I&E's method of calculating late payment revenues, but it did assert that I&E's proposed increase to Other Operating Revenue

[45] [$463,681 x 35.106%=$162,780]; [$162,780-$8,332=$154,448].

should be rejected if the Commission rejects I&E's proposed increases in rates for wastewater SSS and CSS customers.[46] PAWC R.B. at 15-16.

2. Recommended Decision

As will be discussed in Sections X.E and X.H, infra, the ALJs did not recommend that the Commission adopt I&E's proposed increases in rates for wastewater SSS and CSS customers. Accordingly, the ALJs recommended that I&E's proposed adjustment to late payment revenues and other operating revenues be rejected. Furthermore, the ALJs recommended that the Commission adopt PAWC's proposed ratio of 0.5027% of penalties to total billed water/wastewater sales revenues to calculate the Company's late payment fee revenues at present and proposed rates. According to the ALJs, this ratio should also be used to calculate concomitant late payment fee revenues when adjusting present rate revenues, and to calculate late payment fee revenues at allowed rates, consistent with the Commission's final authorized increase in billed water/wastewater sales revenues. R.D. at 91-92.

3. Disposition

No Party filed Exceptions to the ALJs' recommendation on this issue. Finding the ALJs' recommendation to be reasonable and supported by substantial evidence in the record, we shall adopt it without further comment.

[46] These proposed increases are discussed in Sections X.E and X.H of this Opinion and Order.

C. Miscellaneous Revenues

1. Positions of the Parties

For the HTY ended June 30, 2023, PAWC received $659,624 of revenues related to the "on-bill" billing of charges on behalf of American Water Resources (AWR) for its non-utility products and services. PAWC represented that it recorded these revenues above-the-line, which provides a benefit to PAWC's customers by offsetting the Company's operating and maintenance expenses recovered through rates. The Company included $659,624 of miscellaneous revenue from AWR in the revenue requirement for the FPFTY ending June 30, 2025. PAWC St. 1-R at 20. PAWC stated that if the Commission determines that the Company cannot continue its long-standing on-bill arrangement with AWR, the associated revenues must also be removed from the Company's revenue requirement. However, the Company stressed that it disagrees with the position of the OCA, *infra*, that this arrangement should be discontinued. PAWC R.B. at 15.

The OCA stated that it has not challenged PAWC's miscellaneous revenue claims. Rather, as discussed, in detail, in section XIII.D, *infra*, the OCA provided that its concerns regarding the Company's relationship with AWR center on its contention that PAWC is engaging in deceptive and discriminatory billing and marketing practices for non-utility "protection services" of customer-owned service lines and in-home plumbing provided by AWR, to the detriment of consumer interests. Despite these concerns, the OCA disagreed with PAWC's argument that if the Commission determines that the Company should cease its on-bill agreement with AWR, then these revenues should be removed. The OCA reasoned that: (1) the $659,624 revenue that PAWC receives from AWR is fully substantiated by the Company for the FPFTY; and (2) reflecting this miscellaneous revenue benefits consumers by offsetting the Company's proposed revenue requirement. Moreover, the OCA stated that, at present, it has simply

recommended an investigation and a pause on any new customer enrollments until the Commission concludes its investigation. OCA M.B. at 34-35, 106.

2. Recommended Decision

As explained in Section XIII.D of this Opinion and Order, *infra*, the ALJs recommended that the Commission reject the OCA's proposal to open an investigation into PAWC's relationship with AWR. As such, the ALJs did not recommend any corresponding adjustment to PAWC's claim for miscellaneous revenues related to AWR. R.D. at 93.

3. OCA Exception No. 5 and Replies

In its Exception No. 5, the OCA states that it agrees with the ALJs' recommendation that PAWC's miscellaneous revenues related to AWR should not be adjusted. However, the OCA submits that the ALJs erred in their reasoning for why these revenues should not be adjusted. The OCA restates its argument that the Company's claim is fully substantiated and provides a benefit to ratepayers. Additionally, the OCA maintains that it has simply recommended an investigation and a pause on any new enrollments pending such an investigation. The OCA posits that if the Commission adopts the OCA's recommendation to open an investigation, it would be speculative to predict the outcome thereto. In light of this uncertainty, the OCA insists that no adjustment is necessary to PAWC's miscellaneous revenue claim. OCA Exc. at 7-8.

As will be discussed in greater detail in Section XIII.D of this Opinion and Order, PAWC, in its Replies to Exceptions, takes the position that the Commission should reject the OCA's request to initiate an investigation of PAWC's relationship with

AWR. PAWC avers, *inter alia*, that its billing arrangement with AWR is not discriminatory. PAWC R. Exc. at 16-17.

4. Disposition

As will be discussed in Section XIII.D, *infra*, we shall adopt the recommendation of the ALJs and will reject the OCA's proposal to open an investigation into PAWC's relationship with AWR. As a result, we disagree with the OCA that the ALJs erred in their reasoning for why PAWC's claim for miscellaneous revenues related to AWR should be adopted. Accordingly, the OCA's Exception No. 5 is denied.

D. BASA Mitigation Adjustment

1. Positions of the Parties

The OSBA argued that as part of the Settlement Agreement approved in *BASA*, PAWC agreed to move BASA's rates to the lower of: (1) 1.40 times the current BASA rates; or (2) PAWC's proposed Rate Zone 1 system-average wastewater rates, upon the latter of the first anniversary of Closing or January 1, 2025. The OSBA stated that although PAWC has adhered to this settlement condition, it has proposed in this instant proceeding to recover $21.6 million in annual Act 11 revenues from water customers associated with the acquisition of BASA. The OSBA claimed that such recovery should be denied. According to the OSBA, it is unreasonable for the Company to shift this cost burden to water customers. Namely, the OSBA argued, PAWC "negotiated" the BASA acquisition price and negotiated with the OSBA and other parties to mitigate the impact on BASA customers in this rate case. Consequently, the OSBA recommended setting the BASA-related revenue requirement increase at the 40% capped increase for BASA wastewater customers, or $4,735,610, with no Act 11 revenue shift to water customers. The OSBA reasoned that this recommended "BASA Mitigation

Adjustment" simply requires PAWC to adhere to its commitment under the settlement in *BASA*. The OSBA added that its proposed adjustment is effectuated by temporarily imputing revenues to the BASA system in the amount necessary to recover the BASA revenue requirement without shifting costs to non-BASA customers. Finally, the OSBA posited that PAWC can revisit this issue in its next base rate proceeding. OSBA M.B. at 8-9.

PAWC submitted that, in making its proposed adjustment, the OSBA has mischaracterized the terms of the settlement in *BASA*. In this regard, the Company argued that the OSBA relied on the fact that PAWC agreed to propose rates at the lower of 1.4 times current BASA rates or the proposed Rate Zone 1 rates to imply that the Commission *must* limit BASA rates to this amount, and that PAWC agreed that any resulting shortfall in revenue would be imputed to its shareholders. According to PAWC, this is inaccurate. Rather, PAWC insisted that while the Company agreed that it would propose moving BASA rates to 1.4 times the lower of current BASA rates or 1.4 times PAWC's proposed Rate Zone 1 rates, the Commission has the authority to set rates at an amount that it determines is reasonable. In addition, PAWC asserted that the Commission and the parties to the settlement in *BASA* clearly recognized that the terms of the settlement would result in a revenue shortfall and that PAWC might propose in a future rate case to allocate this shortfall to its water customers. Therefore, PAWC submitted that the Commission should reject the OSBA's proposed BASA mitigation adjustment. PAWC R.B. at 13-14.

2. Recommended Decision

As previously noted, the ALJs recommended that the Commission exclude BASA from PAWC's rate base. Therefore, the ALJs declined to make a recommendation regarding the OSBA's proposed BASA mitigation adjustment. R.D. at 94.

3. Disposition

None of the Parties filed Exceptions with regard to the ALJs' decision to refrain from making a recommendation on this issue. As we have adopted the ALJs' above recommendation to exclude the BASA acquisition from PAWC's rate base in this proceeding, we find this issue to be moot. Provided that PAWC physically owns the BASA system by its next base rate proceeding, we note that this issue can be raised in that proceeding.

E. Revenue Increase and Revenue Requirement

A utility's revenue requirement represents "the total revenue that the utility needs to collect through the rates charged to the public to cover its cost of service." James H. Cawley & Norman J. Kennard, *A Guide to Utility Ratemaking* at 102 (2018 ed.) (*PUC Rate Case Handbook*). The formula to calculate the utility's revenue requirement is set forth, as follows:

$$RR=T+E+D+(RB \times ROR)$$

Where: RR=Revenue Requirement
T=Taxes
E=Operating Expense
D=Depreciation Expense
RB=Rate Base
ROR=Overall Rate of Return

I&E St. 2 at 2-3. The central issue in a base rate case involves identifying the appropriate cost-of-service, or revenue requirement, for the utility, in this case PAWC.[47] *PUC Rate Case Handbook* at 102.

[47] We have discussed the Company's rate base, *supra*, and will discuss the remaining components of the Company's Revenue Requirement formula in the sections that follow.

1. Positions of the Parties

PAWC's final overall proposed revenue requirement on a total Company basis was approximately $1,213,394,607, representing a proposed revenue increase of $202,356,145 over *pro forma* revenues at present rates of $1,011,038,462. As previously discussed, PAWC proposed a two-step revenue increase. Thus, the Company's final proposed revenue increase and revenue requirement was broken down as follows:

(1) A Step 1 revenue requirement of $1,175,257,467, representing a proposed revenue increase of $177,033,198 over *pro forma* revenues at present rates of $998,224,269. After allocating a portion of the wastewater revenue requirement to water customers, this consisted of a proposed water revenue requirement of $1,001,429,829, representing a proposed revenue increase of $177,312,643 over water revenues at present rates of $824,117,186; and a proposed wastewater revenue requirement of $173,827,638, representing a proposed revenue decrease of $279,445 over wastewater revenues at present rates of $174,107,083. PAWC represented that its Step 1 revenue increase did not include any revenue requirement associated with the BASA acquisition, and that it excluded all impacts of the Brentwood acquisition.

(2) PAWC then proposed a Step 2 revenue increase, to be effective on one-day's notice upon the closing of the BASA acquisition. Thus, the Step 2 revenue requirement included the revenue requirement proposed in Step 1, *supra*, plus the addition of the revenue requirement associated with the BASA acquisition. As previously noted, PAWC's proposed Step 2 revenue increase led to a final proposed revenue requirement of $1,213,394,607 on a total company basis, representing a proposed revenue increase of $202,356,145 over *pro forma* revenues at present rates of $1,011,038,462. After allocating a portion of the wastewater revenue requirement to water customers,

> this consisted of a proposed water revenue requirement of $1,022,982,528, representing a proposed revenue increase of $198,865,342 over water revenues at present rates of $824,117,186; and a proposed wastewater revenue requirement of $190,412,079, representing a proposed revenue increase of $3,490,803 over wastewater revenues at present rates of $186,921,276.[48]

PAWC M.B. at 10, Appendix A, Table Act 11 – Water and Wastewater Revenue Requirement Summary – Step 1 and Table Act 11 – Water and Wastewater Revenue Requirement Summary – Step 2.

I&E recommended a revenue requirement of $1,050,249,404 for PAWC, on a total company basis. I&E's proposal would result in a total revenue increase of approximately $56,050,684 over revenues at present rates of $994,198,720. This consisted of a proposed water revenue requirement of $850,229,374, representing an increase of approximately $29,343,583 to the Company's water revenues of $820,885,791 at present rates; and a proposed wastewater revenue requirement of $200,020,030, representing an increase of approximately $26,707,101 to the Company's wastewater revenues of $173,312,929 at present rates. As previously noted, I&E opposed the inclusion of any revenue and rate increases associated with the Company's pending BASA acquisition, as that transaction has not yet closed. Therefore, I&E opposed the Company's Step 2 increase in its entirety. I&E M.B. at 6, Appendix A, Table Act 11 Allocation.[49]

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[48] Included in this wastewater revenue requirement was a revenue requirement for BASA of $16,584,441, representing a proposed revenue increase for BASA of $3,770,248 over revenues at present rates of $12,814,193. PAWC M.B. at Appendix A, Table Act 11 – Water and Wastewater Revenue Requirement Summary – Step 2.

[49] As discussed in Section X.E of this Opinion and Order, *infra*, I&E took the position that the Commission should not permit the Company to allocate any of its wastewater revenue requirement to its water customers.

The OCA proposed a final revenue requirement of $1,057,332,943 on a total Company basis. The OCA's proposal would result in a total revenue increase of $45,437,081 over revenues at present rates of $1,011,895,862. After allocating a portion of the wastewater revenue requirement to water customers, this consisted of a proposed water revenue requirement of $860,808,007, representing an increase of approximately $36,690,821 to the Company's water revenues of $824,117,186 at present rates; and a proposed wastewater revenue requirement of $182,853,342, representing an increase of approximately $8,746,259 to the Company's wastewater revenues of $174,107,083 at present rates. OCA M.B. at Appendix A, Summary Table. As previously noted, the OCA, likewise, opposed the inclusion of any revenue requirement associated with the Company's pending BASA acquisition. *Id.* at 34.

The OSBA proposed a maximum revenue increase for the Company of $109,088,498. As discussed above, the OSBA proposed the inclusion of a BASA mitigation adjustment. OSBA M.B. at 7-9.

CAUSE-PA did not take a specific position as to the revenue requirement in this proceeding. However, CAUSE-PA stated that it is highly concerned that the Company's proposal to "dramatically" increase rates for basic water and wastewater services will negatively affect the accessibility of service for residential customers, especially low-income customers. Therefore, CAUSE-PA requested that PAWC's proposed revenue increase and revenue requirement be rejected in its entirety because the Company has failed to demonstrate that its proposals are just, reasonable, and in the public interest. CAUSE-PA M.B. at 18.

PAWLUG, likewise, did not propose an independent revenue requirement recommendation. However, PAWLUG submitted that the Commission should review the expense adjustments proposed by I&E and the OCA, *infra*, to ensure the Company's

proposed rates are adjusted, as necessary, to protect customer interests, including moderating the impact of the proposed Act 11 allocation. PAWLUG M.B. at 5.

2. Recommended Decision

As previously noted, the ALJs concluded that it would be premature to include the BASA acquisition in PAWC's FPFTY rate base. Consistent with this finding, the ALJs recommended that the Company's proposed two-step rate increase proposal be denied. Instead, the ALJs recommended an overall revenue requirement of approximately $1,098,260,686 for PAWC on a total Company basis, based on the various adjustments that they recommended that the Commission adopt in their Recommended Decision, resulting in an overall distribution revenue increase of approximately $104,082,203. After allocating a portion of the wastewater revenue requirement to water customers, the ALJs' recommendation consisted of: (1) a revenue requirement of $913,459,551 for PAWC's water service, representing an increase of approximately $92,590,004 over *pro forma* present rate water revenues of $820,869,547; and (2) a revenue requirement of $184,801,136 for PAWC's wastewater service, representing an increase of approximately $11,492,198 over *pro forma* present rate wastewater revenues of $173,308,937. The ALJs' recommendation represented an increase of approximately 11.28% in water operating revenues and an increase of approximately 6.63% in wastewater operating revenues. R.D. at 1, Appendix Table Act 11 – Water and Wastewater Revenue Requirement - Summary.

3. Exceptions and Replies

As discussed elsewhere in this Opinion and Order, PAWC, I&E, and the OCA each filed Exceptions to certain recommendations the ALJs made regarding the components of PAWC's revenue requirement. Additionally, I&E and the City of

Scranton filed specific Exceptions to the ALJs' recommended revenue increase and revenue requirement, as discussed below.

a. I&E Exception No. 7[50]

In its Exception No. 7, I&E submits that based upon the flaws I&E alleged are present in the Recommended Decision, as discussed in its Exception Nos. 1 through 6 and presented elsewhere in this Opinion and Order, the ALJs arrived at an erroneous recommended revenue increase for PAWC that will result in unjust and unreasonable rates for its customers. I&E insists that PAWC should receive a revenue increase of no more than $56,050,684, on a total Company basis, including a revenue increase of $29,343,583 for the Company's water operations and $26,707,101 for its wastewater operations. I&E claims that modifying the ALJs' recommendation and adopting the position of I&E regarding: (1) the Company's ROE; (2) the Act 11 subsidy; and (3) the proposed rate design for both water and wastewater, *infra*, will adjust the Company's allowed revenue increase and revenue requirement to a more appropriate level that produces just and reasonable rates. I&E Exc. at 15-16.

b. City of Scranton Exception No. 1 and Replies

In its Exception No. 1, the City of Scranton argues that the ALJs erred as a matter of law by supporting rate increases after finding that PAWC did not meet its burden for its request for relief, especially in the context of the wastewater rate increase. The City of Scranton contends that it was improper for the ALJs to recommend the adoption of another Party's request for relief when the burden of proof did not shift and the rate increase proposed by PAWC was denied. The City of Scranton submits that the Parties opposing the rate increase prevailed because the Recommended Decision denies

[50] None of the Parties proffered a direct response to I&E's Exception No. 7.

the relief requested by PAWC. However, the City of Scranton avers that despite holding that PAWC did not meet its burden of proof to substantiate its requested rate increases, the ALJs improperly recommended a rate increase as to wastewater, which was over four times the rate requested by PAWC in its wastewater filings, and whereby the majority of the affected customers reside in the City of Scranton and surrounding areas. The City of Scranton argues that the Commission should deny both rate increases. City of Scranton Exc. at 1-5.

In reply to the City of Scranton's Exception No. 1, PAWC argues that the City of Scranton misinterprets the Recommended Decision and Commission precedent. PAWC avers that the ALJs did not find that the Company failed to meet its burden of proof to warrant any rate increase; rather, the ALJs found that PAWC did not appropriately support every element of its requested increase, which resulted in a recommended increase in rates that is substantially less than the increase sought by PAWC. Furthermore, PAWC states that there were many components of the Company's requested increase, and alternative proposals advanced by other parties, that the ALJs determined were adequately supported. PAWC submits that it would be an absurd result, and inconsistent with the principle that a public utility is entitled to an opportunity to earn a fair rate of return, to deny the Company's rate increase in its entirety because the ALJs did not find that each and every element of PAWC's proposed rate increase was adequately supported. PAWC R. Exc. at 20-21.

4. Disposition

a. I&E Exception No. 7 and City of Scranton Exception No. 1

As noted above, I&E represents that its Exception No. 7 is based upon the arguments made in its other Exceptions to the Recommended Decision. We shall address I&E's Exception Nos. 1 through 6 in the remaining sections of this Opinion and Order.

As we shall adopt neither the ALJs' recommended revenue increase and revenue requirement nor that proffered by I&E, I&E's Exception No. 7 is granted, in part, and denied, in part.

With respect to the City of Scranton's Exception No. 1, we agree with PAWC that the City of Scranton has misinterpreted the Recommended Decision. Upon review, we find that the ALJs did not conclude that PAWC failed to meet its burden to support *any* rate increase. The ALJs instead concluded that PAWC failed to support every element of its requested increase. Therefore, while the ALJs recommended an increase in rates less than the increase requested by PAWC, here were certain components of PAWC's requested increase and other proposals of the opposing Parties that were adequately supported. We have adopted certain of these components and proposals in reaching the revenue increase and revenue requirement that we shall authorize for the Company, *infra.* Accordingly, we shall deny the City of Scranton's Exception No. 1.

b. Authorized Revenue Increase and Revenue Requirement for PAWC

Based upon our findings regarding certain inputs to PAWC's rate base, *supra,* to its revenues, as discussed in this section of our Opinion and Order, and to PAWC's expenses, cost of common equity, and overall rate of return, discussed, *infra,* we shall approve an overall revenue requirement of $1,093,507,496, on a total company basis, which will result in a maximum allowed overall distribution revenue increase of $99,329,012, on an annual basis. After allocating a portion of the wastewater revenue requirement to PAWC's water customers, we shall approve: (1) a revenue requirement of $908,990,615 for PAWC's water service, representing a revenue increase of $88,121,069,

or 10.74%, on an annual basis; and (2) a revenue requirement of $184,516,880[51] for PAWC's wastewater service, representing a revenue increase of $11,207,944,[52] or 6.47%, on an annual basis. These amounts are depicted in Table Act 11 Water and Wastewater Revenue Requirement – Summary, which is part of the Commission Tables Calculating Allowed Revenue Increase that are attached to this Opinion and Order.

VII. Expenses

A. Payroll Costs – Vacancy Rate

1. Positions of the Parties

PAWC provided that the Company's payroll allowance for the FPFTY was developed based on PAWC's authorized complement of 1,294 equivalent employees. PAWC M.B. at 21 (citing PAWC St. 5 at 4-7).

The OCA proposed an adjustment to reflect a 1.76% vacancy rate, to reduce: (1) salaries and wages by $1,045,353; (2) related payroll taxes by $79,970; (3) annual performance pay by $85,523; and (4) related payroll tax by $6,543. The OCA further recommended accompanying adjustments based on the vacancy rate for: (1) group insurance by $200,623; and (2) 401K, Defined Contribution Plan (DCP), and Employee Stock Purchase Plan (ESPP) by $72,817. As such, the OCA proposed a

[51] As set forth in Table Act 11 – Water and Wastewater Revenue Requirement – Summary, which is included in the Commission Tables Calculating Allowed Revenue Increase, attached to this Opinion and Order, this amount consists of the following individual wastewater revenue requirements: $100,729,441 for wastewater SSS and $83,787,440 for CSS wastewater.

[52] This amount consists of the following individual allowed annual revenue increases: $6,056,720, or 6.40%, for Wastewater SSS and $5,151,224, or 6.55%, for CSS Wastewater. *See, Id.*

reduction to the Company's claim for salaries, wages, payroll taxes, and related benefits totaling $1,490,829. OCA M.B. at 35 (citing PAWC St. 5R at 2-3; OCA St. 2-SR at 2; OCA St. 2 at 56-59; OCA M.B. at Appendix H). Additionally, the OCA recommended that PAWC remove the Company's expense claim of $123,250 because PAWC eliminated its external Board as of December 31, 2023. PAWC agreed to remove this expense claim. OCA M.B. at 35-36 (citing OCA St. 2-SR at 2; OCA St. 2 at 62).

PAWC accepted the OCA's vacancy rate adjustment and updated payroll expense to reflect a merit increase that became effective January 8, 2024, for non-collective bargaining unit hourly employees and exempt employees (2024 Merit Increase). PAWC M.B. at 21 (citing PAWC St. 5-R at 2-3; PAWC Exh. 3-A Revised). PAWC submitted a final payroll expense claim of $78,161,527, with the inclusion of the accepted adjustment and 2024 Merit Increase. PAWC M.B. at 21-22.

2. Recommended Decision

The ALJs recommended that PAWC's Payroll Costs - Vacancy Rate be adjusted to reflect the OCA's proposed adjustment of a 1.76% vacancy rate because PAWC accepted the OCA's proposed adjustments. The ALJs also recommended that PAWC's claim of $123,250, related to its external Board, be eliminated because the Company accepted the OCA's recommendation to remove $123,250 from its external Board expense claim. The ALJs noted that because PAWC adopted these adjustments to its initial claims in rebuttal, their recommended adjustment was reflected in the Company Adjustments column in Table I-Water, Table I-Wastewater SSS, and Table I-Wastewater CSS in the Appendix of their Recommended Decision. R.D. at 95-96.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendations that: (1) PAWC's Payroll Costs - Vacancy Rate be adjusted to reflect a 1.76% vacancy rate; and (2) PAWC's external Board claim of $123,250 be eliminated.

B. Annualized Performance Pay (PAWC)

1. Positions of the Parties

PAWC provided that the performance compensation challenged by PAWLUG's witness, Ms. Billie LaConte, and the OSBA's witness, Mr. Kevin Higgins, is an integral part of the compensation package that is necessary to compete for and retain qualified employees. PAWC M.B. at 22 (citing PAWC St. 2-R at 4-10; PAWC St. 2 at 39-42). PAWC averred that the Commission has historically found that the focus for ratemaking purposes is the reasonableness of overall compensation awards, and not the size or nature of individual pieces of the compensation package. PAWC M.B. at 22-23 (citing *PAWC 2020* at 50-53; *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 and R-2021-3027386 (Opinion and Order entered May 16, 2022 (*Aqua 2022*) at 100-01; *UGI Electric 2018* at 73-74; *Pa. PUC v. PPL Electric Utilities Corporation*, Docket No. R-2012-2290597 (Opinion and Order entered December 28, 2012) (*PPL 2012*) at 26; *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-00072711 (Order entered July 31, 2008), at 20-21; *Pa. PUC v. PPL Gas Utilities Corporation*, Docket No. R-00061398 (Order entered February 8, 2007) (*PPL Gas 2007*) at 40). Further, PAWC averred that no Party contested that the Company's total market-based employee compensation is unreasonable, and the Company provided evidence concerning how performance pay benefits customers by encouraging, *inter alia*, operational efficiency. PAWC M.B. at 23 (citing PAWC St. 2-R at 4-10). Moreover, PAWC averred that its performance-based compensation expense, including the Annual

Performance Plan (APP) and the Long-Term Performance Plan (LTPP), was recently reviewed and approved by the Commission in the PAWC 2020 base rate proceeding. PAWC M.B. at 23 (citing *PAWC 2020* at 53). As such, PAWC submitted that the OSBA and PAWLUG neither addressed nor acknowledged the adverse precedent presented by the Company. PAWC R.B. at 18.

The OCA asserted that its proposed adjustments to reduce the APP expense by $85,523, and related payroll tax expense by $6,543 for Water, are supported by the Company's acceptance of the OCA's recommended vacancy rate of 1.76%. OCA M.B. at 36 (citing OCA St. 2 at 59-60).

The OSBA recommended that 50% of the APP expense be eliminated from the revenue requirement, based on: (1) the weight of the earnings per share (EPS) goal included in the APP corporate performance calculation; and (2) placing more of the financial burden for the APP on PAWC's shareholders, because rewarding employees for financial performance rests primarily on the shareholders. The OSBA's recommended adjustment decreased the FPFTY revenue requirement by approximately $5,153,394 in total, which includes: (1) the impact of removing 50% of the APP expense directly related to PAWC employees and 50% of the APP expense allocated to PAWC by its Service Company from the revenue requirement; and (2) the estimated impact of payroll tax expense. OSBA M.B. at 11 (citing OSBA St. 1 at 11-12).

2. Recommended Decision

Consistent with their recommendation that the Commission adopt the OCA's proposed adjustment to PAWC's Payroll Costs - Vacancy Rate, the ALJs also recommended that this adjustment be applied to PAWC's APP expense claim. R.D. at 98 (citing OCA M.B. at 36). The ALJs noted that because PAWC adopted this adjustment to its initial claims in rebuttal, their recommended adjustment was reflected in the Company

Adjustments column in Table I-Water, Table I-Wastewater SSS, and Table I Wastewater CSS of the Appendix to their Recommended Decision. R.D. at 98.

The ALJs also recommended that the Commission reject the OSBA's proposed adjustments to APP. The ALJs explained that consistent with the OSBA's recommendation to reduce APP expense in half, the OSBA acknowledged that the APP calculation is not based solely on the Company's financial performance. R.D. at 98 (citing OSBA M.B. at 11; PAWC St. 2 at 41). Further, the ALJs found that the Company provided sufficient evidence regarding how its APP calculation benefits customers by encouraging, *inter alia*, operational efficiency and accessing capital at reasonable rates. R.D. at 98 (citing PAWC St. 2-R at 6-7). Moreover, the ALJs agreed with the Company that approval of the APP expense claim, inclusive of financial metrics, is consistent with the Commission's decision in *PAWC 2020*. R.D. at 98-99 (citing PAWC M.B. at 23).

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation that, consistent with adjusting PAWC's Payroll Costs - Vacancy Rate to reflect a 1.76% vacancy rate, this adjustment must be applied to PAWC's APP expense claim. We also agree with the ALJs' recommendation to reject the OSBA's proposed adjustments to APP.

C. Group Insurance Expense

1. Positions of the Parties

PAWC acknowledged that the OCA's proposed adjustments to Group Insurance Expense are concomitant to the OCA's recommended vacancy rate, *supra*. PAWC M.B. at 21-23. The OCA noted that PAWC's acceptance of the OCA's vacancy

rate supports the OCA's adjustment to reduce group insurance expense by $200,623 for water. OCA M.B. at 36 (citing OCA St. 2SR at 2; OCA St. 2 at 60).

2. Recommended Decision

Given their recommendation that the Commission adopt the OCA's adjustment to vacancy rate, the ALJs recommended that the Commission adopt the OCA's proposed adjustment to group insurance expense. The ALJs noted PAWC's acknowledgement that the OCA's proposed adjustments to group insurance expense are concomitant to the OCA's recommended vacancy rate. R.D. at 99 (citing PAWC M.B. at 23). The ALJs further noted that because the Company adopted this adjustment to its initial claims in rebuttal, their recommended adjustment was reflected in the Company Adjustments column in Table I-Water, Table I-Wastewater SSS, and Table I Wastewater CSS in the Appendix to the Recommended Decision. R.D. at 99

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation that the Commission adopt the OCA's proposed adjustment to group insurance expense.

D. 401K, Defined Contribution Plan (DCP) and Employee Stock Purchase Plan (ESPP)

1. Positions of the Parties

PAWC asserted that the ESPP is available to all active, full- or part-time employees of the Company, and all PAWC employees who become Company

shareholders have additional incentive to establish efficiencies that benefit customers. PAWC M.B. at 24 (citing PAWC St. 5-R at 5; PAWC St. 2-R at 6).

The OCA stated that the Company's acceptance of the OCA's vacancy rate supports the OCA's proposed adjustments to reduce the projected 401K, DCP, and ESPP Expense for 2025 by $72,817 for water. OCA M.B. at 36 (citing OCA St. 2-SR at 2; OCA St. 2 at 60).

The OSBA submitted that PAWC's proposal, that ratepayers should fund the stock purchase discount, should be rejected. The OSBA argued that ratepayers are not responsible to incentivize employees to purchase Company stock and, because the ESPP operates through payroll deductions, this stock purchase mechanism increases payroll costs for the portion of an employee's compensation that is used to purchase stock. OSBA M.B. at 11 (citing OSBA St. 1 at 13-14). As such, the OSBA submitted that if the Company wants to provide an incentive for employees to purchase stock, then the ESPP should be funded by shareholders. Therefore, the OSBA recommended a $457,009 decrease to the FPFTY revenue requirement. OSBA M.B. at 12 (citing OSBA St. 1 at 14).

2. Recommended Decision

Consistent with their above recommendation that the Commission adopt the OCA's proposed adjustment to the Company's Payroll Costs – Vacancy Rate, the ALJs recommended that this adjustment be applied to the Company's 401K, DCP, and ESPP expense claim. R.D. at 101 (citing OCA M.B. at 36). The ALJs noted that because the Company adopted this adjustment to its initial claims in rebuttal, their recommended adjustment was reflected in the Company Adjustments column in Table I-Water, Table I-Wastewater SSS, and Table I-Wastewater CSS in the Appendix to the Recommended Decision. R.D. at 101.

The ALJs also recommended that the Commission reject the OSBA's proposed adjustments to ESPP expense. The ALJs found that PAWC provided sufficient evidence that Company employees who become Company shareholders have additional incentive to establish efficiencies that benefit customers. R.D. at 101 (citing PAWC St. 5-R at 5; PAWC St. 2-R at 6). The ALJs added that this finding is consistent with their recommendation that a financial metric component be included in the claim for APP expense. R.D. at 101.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation that the OCA's proposed adjustment to the Company's Payroll Costs – Vacancy Rate be applied to the Company's 401K, DCP, and ESPP expense claim. We also agree with the ALJs' recommendation that the Commission reject the OSBA's proposed adjustments to ESPP expense.

E. Stock-Based Compensation Expense – American Water Executives

1. Positions of the Parties

As discussed below, the OCA recommended adjustments to disallow the Company's claimed expenses for: (1) stock-based compensation (SBC); and (2) dividend equivalents paid to AWK's top executives. OCA M.B. at 36-38.

According to PAWC, expenses that are part of the compensation provided to top executives ensure that total compensation is reasonable and market-based. PAWC M.B. at 24. PAWC asserted that no Party has presented evidence that top executives could be attracted or retained with a total compensation level that is substantially below the Company's claim. Further, PAWC averred that top executives, like all other

employees, are necessary to enable the Company to manage the provision of safe and reliable water and wastewater service. Moreover, PAWC submitted that both customers and utility investors benefit from awarding a portion of total compensation as SBC because it: (1) incentivizes utility employees to promote PAWC's efficiency and financial health; and (2) promotes a stable leadership team and mitigates employee turnover costs by vesting over a prospective three-year period. *Id*. at 24-25 (citing PAWC St. 2-R at 3-10). Furthermore, as discussed in Section VII.A, *supra,* PAWC noted that the Commission recently reviewed and approved the Company's total compensation package and, therefore, it is appropriate to do so again here. PAWC M.B. at 21-22, 25. Additionally, PAWC argued that an objective review of the record in this case shows that the Company has provided substantial evidence related to the same customer benefits that were highlighted by the Commission when it approved performance-based compensation in its decision in *Aqua 2022*, including: (1) controlling costs; (2) improving efficiency; (3) promoting retention; and (4) promoting safe and reliable service. PAWC R.B. at 19 (citing PAWC St. 2-R at 2-10; PAWC St. 2 at 39-42).

The OCA recommended an adjustment to remove expenses related to the SBC associated with the LTPP for AWK top executive officers. Specifically, the OCA recommended reducing PAWC's operating expenses by $1.722 million to remove the portion projected to be paid to top executives of AWK and charged to PAWC for the FPFTY. The OCA noted that the SBC for such top executives includes: (1) performance stock units (PSU); and (2) restricted stock units (RSU). OCA M.B. at 36-37 (citing OCA St. 2-SR at 2; OCA St. 2 at 66-67).

The OCA argued that this adjustment is necessary because ratepayers should not be required to pay for a portion of SBC paid to top executives, where such compensation: (1) is linked to the performance of AWK's stock price; and (2) is primarily to benefit AWK's stockholders and aligns the interests of participants with those of such stockholders. OCA M.B. at 37. Further, the OCA referred to *Aqua 2022*,

where the Commission found that SBC benefits ratepayers where the compensation is linked to performance objectives that benefit consumers, including controlling costs and compliance initiatives. *Id.* at 37 (citing *Aqua 2022* at 60-61). Here, the OCA continued that PAWC acknowledged that: (1) SBC expense consists of RSUs and PSUs; and (2) the compensation under the LTPP is linked to stock performance. OCA M.B. at 37 (citing PAWC St. 2-R at 9; OCA St. 2-SR at 45-47). Moreover, the OCA contended that recovering the portion of SBC expense that is linked to shareholder interests from the Company's customers is unreasonable and does not promote reasonable, adequate, or efficient utility service. OCA M.B. at 37 (citing OCA St. 2-SR at 67; OCA St. 2 at 67). Accordingly, the OCA recommended reducing pre-tax operating expenses by: (1) $1.643 million for water; (2) $51,658 for wastewater SSS; and (3) $27,551 for CSS wastewater. OCA M.B. at 37 (citing OCA St. 2 at 69).

The OSBA noted that PAWC provides eligible employees: (1) SBC through the Company's LTPP; (2) RSU awards, which are based on a three-year vesting period if the participant remains employed with the Company; and (3) PSU awards, which are based on: (a) "performance vesting conditions;" and (b) a combination of compounded EPS growth and relative total shareholder return when compared to a peer group of stock over a three-year period. The OSBA further noted that the LTPP awards for the HTY ended June 30, 2023, were approximately 22% RSUs and 78% PSUs. OSBA M.B. at 12 (citing OSBA St. 1 at 12).

The OSBA recommended that the LTPP expense be removed from the revenue requirement because: (1) this is an award program that should be funded by shareholders; (2) most of the LTPP cost is the PSU component, which is directly based on the financial performance of AWK; and (3) the RSU component is based upon an employee continuing to work for the Company and not work-related goals. Thus, the OSBA submitted that any SBC expense is properly borne by the Company's shareholders. Therefore, the OSBA recommended an adjustment to decrease the FPFTY

revenue requirement by approximately $5,230,156, which includes the estimated impact on payroll tax expense. OSBA M.B. at 12 (citing OSBA St. 1 at 13).

As previously noted, PAWLUG is not proposing comprehensive adjustments to PAWC's expenses or a specific recommendation for the revenue requirement. However, PAWLUG submitted that the Commission must modify the Company's proposed incentive compensation expense because, according to PAWLUG, the proposal to recover $4.1 million for incentive compensation costs is inflated by $2 million. PAWLUG M.B. at 6. PAWLUG averred that although PAWC reserves the managerial discretion to award incentive compensation as the Company deems appropriate, only incentive compensation associated with operational goals, such as customer satisfaction or safety, should be recoverable through base rates. *Id.* at 6 (citing PAWLUG St. 1 at 8). Accordingly, PAWLUG recommended that to eliminate the recovery of incentive compensation costs tied to financial targets, the Commission should reduce the Company's proposed total incentive compensation expense by $2 million. PAWLUG M.B. at 6.

2. Recommended Decision

The ALJs recommended that given their recommendation regarding APP expense, and consistent with the Commission's decision in *Aqua 2022*, the Commission approve PAWC's claim for SBC Expense – American Water Executives. R.D. at 105 (citing *Aqua 2022* at 100-01). The ALJs found that the Company sufficiently demonstrated that its claimed SBC Expense, including its LTPP, benefits ratepayers. R.D. at 105 (citing PAWC St. 2-R at 2-10; PAWC St. 2 at 39-42). Further, the ALJs disagreed with the OCA that SBC Expense is significantly different from the similarly allowed expense in *Aqua 2022*. R.D. at 105 (citing OCA M.B. at 37). The ALJs noted that both expenses include SBC that can produce operational efficiencies to benefit ratepayers. Moreover, the ALJs referred to the testimony of PAWC's witness, Mr. James

Runzer, to note that the LTPP includes both RSUs and PSUs, and PSUs reflect the Company's financial performance. R.D. at 105-06 (citing PAWC St. 2 at 41). The ALJs continued that, consistent with their discussion regarding APP expense, improved financial performance can benefit customers by encouraging operational efficiency. Further, the ALJs noted that RSUs are not linked to financial goals or targets but vest in equal increments in the three years that follow the year in which the RSUs were granted. R.D. at 106 (citing PAWC St. 2-R at 7). Moreover, the ALJs found that contrary to the OSBA's assertion that RSUs reward employees for simply showing up for work, PAWC provided persuasive evidence to show that encouraging employee retention can benefit ratepayers by maintaining stable leadership experienced with PAWC's operations and avoiding costs for turnover. R.D. at 106 (citing PAWC St. 2-R at 8; OSBA M.B. at 12). Furthermore, the ALJs agreed with PAWC that approval of the claim for LTPP expense is consistent with the Commission's decision to approve a similar expense in the base rate case in *PAWC 2020*. R.D. at 106 (citing PAWC M.B. at 23; *PAWC 2020* at 53).

3. OCA Exception No. 6 and Replies

In its Exception No. 6, the OCA argues that the ALJs erred in concluding that executive compensation that is tied to stock price benefits consumers. The OCA contends that this expense is distinguishable from the allowed expense in *Aqua 2022*, where the Commission found that SBC benefits ratepayers where the compensation is linked to performance objectives that benefit consumers, including controlling costs and compliance initiatives. OCA Exc. at 8 (citing *Aqua 2022* at 60-61).

In this case, the OCA recommends removing that portion of the expense claim projected to be paid to the top executives of AWK and charged to PAWC for the FPFTY that are linked to shareholder interests rather than customer interests. The SBC for those executives consists of PSUs and RSUs. This removal would reduce PAWC's operating expenses by $1.722 million. OCA Exc. at 8 (citing OCA St. 2 at 66-67). The

OCA contends that this adjustment is necessary because customers should not be required to pay for a portion of the expense for SBC paid to AWK's top executives where such compensation is linked to the performance of AWK's stock price and has the primary purpose of benefitting AWK's stockholders. OCA Exc. at 8-9. The OCA reasons that the record does not support the conclusion drawn by the ALJs and there is no substantial evidence that supports the finding that SBC associated with LTPP benefits customers. OCA Exc. at 9.

In its Replies, PAWC explains that it uses a mix of fixed and variable (*i.e.*, performance-based) compensation to provide reasonable and market-based compensation to attract and retain highly qualified employees. PAWC R. Exc. at 12 (citing PAWC St. 2 at 39-40). According to PAWC, the Commission approves stock-based compensation where the utility can demonstrate a benefit to customers – including the recent *Aqua 2022* and *PAWC 2020* proceedings. PAWC R. Exc. at 13 (citing R.D. at 105-06) (additional citations omitted). PAWC avers that it provided evidence that both customers and utility investors benefit from SBC because: (1) it incentivizes utility employees to improve PAWC's efficiency and financial health; and (2) it promotes a stable leadership team and mitigates employee turnover costs by vesting over a prospective three-year period. PAWC R. Exc. at 13 (citing PAWC St. 2-R at 8-10) (additional citations omitted). PAWC asserts that the ALJs properly found that the expenses were sufficiently similar to those approved in *Aqua 2022* and *PAWC 2020*. PAWC R. Exc. at 13 (citing R.D. at 106; PAWC St. 1-R at 32).

4. Disposition

We agree with the ALJs' recommendation and find merit in the ALJs' reasoning that their recommendation is consistent with the Commission's decisions in *Aqua 2022* and *PAWC 2020* for a similar expense. The ALJs noted that PSUs reflect the Company's financial performance, and improved financial performance can benefit

customers by encouraging operational efficiency. We agree. Additionally, RSUs vest over a three-year period, encouraging employee retention which can benefit ratepayers by maintaining experienced employees.

PAWC's witness, Mr. Runzer, testified that the Company targets its total direct compensation (base and variable compensation) for each role at the Company near the market median (50th percentile) for that role. Mr. Runzer explained that by using a combination of fixed and variable compensation, the Company satisfies a dual objective of ensuring competitive market-based total compensation for all employees, while continuing to motivate employees to achieve goals that will improve performance and efficiency for the benefit of its customers. PAWC St. 2 at 40. We note that PAWC averred that no other Party presented evidence that the Company could attract or retain top executives with a total compensation level that is substantially below the Company's claim. PAWC M.B. at 24. Therefore, we find the Company's claim reasonable. Accordingly, we shall deny the OCA's Exception No. 6 and adopt the recommendation of the ALJs on this issue.

F. Executive Perquisites (AWK Executives Dividend Equivalents)

1. Positions of the Parties

The OCA's proposed adjustments to PAWC's claimed O&M expenses to remove certain executive perquisites are addressed in Section VII.E of this Opinion and Order, *supra.*

The OCA recommended an adjustment to reduce PAWC's FPFTY operating expenses by $31,371, to remove expenses related to the executive perquisites associated with Dividend Equivalents for top AWK executives. OCA M.B. at 38 (citing OCA St. 2 at 70). The OCA referred to AWK's Proxy Statement to aver that Dividend Equivalents

are another form of compensation to AWK executives linked to shareholder interests, not consumer interests. *Id.* As such, the OCA submitted that charging the Dividend Equivalents portion of all Other Compensation received by AWK's top executives to PAWC's ratepayers is unreasonable and does not promote reasonable, adequate, or efficient utility service. OCA M.B. at 38 (citing OCA St. 2-SR at 47-48). Accordingly, the OCA recommended reducing pre-tax operating expenses by: (1) $29,928 for water; (2) $941 for wastewater SSS; and (3) $502 for CSS wastewater. OCA M.B. at 38.

2. Recommended Decision

The ALJs recommended that the Commission approve PAWC's claim for Executive Perquisites for the same reasons they recommended that the Commission approve the Company's claimed SBC expense, *supra*. R.D. at 107 (citing R.D. at 105). The ALJs noted that the Executive Perquisites associated with dividend equivalents are paid in cash. R.D. at 107 (citing OCA M.B. at 38).

3. OCA Exception No. 7 and Replies

In its Exception No. 7, the OCA contends that, like the LTPP, this additional Executive Perquisite relates to SBC and is linked to the Company's financial performance and not to activity that necessarily benefits customers. The OCA maintains that it is not appropriate to charge such parent company perquisites to PAWC customers because the Dividend Equivalents expense yields little to no benefit to customers. OCA Exc. at 10.

As PAWC stated in its Replies to the OCA's Exception No. 6, *supra*, PAWC avers that both customers and utility investors benefit from SBC because: (1) it incentivizes utility employees to promote PAWC's efficiency and financial health; and (2) it promotes a stable leadership team and mitigates employee turnover costs by vesting

over a prospective three-year period. PAWC R. Exc. at 13 (citing PAWC St. 2-R at 8-10) (additional citations omitted).

4. Disposition

We find the ALJs' recommendation regarding Executive Perquisites to be reasonable for the same reasons as the related SBC expense, *supra*: PSUs reflect the Company's financial performance and improved financial performance can benefit customers by encouraging operational efficiency. RSUs vest over a three-year period, encouraging employee retention which can benefit ratepayers by maintaining experienced employees. PAWC's executive compensation has not been shown to be excessive or unreasonable. Accordingly, we shall deny the OCA's Exception No. 7 and adopt the recommendation of the ALJs on this issue.

G. Payroll Taxes

1. Positions of the Parties

PAWC submitted that the OSBA's recommended adjustment to payroll taxes should be rejected because this adjustment is concomitant to the OSBA's proposed adjustments to performance pay and the ESPP. PAWC M.B. at 25 (citing OSBA St. 1 at 11-13). PAWC noted that the OCA's proposed adjustments to payroll tax expense are concomitant to the OCA's recommended vacancy, which is addressed in the Payroll Costs – Vacancy Rate Section, *i.e.*, Section VII.A, *supra*. PAWC further noted that the OSBA's proposed performance pay adjustment includes the estimated impact on payroll tax expense and is addressed in the APP Section, *i.e.*, Section VII.B, *supra*. PAWC M.B. at 25; PAWC R.B. at 34.

I&E withdrew its performance pay adjustment and, as a result, withdrew its payroll tax expense adjustment as well. I&E M.B. at 26 (citing I&E St. 1-SR at 17).

The OCA noted that the OCA's proposed adjustments to payroll have related payroll tax adjustments. OCA M.B. at 38.

The OSBA noted that payroll tax adjustments are appropriate if the Commission approves adjustments to compensation-related expenses that impact payroll taxes. Accordingly, the OSBA recommended an adjustment to APP and LTPP expenses, which include the estimated impact on payroll taxes. OSBA M.B. at 13.

2. Recommended Decision

Consistent with their recommendation that PAWC's Payroll Costs - Vacancy Rate be adjusted to reflect the OCA's proposed adjustment, the ALJs recommended that PAWC's Payroll Costs, including Payroll Taxes, also be adjusted to reflect the OCA's proposed adjustment (*i.e.*, a 1.76% vacancy rate). The ALJs noted that because PAWC adopted this adjustment to its initial claims in rebuttal, their recommended adjustment was reflected in the Company Adjustments column in Table I-Water, Table I-Wastewater SSS, and Table I-Wastewater CSS in Appendix A of their Recommended Decision. R.D. at 109.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation that payroll taxes be adjusted to reflect the 1.76% vacancy rate for payroll costs.

H. Insurance Other than Group

1. Positions of the Parties

PAWC submitted that the OCA's proposal, *infra,* to use a single data point – the HTY to FTY increase – in lieu of the five-year average the Company-employed, to determine its FPFTY insurance other than group expense claim should be rejected. However, PAWC noted that in its last base rate case, the Company used a five-year average to smooth year-to-year variations, which was not opposed by the OCA. PAWC averred that using a five-year average continues to be the appropriate approach to smooth year-over-year variations and, therefore, the Commission should reject the OCA's proposed adjustment. PAWC M.B. at 25 (citing PAWC St. 5-R at 8).

The OCA recommended an adjustment to Insurance Other Than Group (IOTG) Expense to use the actual percentage change from the HTY ended June 30, 2023, rather than the PAWC-proposed five-year average percentage change, which was calculated based on the twelve-month periods from June 30, 2019, through June 30, 2023. OCA M.B. at 38. The OCA's witness, Mr. Smith, agreed that generally, averages can be used to normalize costs, and trends and current information should be considered. However, the OCA noted that annual percentage change for the twelve-month ending periods of June 30, 2019, June 30, 2021, and June 30, 2022, were abnormally high or low when compared to the twelve-month ending periods June 30, 2020, and the HTY ended June 30, 2023. Thus, the OCA recommended that to ensure reasonableness, the HTY percentage change of 4.53% be used to calculate IOTG for the FPFTY. Accordingly, the OCA recommended reducing pre-tax operating income by: (1) $247,905 for water; (2) $34,694 for wastewater SSS; and (3) $23,713 for CSS wastewater. OCA M.B. at 38-39 (citing OCA St. 2 at 63-64; OCA St. 2-SR at 36-37).

2. Recommended Decision

The ALJs recommended that the Commission adopt the Company's position and use a five-year average to calculate PAWC's FPFTY claim for its IOTG expense. The ALJs agreed with the Company that this methodology is appropriate to smooth year-over-year variations. R.D. at 110 (citing PAWC M.B. at 25). The ALJs found that although the OCA asserted that the HTY percentage change should be used because the annual percentage change for the twelve-month ending periods of June 30, 2019, June 30, 2021, and June 30, 2022, were abnormally high or low, it is because of these variations that it is appropriate to use an averaging methodology. The ALJs added that other than the OCA's characterization of three years of data as abnormal, there is no basis to find that use of the HTY percentage change would be more accurate than a result based on averaging. R.D. at 110 (citing OCA M.B. at 38-39).

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation that the Commission adopt PAWC's proposed five-year average methodology to calculate PAWC's FPFTY claim for its IOTG expense.

I. Uncollectible Expense (Rate of New Write-Offs)

1. Positions of the Parties

PAWC provided that outstanding arrearages for the Company's customers stabilized from the increases during the peak of the COVID-19 Pandemic, and the Company's net write-offs have been trending toward pre-pandemic levels since mid-2021. As a result, PAWC continued, the Company calculated its claim for bad debt (uncollectible) expense using a two-year historic average (July 1, 2021 to June 30, 2023)

ratio of net write-offs as a percentage of sales revenues (1.176%), to normalize the rate of uncollectible accounts to pre-pandemic levels and account for the application of Low-Income Household Water Assistance Program (LIHWAP) funds, which reduce unpaid balances. PAWC M.B. at 26 (citing PAWC St. 8 at 3-6).

PAWC submitted that using a two-year percentage of net write offs, ended June 30, 2023, eliminates all impacts of the COVID-19 Pandemic on customer collections activities and Company revenues, which occurred beginning with the moratorium on disconnects starting in March 2020, and continued through March 2021. PAWC further submitted that if the Commission wants to maintain the historic practice and utilize a three-year average rate to determine the level of uncollectible expense reflected in new base rates, then the 12-months ended June 30, 2019, should be used because all periods impacted by the COVID-19 Pandemic will be excluded and an uncollectible rate of 1.196% will be produced, which is 0.02% higher than the Company's proposal. PAWC M.B. at 26 (citing PAWC St. 8-R at 3-4).

PAWC also noted that although the OCA agreed that the COVID-19 Pandemic impacts should be eliminated from the historic average ratio of write-offs used to determine the Company's rate allowance for uncollectible expense, the OCA's proposed uncollectible rate of 1.164% is based on a three-year historic average which includes the March to June 2020 period. PAWC R.B. at 21 (citing OCA M.B. at 39). PAWC countered that the Company has several measures in place to help customers deal with the financial impact of the COVID-19 Pandemic, including ceasing service terminations for non-payment. As such, PAWC submitted that the OCA's proposed adjustment, *infra*, should be rejected. PAWC R.B. at 21.

The OCA recommended using a three-year historic average ratio of net write-offs to calculate the going level Uncollectibles Expense based on the twelve months ended June 30, 2020; June 30, 2022; and June 30, 2023. According to the OCA, this will

produce an uncollectibles write-off percentage of 1.164%. OCA M.B. at 39 (citing OCA St. 2-SR at 32-34; OCA St. 2 at 54-56). The OCA averred that the period July 1, 2020, through June 30, 2021, should not be used in the calculation of going level Uncollectibles Expense because it is reasonable and prudent to eliminate the impacts of the COVID-19 Pandemic on customer collections. OCA M.B. at 39 (citing OCA St. 2-SR at 33; OCA St. 2 at 55).

The OCA provided that for the 12-months ended June 30, 2021, the uncollectibles annual write-off percentage calculates to 0.548%. The OCA continued that for the 12-month period ended June 30, 2020, the annual write-off percentage was 1.135%, which is consistent with the write-off percentages shown for the 12-months ended June 30, 2022, and June 30, 2023. As such, the OCA asserted that averaging the annual write-off information using the 12 months ended June 30, 2020, 2022, and 2023, appears to be reasonable in the context of the instant rate case. OCA M.B. at 39-40 (citing OCA St. 2-SR at 33-34; OCA St. 2 at 55-56). Accordingly, the OCA submitted that its proposed adjustment reduces claimed Uncollectibles Expense by: (1) $100,054 for water; (2) $11,591 for wastewater SSS; (3) $9,547 for CSS wastewater; and (4) $1,438 for BASA wastewater. OCA M.B. at 40 (citing OCA St. 2 at 54-55).

2. Recommended Decision

The ALJs recommended that the Commission adopt the Company's position and calculate its claim for bad debt (uncollectible) expense using a two-year historic average, *i.e.*, July 1, 2021 to June 30, 2023, ratio of net write-offs as a percentage of sales revenues. R.D. at 113 (citing PAWC M.B. at 26). The ALJs noted PAWC's averment that the Company's net write-offs have been trending back toward pre-pandemic levels since mid-2021. R.D. at 113 (citing PAWC St. 8 at 3-6). The ALJs, therefore, agreed with the Company that its use of a two-year percentage of net write offs "better eliminates" the impacts of the COVID-19 Pandemic on customer collections

activities and Company revenues. R.D. at 113 (citing PAWC M.B. at 26). Further, the ALJs agreed with PAWC that the 12 months ending June 30, 2020, should be excluded because it contains data from March to June 2020, which would reflect impacts from the COVID-19 Pandemic. R.D. at 113 (citing PAWC R.B. at 21; OCA M.B. at 39-40).

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation to calculate PAWC's claim for bad debt or uncollectible expense using a two-year historic average ratio of net write-offs as a percentage of sales revenues.

J. Arrearage Management Plan (AMP) Credits – Uncollectible Expense

1. Positions of the Parties

PAWC noted that its Miscellaneous Expense Adjustment included costs related to the Arrearage Management Plan (AMP) that was pending before the Commission at the time of the initial base rate filing and later approved in the *Petition of Pennsylvania American Water Company for Approval of an Arrearage Management Plan (On Remand)*, at Docket No. P-2021-3028195 (Order entered December 7, 2023) (*PAWC 2023 Order*). The total cost of arrearage forgiveness is based on the average number of Bill Discount Program (BDP) customers in the HTY, with arrears multiplied by the annual AMP credits, assuming a 100% participation rate. PAWC M.B. at 27 (citing PAWC St. 5-R at 8; PAWC St. 5 at 26).

PAWC addressed the OCA's recommended reduction in AMP credit cost recovery to reflect how many BDP customers make full and timely payments. PAWC M.B. at 27 (citing OCA St. 5-R at 25-27; OCA St. 5 at 124-26). PAWC averred that contrary to the OCA's concern regarding timely payment behavior, the requirement for

arrearage forgiveness is that the customer make an in-full payment of current charges plus a copay of $5.00. PAWC M.B. at 27 (citing Tr. at 1977). Further, PAWC noted that if AMP expense is lower than the Company's projection, then the difference will be recorded as a regulatory liability and returned to customers in a future base rate case. PAWC M.B. at 27 (citing PAWC St. 5-R at 8-9). As such, PAWC submitted that the Commission should reject the OCA's proposed reduction, discussed below. PAWC R.B. at 22.

The OCA submitted that the Company's addition of dollars to uncollectibles to reflect AMP credits should be reduced by the percentage of BDP dollars already historically included in uncollectibles. OCA M.B. at 40 (citing OCA St. 2-SR at 48). The OCA averred that in account 670.7, related to the Company's proposed AMP, this adjustment reduces overall FPFTY uncollectibles expense by $2.162 million, and, therefore, account 670.7 should reflect the amount of $214,728 for the AMP-related uncollectibles expense, rather than the Company's proposed $2,377,200. OCA M.B. at 40 (citing OCA St. 2 at 73-74). Accordingly, the OCA recommended reducing pre-tax operating expenses by: (1) $1.848 million for water; (2) $150,724 for wastewater SSS; (3) $113,746 for CSS wastewater; and (4) $39,573 for BASA wastewater. The OCA noted that this adjustment is necessary to eliminate the Company's double-recovery of dollars added to uncollectibles to reflect AMP credits where those dollars are already historically included in uncollectibles for the BDP. OCA M.B. at 40 (citing OCA St. 5 at 7, 127; OCA St. 5-SR at 27).

The OCA averred that its position is consistent with the *PAWC 2023 Order*, which provided that the cost recovery issues were to be addressed in a future rate case. OCA M.B. at 40. The OCA noted that the Settlement in that proceeding provided that the Company could "propose a dollar amount" which could be disputed by the OCA and which, accordingly, would be "subject to review and approval by the Commission." OCA M.B. at 40 (citing OCA St. 5-SR at 26-27).

2. Recommended Decision

The ALJs recommended that the Commission adopt the OCA's position and reduce the Company's claimed expense for AMP credits. R.D. at 116 (citing OCA St. 5 at 123). The ALJs acknowledged the Company's assertion that timely payments are not required for a customer to be eligible for credits under the AMP. R.D. at 116 (citing PAWC M.B. at 27). However, the ALJs agreed with the OCA that to assume that 100% of possible AMP credits will be earned each year is unreasonable. The ALJs were persuaded by the testimony of the OCA's witness, Mr. Roger Colton, that it is more likely that the Company will experience an 11% participation rate based on historic BDP data. Similarly, the ALJs agreed with the OCA that the Company's addition of dollars to uncollectibles to reflect AMP credits should be reduced by the percentage of BDP dollars historically included in uncollectibles. R.D. at 116 (citing OCA St. 5 at 123-25). The ALJs noted Mr. Colton's testimony that AMP arrears that are already included in rates to again be collected as AMP credits would allow the Company to collect those costs as both past uncollectibles and AMP credits. R.D. at 116 (citing OCA St. 5-SR at 27). The ALJs further noted that PAWC's witness, Ms. Lori O'Malley, stated that AMP credits expense will be recorded as a regulatory liability and amounts either under- or over-collected through rates in this case will be recovered or refunded in the next base rate case. R.D. at 116 (citing PAWC St. 5-R at 8-9).

The ALJs found that because the OCA determined its adjustments and allowable AMP expense by utilizing the same allocation factors that PAWC used to allocate the Company's AMP expense claim, PAWC's AMP expense for water, wastewater SSS, and wastewater CSS shall be reduced in a manner that is consistent with the OCA's calculations. As such, the ALJs noted that the proposed adjustments in Expenses for AMP were identified in the Recommended Decision in the Appendix at Table II-Water, Table II-Wastewater SSS, and Table II-Wastewater CSS. R.D. at 117 (citing PAWC St. 1, Exh. 3-B at 336; OCA St. 2, OCA Exh. LA-2, Sch. C-22).

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation to adopt the OCA's position and reduce PAWC's claimed expense for AMP credits in a manner that is consistent with the OCA's calculations. This will result in a reduction to the Company's AMP Credits-Uncollectible Expense, which is broken down, as follows: (1) a reduction of $1,847,832 for the Company's water operations, or from $2,031,317 to $183,485; (2) a reduction of $150,724 to the Company's wastewater SSS operations, or from $165,691 to $14,967; and (3) a reduction of $113,746 to the Company's CSS wastewater operations, or from $125,041 to $11,295.[53] These adjustments are reflected in Table II-Water, Table II-Wastewater SSS, and Table II-Wastewater CSS in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order.

K. Acquisition-Related Expenses

1. Positions of the Parties

PAWC made adjustments to annualize the O&M expenses not fully recognized in the HTY for the Company's pending acquisitions. The Company's allocation of O&M expenses were, as follows:

[53] This results in a combined allowance of $209,746 representing a reduction of $2,112,303 from the Company's combined claim of $2,322,049. [$ 2,322,049 - $ 2,112,303 = $209,746]. We note that the OCA's calculated amounts set forth in OCA Exh LA-2, Sch C-22, which we adopt in reducing the Company's claimed amounts, also included calculations related to the Company's BASA and Brentwood acquisitions. For the reasons previously stated in this Opinion and Order, all claimed BASA and Brentwood amounts are excluded from this proceeding.

1. Water Operations: $152,385 for Farmington (water) and $1,585,572[54] for Audubon.

2. Wastewater SSS General Operations: $264,176 for Farmington (wastewater) and $249,288[55] for STMA.

3. $7,077,728 for BASA Wastewater Operations.

4. $762,049 for Brentwood Wastewater Operations.[56]

PAWC St. 5 at 27; PAWC Exh. 3-B at 303-08.

PAWC averred that I&E's adjustments and the OCA's adjustments regarding the Farmington (water), Audubon, Farmington (wastewater), STMA, and BASA acquisitions should be rejected for the reasons discussed in its Main Brief and Reply Brief under the Utility Plant-in-Service Section, *i.e.*, Section V.A, *supra*. PAWC R.B. at 22 (citing I&E M.B. at 26-28; OCA M.B. at 42).

I&E argued that it is not appropriate for the Company to claim and recover expenses for utilities that it does not own. As such, I&E recommended disallowance of the entire above claims given the uncertainty surrounding each of these acquisitions. I&E noted that such systems should only be included, if at all, in the next base rate case filed by the Company in which PAWC actually owns those systems. I&E M.B. at 27-29 (citing PAWC St. 6-R at 14-15; I&E St. 1 at 27).

The OCA recommended that because claims associated with the not-yet-acquired property should be excluded from rate base, the Commission should, by

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[54] Included in this amount was $27,709 in Taxes-Other for property tax.

[55] Included in this amount was $3,547 in Taxes-Other for property tax.

[56] As previously noted, the Company withdrew its claims related to Brentwood.

extension, exclude all projected expenses related to the not-yet-acquired property, including acquisition expense, O&M expenses, and depreciation expense. OCA M.B. at 41 (citing *UGI Electric 2018* at 27-31, 79). Additionally, the OCA recommended removing the payroll expense for forty-three additional positions that the Company is proposing to add related to these acquisitions for a total reduction to payroll expense of $2.984 million. OCA M.B. at 42 (citing OCA St. 2 at 56-57, Exh. LA-1, Schs. A, C-1, C-2, C-3).

2. Recommended Decision

The ALJs recommended that, consistent with their recommendation to exclude the identified acquisitions from rate base, they also recommended that the Commission exclude acquisition-related expenses from the Company's claim. R.D. at 118 (citing I&E M.B. at 27-28). The ALJs noted that their recommendation resulted in proposed adjustments in expenses for Farmington (water) O&M; Audubon O&M & Taxes-Other; Farmington (wastewater) O&M; and STMA O&M & Taxes-Other. R.D. at 118; *see*, R.D. at Appendix, Tables II, V, and VI for Water and Wastewater SSS.

3. PAWC Exception No. 3 and Replies

As discussed in Section V.A, *supra*, PAWC excepts to the ALJs' recommendation to deny the two-step rate increase proposal and exclude the BASA acquisition from rates. In short, PAWC contends that the BASA acquisition should be reflected in base rates established in this case given, *inter alia*, the current status of the *BASA* proceedings and the reasonable certainty that the BASA acquisition will close prior to the end of the FPFTY. PAWC Exc. at 14 (citing 66 Pa.C.S. § 315(e)). Therefore, PAWC requests that the Commission modify the Recommended Decision to approve the Company's stepped rate increase. PAWC Exc. at 12-16.

As previously discussed, in its Replies, I&E contends that, essentially, PAWC's assumption that the Commonwealth Court will find in the Company's favor, and the acceptance of such an assumption, is not in the public interest. Accordingly, I&E submits that given this uncertainty, the BASA system must be excluded from the filing. I&E R. Exc. at 6-7.

As previously discussed, in its Replies, the OCA agrees with the ALJs reasoning in recommending that the BASA system, and the other systems not yet acquired, be excluded from rate base. OCA R. Exc. at 1-2. The OCA contends that PAWC's argument that the BASA property be included in the Company's FPFTY ratemaking claims is meritless. OCA R. Exc. at 4-5. In short, the OCA submits that a utility cannot add plant to a system that it does not own. Therefore, the OCA argues that the Commission should exclude the Company's claim in rate base additions for improvements to the BASA system. OCA R. Exc. at 5-6.

As previously discussed, in its Replies, the OSBA agrees with the ALJs' recommendation that the revenue requirement related to PAWC's proposed acquisition of the BASA system be rejected. As such, the OSBA submits that the Commission should reject the Company's position and instead adopt the OSBA's recommended treatment of the BASA-related revenue requirement. OSBA R. Exc. at 2-3.

4. Disposition

As discussed in the Utility Plant-in-Service Section under Section V.A of this Opinion and Order, *supra*, we agree with the ALJs' conclusion that the BASA acquisition should not be included in PAWC's FPFTY rate base at this time. Similarly, we agree with the ALJs' recommendation that PAWC's proposed two-step rate increase, conditioned upon the closing date of the BASA transaction, not be approved.

Further, we concur with the position of I&E and the OCA that the Company's claims to its other not-yet-acquired property, including acquisition expense, should be removed. As previously stated, PAWC's contentions regarding the current status of the BASA proceedings, the pending Commonwealth Court case, and predictions about any occurrence or timing of closing are speculative and not certain. PAWC does not own the BASA system at this time; therefore, the Company cannot add plant for improvements to the BASA system and any such claims in rate base addition must be excluded. In addition to all claims related to the Company's BASA acquisition, we shall remove the following acquisition-related expenses for the other not-yet acquired property proposed by the Company: (1) $152,385 for Farmington (water) O&M; (2) $1,585,572 for Audubon (AWC) O&M & Taxes-Other;[57] (3) $264,176 for Farmington (wastewater) O&M; and (4) $264,176 for STMA O&M & Taxes-Other.[58] These adjustments are reflected in Table II-Water, Table V-Water, Table VI-Water; and Table II-Wastewater SSS, Table V-Wastewater SSS, and Table VI-Wastewater SSS, all of which are included in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order. Accordingly, PAWC's Exception No. 3 shall be denied.

L. Interest Synchronization

1. Positions of the Parties

PAWC provided that its claim for income tax expense is set forth in PAWC Exhibit 3A-Revised, and is based, in part, on an interest expense deduction calculated

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[57] As shown in Table II-Water, this includes a reduction of $1,557,863 to AWC O&M Expenses and a reduction of $27,709 to AWC Taxes-Other. [(- $1,557,863 - $27,709) = -$1,585,572]

[58] As shown in Table II-Wastewater SSS, this includes a reduction of $245,741 to STMA O&M Expenses and a reduction of $3,547 to STMA Taxes-Other. [(- $245,741 - $3,547) = -$249,288]

using PAWC's proposed rate base and weighted cost of debt. PAWC M.B. at 28 (citing PAWC Exh. 3-A Revised at 72R-75R). PAWC submitted that the OCA's proposed interest expense adjustment, which is concomitant to the OCA's proposed adjustments to rate base and the weighted average cost of debt, should be rejected for the reasons set forth in the Rate Base and Rate of Return Sections of the Company's Main Brief. PAWC M.B. at 28 (citing OCA St. 2-SR at 34-36; OCA St. 2 at 61-62).

The OCA provided that its witness, Mr. Smith, multiplied the OCA's adjusted rate base by the weighted cost of debt included in the OCA recommended capital structure.[59] OCA M.B. at 42 (OCA St. 2-SR at 34-36; OCA St. 2 at 61). The OCA asserted that the use of a different rate base or weighted cost of debt impacts the interest synchronization, and the resulting amount of interest is reflected for ratemaking purposes as the "synchronized" interest deduction used to compute income tax expense. OCA M.B. at 42 (citing OCA St. 2-SR at 35). The OCA continued that the interest synchronization adjustment is necessary to ensure that the amount of income taxes claimed by the Company is properly matched to the Company's rate base and weighted cost of debt. The OCA further averred that the interest synchronization method is a standard ratemaking approach that has been well-established as appropriate and fair to all Parties. OCA M.B. at 42 (citing OCA St. 2-SR at 34-36; OCA St. 2 at 61, Exhs. LA-2, C-14). Mr. Smith recommended an interest synchronization adjustment in the amount of $2,999,784. OCA M.B. at 42 (citing OCA St. 5-SR at 27; OCA St. 5 at 7, 127).

2. Recommended Decision

The ALJs noted that interest synchronization is used in ratemaking to determine the amount of interest expense to be used in the calculation of income tax, and the adjustment ensures that the tax-deductible interest expense for ratemaking is properly

[59] The Parties' positions on the appropriate capital structure are discussed in Section IX.B of this Opinion and Order, *infra*.

matched with the rate base and weighted cost of debt. R.D. at 119 (citing OCA M.B. at 42). The ALJs also referred to PAWC's acknowledgement that the OCA's proposed interest expense adjustment is concomitant to the OCA's proposed adjustments to rate base and the weighted average cost of debt. R.D. at 119 (citing PAWC M.B. at 28).

The ALJs agreed that the tax-deductible interest expense for ratemaking is properly matched with the rate base and weighted cost of debt. As such, the ALJs noted that their recommendation contains a concomitant interest synchronization adjustment as it relates to their recommended rate base adjustments, as detailed in Table II-Water, Table II-Wastewater SSS, and Table II-Wastewater CSS in the Appendix of the Recommended Decision. R.D. at 119.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation that the tax-deductible interest expense for ratemaking is properly matched with the rate base and weighted cost of debt. Therefore, based upon the adjustments to rate base that we adopt in this Opinion and Order, along with the weighted cost of debt we adopt thereto, there will be a concomitant interest synchronization adjustment. This is detailed in Table II-Water, Table II-Wastewater SSS, and Table II-Wastewater CSS in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order.

M. Amortization Expense

1. Positions of the Parties

PAWC submitted that I&E and the OCA's proposed amortization expense adjustments, which are related to the Audubon, BASA, Farmington (water), Farmington

(wastewater) and STMA acquisitions, should be rejected for the reasons set forth in the Rate Base – Utility Plan-In-Service Section of the Company's Main Brief and Reply Brief. PAWC R.B. at 22-23 (citing I&E M.B. at 29; OCA M.B. at 43).

I&E noted that annual amortization expense is an operating expense that represents the recovery or refund of regulatory assets and liabilities over an agreed upon period of time. I&E continued that regulatory assets and liabilities may or may not be included in a company's rate base. I&E M.B. at 29 (citing I&E St. 3 at 81).

I&E explained that if the Commission agrees with the recommendation to exclude the STMA and Farmington (wastewater) systems, then there should be a corresponding reduction to amortization expense of $9,147 claimed for the STMA system, and $5,699 claimed for the Farmington (wastewater) system. I&E M.B. at 29 (citing I&E St. 3 at 82; PAWC Vol. 3, SSS Operations at 130). I&E continued that because these systems are not yet owned by the Company, it is premature to allow the Company to recover the corresponding expenses. Further, I&E noted that PAWC also claimed a negative plant acquisition adjustment in the total amortization expense related to the STMA system, and the Company is projecting that the purchase price for the STMA system will be $945,612 less than the net book value of the STMA plant. I&E M.B. at 29-30 (citing PAWC Vol. 4, Exh. 3-B at 344). Moreover, I&E averred that PAWC is required to amortize the adjustment as a credit back to customers over 10 years because it is a negative acquisition adjustment and, while there is no rate base adjustment, PAWC is claiming a negative $94,561 ($945,612 /10) acquisition adjustment expense be credited back to customers over 10 years. I&E M.B. at 30 (citing PAWC Vol. 3, Exh. 3-A at 130).

I&E submitted that if the Commission agrees with I&E's recommendation to remove the plant, revenue, expenses, taxes, and amortizations related to the STMA system, then the Commission should also remove the negative $94,561 annual

amortization expense credit related to the STMA system because the system has not yet been acquired and therefore, PAWC should not be required to credit $94,561 in Annual Amortization expense back to customers. I&E M.B. at 30 (citing PAWC Vol. 3, Exh. 3-A at 130).

The OCA referred to its position regarding expenses related to the six proposed acquisitions, *supra*. *See*, OCA M.B. at 41-42, 43.

2. Recommended Decision

The ALJs referred to the Company's acknowledgement that I&E and the OCA's proposed adjustments to amortization expense are concomitant to their proposed exclusion of the acquisitions. R.D. at 120 (citing PAWC R.B. at 22). Further, the ALJs recommended that similar to their recommendation to exclude the identified acquisitions, they also recommended that the Commission adopt I&E's and the OCA's proposed adjustments to Amortization Expense. As such, the ALJs noted that the proposed adjustments in depreciation for "AWC [Audubon] Acq. Amort.;" "Farmington Acq. Amort.;" and "STMA Acq. Amort.," are detailed in the Appendix to the Recommended Decision at Table II-Water and Table II-Wastewater SSS. R.D. at 120.

3. Disposition

As discussed in the Utility Plant-in-Service Section under Section V.A, *supra*, we agree with the ALJs' conclusion that the BASA acquisition should not be included in PAWC's FPFTY rate base at this time.

Additionally, none of the Parties filed Exceptions to the ALJs' recommendation that the Commission remove PAWC's claimed Amortization Expenses associated with its acquisitions of Audubon, Farmington (water), Farmington

(wastewater), and STMA. As these systems are net yet owned by the Company, we concur with the ALJs' recommendation and shall adopt it. As set forth in Table II-Water and Table II-Wastewater SSS in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, we shall make the following adjustments to remove the Company's claimed amortization expenses under the depreciation for "Audubon Acq. Amort.,"[60] "Farmington Acq. Amort.," and "STMA Acq. Amort."

(1) A reduction of $775,772 to remove PAWC's claims related to Audubon. This includes an acquisition adjustment amortization expense of $763,977 and associated transaction costs of $11,795. [$763,977 + $11,795=$775,772]

(2) A reduction of $27,032 to remove PAWC's claims related to Farmington (water). This includes an acquisition adjustment amortization expense of $21,549 and associated transaction costs of $5,483. [$21,549 + $5,483]

(3) An addition of $85,414 to remove PAWC's claimed negative acquisition amortization expense related to STMA. This includes a negative acquisition amortization of $94,561 and associated transaction costs of $9,147. [($94.561) + $9,147=($85,414)]

(4) A reduction of $5,699 to remove the transaction costs associated with Farmington (wastewater).

See, PAWC Exh 3-A at 67, 130. Additionally, we note that the Table II-Water attached to the Recommended Decision did not include the removal of the transaction costs associated with the amortization expense for Audubon or Farmington (water). Therefore,

[60] As noted above, Table II-Water in the Recommended Decision referred to this as the "AWC Acq. Amort."

through the adjustments outlined above, we shall modify the ALJs' recommendation by removing these transaction costs.

N. Call Center Expense

1. Positions of the Parties

The OCA proposed an adjustment to eliminate $3.1 million from PAWC's O&M expense claim related to third-party call handling agencies. PAWC submitted that call handling operations are necessary to provide service to PAWC's customers and, if the Company did not utilize third-party call handling agencies, then PAWC would incur additional expense for staffing increases to handle the call volumes previously answered by third-party contractors. PAWC M.B. at 28 (citing PAWC St. 1-R at 22). PAWC further submitted that the OCA has not offered any valid reason why the call center expense that the Company necessarily incurs to serve its customers should be disallowed. PAWC R.B. at 23.

The OCA recommended that expenses for the third-party call centers that have routinely failed to meet reasonable call performance standards be eliminated by disallowing the following FPFTY expenses proposed by the Company for account 634.8: (1) $2,475,869 for Transworld; and (2) $606,386 for InteLogix. OCA M.B. at 43 (citing OCA St. 2-SR at 48; OCA St. 2 at 73). The OCA asserted that the evidence demonstrates the Company's failure to ensure adequate performance by third-party call centers that have routinely failed to meet call performance standards. Further, the OCA averred that the actual performance of the third-party call centers in answering calls is below the performance of the corporate call centers operated by Service Company employees. Moreover, the OCA contended that the Company ignored the evidence of the poor performance of its third-party call centers compared to Service Company call operations and refuses, in this proceeding, to make any changes in its current call center contracts.

OCA M.B. at 43 (citing OCA St. 6-SR at 9-10; OCA St. 6 at 20; PAWC St. 9-R at 15-16). As such, the OCA submitted that such expenses should be disallowed because they are imprudent and unreasonable. OCA M.B. at 43 (citing OCA St. 6-SR at 10; *Popowsky v. Pa. PUC*, 674 A.2d 1149, 1154 (Pa. Cmwlth. 1996) at 1154; 66 Pa.C.S. § 523).

2. Recommended Decision

The ALJs recommended that the Commission reject the OCA's proposed adjustment to Call Center Expense based on the OCA's assertion that third-party call centers were performing below that of the call centers operated by the Company's affiliated Service Company. R.D. at 121-22 (citing OCA[61] St. 6-SR at 9-10; OCA St. 6 at 20). The ALJs were not persuaded that an adjustment to Call Center Expense is merited because, although the OCA's proposed adjustment is only for third-party call centers, the concerns outlined by the OCA also extend to the Company's own call centers, which are operated by the Service Company. R.D. at 122 (citing OCA St. 6 at 19-26). As such, the ALJs were not persuaded that the evidence cited by the OCA that the performance of the third-party call centers is so egregious when compared to the performance by the Service Company that it merits disallowance of the associated expense claim. Further, the ALJs noted the Company's explanation that third-party call center agents are trained with the same materials as internal call center employees. R.D. at 122 (citing PAWC St. 9-R at 6). Moreover, the ALJs found that given that the Company's own call centers are managed similarly, it is unclear how eliminating the Company's claim related to third-party call centers will provide the improved service

[61] On page 122 of the R.D., the ALJs, in making these citations, erroneously cited to PAWC's Statement Nos. 6 and 6-SR on this issue. The correct citations have been used here. Therefore, Footnote Nos. 256 and 257 of the R.D. should refer to OCA St. 6 and St. 6-SR, not PAWC. On this same page, the ALJs also incorrectly stated "As PAWC witness Alexander explains." However, Ms. Barbara Alexander was a witness for the OCA. Therefore, this sentence should read "As PAWC witness Degillio explains." *See*, OCA Exc. at 11, n6.

sought by the OCA. Therefore, the ALJs were not persuaded that eliminating the expense related to third-party call centers will improve the Company's call center activities. R.D. at 122.

The ALJs noted that there were several customers who offered testimony during the Public Input Hearings regarding issues they experienced when contacting the Company to report various issues. Nonetheless, the ALJs reasoned that it was insufficient to warrant directing PAWC to implement changes to its call handling procedures. The ALJs found that PAWC has adequate procedures in place to track and respond to customer complaints and PAWC's daily monitoring of the Customer Service Organization (CSO) and third-party call handling agencies constitutes sufficient oversight. R.D. at 364.

3. OCA Exception No. 8 and Replies

In its Exception No. 8, the OCA avers that the ALJs did not accurately assess or account for the evidence the OCA placed on the record. The OCA maintains that the call center performance for Transworld Systems and InteLogix has been noticeably worse than the call center performance indicated with the Customer Care Table of Exhibit BA-3, which is a combined total for American Water agents as well as third-party contractors. OCA Exc. at 11 (citing OCA Exh. BA-3). The OCA provides that despite this documented discrepancy in poor performance, the Service Company has failed to utilize any of its contractual remedies for this continual failure of the third parties to meet performance standards. OCA Exc. at 11-12 (citing OCA St. 6 at 20). The OCA argues that PAWC failed in its management responsibilities to enforce contractual standards for the third-party contractors and thus the expense should be disallowed as the expense is neither justified nor prudently incurred. OCA Exc. at 12.

In reply, PAWC disagrees with the OCA's recommendation to disallow costs related to third-party contractors for responding to customer calls. PAWC sets forth that if PAWC did not utilize third-party call handling agencies, the Company would incur an additional expense for staffing increases to handle the call volumes previously answered by the contractors. PAWC R. Exc. at 13 (citing PAWC St. 1-R at 22). PAWC explains that the criticisms by the OCA's witness, Ms. Alexander, of PAWC's customer CSO performance ignore key indicators of customer satisfaction and differences between the "service level" data reported by the CSO and Pennsylvania energy utilities. PAWC notes that there were no significant complaints from customers about PAWC's customer service after hearing from 217 witnesses. PAWC R. Exc. at 14 (citing R.D. at 364).

4. Disposition

We find the ALJs' recommendation regarding the third-party contracts to be reasonable. Disallowing the expense will not improve the call center performance. The Company would need to replace the third-party contractors at an additional cost. We agree with the ALJs that PAWC has adequate procedures in place to track and respond to customer complaints. We note that PAWC conducts daily monitoring of the CSO and third-party call handling agencies. *See*, PAWC 9-R at 6-8. Accordingly, we shall adopt the ALJs' recommendation on this issue and deny the OCA's Exception No. 8.

O. Depreciation Expense

1. Positions of the Parties

PAWC submitted that other than depreciation expense adjustments associated with acquisitions, the OCA is the only Party that recommended an adjustment to depreciation expense. PAWC explained that its witness, Mr. Spanos, President of Gannett Fleming Valuation and Rate Consultants, LLC (Gannett Fleming), utilized

Commission-approved methods and the Company's most-recent service life studies when determining the annual depreciation accruals. Accordingly, PAWC averred that the Company properly determined service lives and depreciation expense for all accounts by utilizing the most current and complete information available. PAWC R.B. at 23-24 (PAWC M.B. at 17-19; PAWC St. 11-R at 5-10).

I&E noted that its only adjustment to depreciation expense is discussed in the "Annual Depreciation Expense" portion of its Main Brief which pertains to depreciation expense adjustments for two acquisitions not yet owned by PAWC. I&E M.B. at 19-20, 30.

The OCA noted, as a general matter, that the shorter the useful life, the higher the depreciation expense and, therefore, the higher the revenue requirement. OCA M.B. at 43 (citing OCA St. 2-SR at 43). The OCA averred that the Company, in its initial filing, proposed shorter useful lives for certain water plant when compared to PAWC's last base rate case, at Docket No. R-2022-3031673. The OCA noted that PAWC did not justify the shortening in its initial filing. OCA M.B. at 43 (citing OCA St. 2 at 64-66, OCA Exh. LA-2, Sch. C-17). The OCA provided that, in rebuttal, PAWC's witness, Mr. Spanos, explained that the shorter useful lives are supported by PAWC's 2021 Service Life Study rather than the 2016 Service Life Study. OCA M.B. at 44 (citing OCA St. 2-SR at 37; PAWC St. 11-R at 1-2).

The OCA continued that the Company has not demonstrated the need or reasonableness to use shorter useful lives that increase PAWC's depreciation expense. Further, the OCA noted that the water utility acquisitions that occurred since the 2016 Service Life Study, which supported the prior-approved useful lives, included two Section 1329 acquisitions: Steelton Borough Authority and Valley Township Water. Moreover, the OCA noted that the Company's appraiser in the Valley Township Section 1329 case, at Docket No. A-2020-3019859, used the useful lives that are

recommended by the OCA in this case. OCA M.B. at 44 (citing OCA St. 2-SR at 37-43; PAWC St. 11-R at 1-2, 5).

2. Recommended Decision

The ALJs recommended that, consistent with their recommendation to adopt the Company's position on Depreciation Reserve for Rate Base, and I&E's and the OCA's positions for Annual Depreciation Expense for Rate Base, the Commission reduce the Company's claim for depreciation expense, to remove annual depreciation expense for the AWC, STMA, and Farmington systems. As such, the ALJs noted that the proposed adjustments in depreciation are detailed in the Recommended Decision at Table II-Water and Table II-Wastewater SSS, for "AWC Depreciation;" "Farmington Depreciation;" and "Sadsbury Depreciation." R.D. at 124.

3. OCA Exception Nos. 3 and 9 and Replies

The OCA proposed, in its Exception Nos. 3 and 9, that the service lives from the 2022 rate case be used for the current case and allow the service lives from the 2021 Service Life Study, or its replacement study, to be deferred to and examined in PAWC's next base rate case. The OCA explains that given that expense items are a direct input into the revenue requirement amount, this adjustment would reduce the ALJs' recommended increase to $88.6 million ($104.1 – $15.5 million). OCA Exc. at 12 (citing OCA St. 2 at 64-66).

In its Replies, PAWC disagrees with the OCA's recommendation that it should use the results of its 2016 Water Service Life Study rather than its 2021 Water Service Life Study for three of approximately fifty water accounts. PAWC R. Exc. at 11 (citing OCA Exc. at 5-6, 12). PAWC contends that it provided detailed survivor curve information for the three water accounts at issue and showed that, for each account, the

updated information from the 2021 Water Service Life Study was a better statistical fit with the most current historical data than the 2016 Water Service Life Study. PAWC R. Exc. at 11-12 (citing PAWC St. 11-R at 5-10). PAWC avers that the service lives and depreciation expense for all accounts were properly determined utilizing the most current and complete information available. PAWC R. Exc. at 12 (citing PAWC M.B. at 17-19; PAWC St. 11-R at 5-10).

PAWC provides that the OCA recommended in its Exceptions, that the results of the 2021 Water Service Life Study be "deferred" and examined in the Company's next base rate. PAWC R. Exc. at 11, fn. 54 (citing OCA Exc. at 12). PAWC argues that presenting a new recommendation at this stage in the proceeding is improper, and, in any event, PAWC has provided substantial evidence supporting the use of the 2021 Water Service Life Study in this proceeding. PAWC R. Exc. at 11 (citing PAWC M.B. at 17-19).

4. Disposition

We find the ALJs' recommendation to adopt PAWC's claim for accrued depreciation related to its plant-in-service to be reasonable. We do not agree with the OCA's recommendation to use the Company's 2016 Service Life Study and to defer the use of the 2021 Service Life Study until the Company's next base rate case. PAWC has stated that the service life studies were most recently performed in 2022 for its water assets (based on plant data through 2021) and in 2020 for its wastewater assets (based on plant data through 2019). PAWC St. 11 at 7. There are three accounts at issue: 304.15 (Other Water Source Structures); 331.00 (Mains and Accessories); and 335.00 (Fire Hydrants). The OCA's witness, Mr. Smith, argued that the 2021 Water Service Life Study uses shorter life data for these accounts than the 2016 Water Service Life Study. PAWC M.B. at 17-19. PAWC's witness, Mr. Spanos, has provided that it is standard practice to conduct a service life study every five years for each regulated utility. PAWC

St. 11-R at 2. Mr. Spanos stated that the plant data used in the service life study came from Company records, including retirements. PAWC St. 11 at 8. Mr. Spanos explained that PAWC has made significant changes to the plant investment since the 2016 Service Life Study. Further, Mr. Spanos determined that for each account, the 2021 Service Life Study was a better statistical fit than the 2016 Service Life Study. PAWC M.B. at 19 (citing PAWC St. 11-R at 5-10). The OCA has not provided evidence to show that the 2016 Service Life Study is a more appropriate fit than the 2021 Service Life Study. As such, we find that the OCA's recommendation to defer the use of the 2021 Service Life Study until the Company's next base rate case is unreasonable. Furthermore, the 2021 Service Life study has been developed to reflect recent replacement activity and investment activities and it is proper to use the more recent data. *See*, PAWC St. 11 at 5, 8, 9. Therefore, the OCA's Exception Nos. 3 and 9 are denied.[62]

P. Pension and Other Post Employment Benefits (OPEB) Expense (And Request for Deferred Regulatory Accounting Treatment)

1. Positions of the Parties

PAWC claimed $971,071 for pension expense and a negative allowance of ($6,496,737) for OPEB income. PAWC M.B. at 29.

[62] As noted in our disposition to Section V.E of this Opinion and Order, *supra*, as set forth in Table II-Water and Table II-Wastewater SSS, in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, we shall remove the following claimed annual depreciation amounts: (1) $269,599 of annual depreciation expense associated with the Audubon system; (2) $101,751 of annual depreciation expense associated with the Farmington (water) system; (3) $51,847 of annual depreciation expense associated with the STMA system; and (4) $137,987 associated with the Farmington (wastewater) system.

PAWC provided that the Company's pension and OPEB costs are calculated by WTW (formerly known as Willis Towers Watson), a national actuarial firm that uses actuarial methods.[63] PAWC asserted that the pension and OPEB costs that WTW calculates are subject to material change based on a variety of economic and demographic variables that are outside the Company's control. Further, PAWC averred that actuaries like WTW must make reasonable assumptions to supply the values for those variables, and the assumptions and variables of the calculation are impacted by demographic assumptions related to the composition of the population that will receive retirement benefits, the behavior of members of that population (*i.e.*, decisions about when to retire), and the life expectancy of the recipients of retirement benefits. Consequently, PAWC continued, actual expenses can be lower or higher than the amounts embedded in the Company's base rates from year-to-year. PAWC M.B. at 29-30 (citing PAWC St. 8 at 10-14). Moreover, PAWC asserted that the Commission regularly authorizes utilities to defer costs for accounting purposes arising from events that are unanticipated and outside the utility's control to provide the utility an opportunity to claim such costs for recovery in a future rate proceeding. PAWC M.B. at 30. Therefore, PAWC submitted that the pension and OPEB costs calculated by the Company's actuary are within the scope of the Commission's exception to the prohibition against retroactive ratemaking. As such, PAWC requested that the Company be permitted to defer and record any amounts above or below the projected level of pension and OPEB expenses into regulatory asset or liability accounts until its next base rate proceeding. PAWC M.B. at 30-31 (citing PAWC St. 8 at 10-15).

First, I&E submitted that the Company's proposed pension and OPEB tracker should be denied. I&E M.B. at 31 (citing I&E St. 1 at 20). I&E noted that the

[63] PAWC's original claims consisted of pension expense of $22,214 and a negative allowance for OPEB income of ($5,817,327). Based on the actuarial report furnished by WTW for 2024 after the Company's initial filing, PAWC revised its pension claim and OPEB claim to the final amounts outlined above. PAWC M.B. at 29.

Commission has permitted extraordinary, unanticipated, non-recurring, and substantial expenses to be deferred for accounting purposes, including: (1) repair costs to avoid and imminent threat to public health and safety; (2) hurricane damage; and (3) accounting changes that would financially impact a utility. I&E M.B. at 31 (citing *Petition of Pennsylvania Util. Co., Inc.*, 2012 Pa. P.U.C. LEXIS 1124, at 2-3; *see also, Petition of Pike County Light and Power Company*, 2012 Pa. P.U.C. LEXIS 939 at 5-6; *Petition of Columbia Gas of Pa. Inc.*, 2012 Pa. P.U.C. LEXIS 836). However, I&E asserted that based on the standard which a utility must meet when seeking Commission authorization for deferral accounting, such treatment may be granted if the expense is: (1) extraordinary; (2) unanticipated; (3) non-recurring; and (4) substantial. I&E M.B. at 31-32 (citing *Petition of Columbia Gas of Pa., Inc. for Authority to Defer for Accounting and Financial Purposes Certain Start Up Expenses Assoc. with the Redesign of Upgrade of Financial Processes and Info. Systems*, Docket No. P-2012-2319920 (Order entered December 5, 2012) (*Columbia Gas Petition for Deferral*)).

I&E averred that here, the costs are not extraordinary because pension and OPEB costs: (1) are routine, yearly expenses incurred by the Company, not one-time expenses; (2) are part of contractual agreements with past employees; and (3) can be forecasted on an annual basis and, therefore, cannot be categorized as non-recurring. I&E M.B. at 32 (citing *Popowsky v. Pa. PUC*, 642 A.2d 648, 652 (Pa. Cmwlth 1994) (*Popowsky*)). As such, I&E submitted that it is not appropriate for the Commission to grant approval for the Company to defer these costs because pensions and OPEB costs do not meet the requirements for deferral treatment. I&E M.B. at 32.

Second, I&E recommended a negative allowance of ($3,800,736) for pension expense, or a reduction of $4,771,807 to the Company's FPFTY final claim for water operations, based on a three-year average of historic actuals for pension expense.[64]

[64] [$971,071 - ($3,800,736) = $4,771,807].

I&E M.B. at 24 (citing I&E St. 1-R at 10). I&E noted that this approach, if the Company continues it in future base rate proceedings, will allow pension expense to normalize over time and address the Company's concern about over-recovery of pension expense without the need for a tracker. I&E noted that the Commission recently adopted a three-year normalization of rate case expense in *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-2023-3037933, (Opinion and Order entered November 9, 2023) (*PGW 2023*). Accordingly, I&E continues to recommend using a three-year average of historic actual expenses for pension based on the evidence presented and relevant case law. I&E M.B. at 33-34 (citing *PGW 2023*).

Third, I&E recommended the use of a historic three-year average for OPEB expense, resulting in a reduction of $1,664,016 to the Company's FPFTY claim.[65] I&E M.B. at 35 (citing I&E St. 1-SR at 26). I&E noted that using the three-year historic average will allow OPEB expense to normalize over time and address any concerns about over-recovery without the need for a tracker. I&E M.B. at 35. Further, I&E noted that its recommended approach is consistent with prior Commission determinations. I&E M.B. at 36-37 (citing *PGW 2023* at 86; *Pa. PUC v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929 (Order entered June 22, 2021) (*PECO 2021*) at 90).

The OCA referred to the Production Expense Section of its Main Brief to argue that PAWC has not met its burden to demonstrate that the accounting mechanisms for pension and OPEB expenses are necessary or just and reasonable.[66] OCA M.B. at 44-45.

PAWLUG noted that although the Commission is authorized to consider alternative ratemaking mechanisms filed pursuant to Act 58 of 2018, the general rule

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65 [($6,496,737) - ($8,160,753) = ($1,664,016)].

66 Accordingly, the OCA's position on this issue is discussed, in detail, in Section VII.Q of this Opinion and Order, *infra*.

remains that single-issue ratemaking is disfavored and Commission precedent prohibits single-issue ratemaking if it impacts something that is normally considered in a base rate case. Further, PAWLUG averred that the Company's proposed OPEB, pension, and production deferral mechanisms are examples of single-issue ratemaking which ignores the impact of any offsetting over recovery for other costs and, thereby, negates the need for the deferral mechanism. PAWLUG M.B. at 7-8 (citing *Pa. PUC v. Philadelphia Gas Works*, Docket No. P-00042090 (Order entered July 9, 2004) at 7; *Pa. Indus. Energy Coalition v. Pa. PUC*, 653 A.2d 1336, 1350 (Pa. Cmwlth. 1995)). As such, PAWLUG submitted that the Company's proposed deferral mechanisms should be denied or, if the Commission approves any of the proposed deferral mechanisms, then the impact on PAWC's operational risk should be considered in review of the Company's proposed ROE. PAWLUG M.B. at 8.

2. Recommended Decision

The ALJs recommended that the Commission reject the Company's proposal to defer and record any amounts above or below the projected level of pension and OPEB expenses into regulatory asset or liability accounts until its next base rate proceeding. The ALJs agreed with I&E that pension and OPEB costs are not extraordinary, unanticipated, or non-recurring, and, therefore, should not qualify for regulatory asset treatment. R.D. at 131 (citing I&E M.B. at 31-32). Similarly, the ALJs agreed with the OCA and PAWLUG that allowing deferred recovery of routine costs would raise concerns of single-issue ratemaking, which is not permissible. R.D. at 131 (citing OCA M.B. at 44-45; PAWLUG M.B. at 7-8).

The ALJs also recommended that the Commission accept I&E's proposed adjustments to pension and OPEB expenses based on a three-year historic average. The ALJs agreed with I&E that the Commission has recently favored adopting three-year averaging in calculating Pension and OPEB expenses. R.D. at 131 (citing I&E M.B.

at 33-36; *PGW 2023* at 86; *PECO 2021* at 90). Further, in disagreement of the Company's contention that its claim is based on actuarial projections, the ALJs found that "prior expenses and the variability of the year-to-year expense balances should be taken into consideration." R.D. at 131 (citing PAWC M.B. at 31-32; *PGW 2023* at 86). Moreover, the ALJs found that I&E adequately demonstrated the variability of PAWC's historic pension and OPEB costs and that the claims for such costs in this rate case should be based on averaging. R.D. at 131 (citing I&E St. 1-SR at 20-26; I&E St. 1 at 21-25). As such, the ALJs noted that the proposed adjustments in Pension Expense and OPEB Expense were detailed in the Recommended Decision in the Appendix at Table II-Water. R.D. at 131.

3. PAWC Exception Nos. 4 and 5 and Replies

In its Exception No. 4, PAWC argues that the ALJs improperly recommended that the Commission adjust the Company's claimed pension and OPEB expenses using a three-year average. PAWC Exc. at 16 (citing R.D. at 131). PAWC avers that while most Pennsylvania utilities base their claims for pension and OPEB costs on cash contributions to their pension and OPEB plans, the Commission approved the Company's request to cease using cash contributions and, instead, follow Financial Accounting Standards Board (FASB) Accounting Standard Codification Topic 715 (ASC 715). PAWC explains that under ASC 715, net changes in the actuarial determination of pension and OPEB obligations and associated plan funding levels impact the amount reflected on the income statement for the applicable accounting period. PAWC continues that historic actuarial determinations under ASC 715 do not inform how future pension and OPEB plan costs will be recorded because the economic and demographic variables used in actuarial forecasts change frequently. PAWC Exc. at 16-17 (citing PAWC R.B. at 24-25; PAWC M.B. at 31-32).

PAWC also posits that based on undisputed actuarial forecasts, the use of a three-year historic average understates the level of expense, or overstates the level of income, that the Company will record in 2024. PAWC Exc. at 17 (citing PAWC St. 5-R at 5; PAWC St. 8-R at 6-8; PAWC Exh. 3-A Revised at 51R-52R; Tr. 2004-06). PAWC also contends that because past performance has no bearing on future performance, the misalignment between the Company's rate allowance and actuarial determination will not be resolved through the use of a three-year historic average, which is why the Company is requesting that the Commission approve a deferral and record any amounts above or below the actuarial forecasted level of pension and OPEB expenses into regulatory asset or liability accounts until the Company's next base rate proceeding. Further, PAWC avers that if a three-year historic average is used to determine the rate allowance, then deferred accounting is necessary to address these fluctuations, for both customers and the Company. Moreover, PAWC argues that a rate allowance calculated using a three-year historic average, as the ALJs recommended, would result in larger variances between the annual amount of pension and OPEB expenses reflected in base rates and the actual level of expense or income the Company records on its books. PAWC Exc. at 17.

In short, PAWC argues that the 2024 actuarial reports and the Company's comparative analysis of its authorized and actual levels of pension and OPEB costs refute the rationale underlying the ALJs' recommendation that the use of a three-year historic average will normalize the Company's pension and OPEB expenses between rate cases. Therefore, PAWC argues that the Commission should approve the Company's claims of pension expense of $971,071 and OPEB income of $6,496,737. PAWC Exc. at 17.

In its Replies, I&E counters that the ALJs properly recommended that the Commission adjust the Company's pension and OPEB expense using a three-year average. I&E R. Exc. at 7 (citing R.D. at 131). I&E maintains that its recommended approach, and specifically the approach recommended by its witness, Ms. Vanessa Okum, is consistent with prior Commission determinations. I&E R. Exc. at 36-37 (citing

PGW 2023 at 86; *PECO 2021* at 90). Further, I&E argues that the evidence presented by I&E and the relevant case law demonstrate that a three-year average for pension and OPEB expense is the appropriate measure. Moreover, I&E contends that while the Company states that it's pension and OPEB expense are "authorized levels," forecasted amounts are not an "authorized expense." Furthermore, I&E adds that the Company's recent rate cases have all resulted in settlement with no specific monetary value assigned to pension and OPEB expense. Therefore, I&E argues that PAWC's Exception No. 4 should be denied. I&E R. Exc. at 8 (citing *Pa. PUC v. Pennsylvania American Water Company*, Docket No. R-2017-2595853 (Order entered December 7, 2017) (*PAWC 2017*); *PAWC 2020*; and *PAWC 2022*).

In its Exception No. 5, PAWC disagrees with the ALJs characterization of pension and OPEB plan costs as "routine," arguing that the Commission regularly authorizes utilities to defer costs for accounting purposes arising from events that are unanticipated and outside of the utility's control, thereby providing the utility an opportunity to claim those costs for recovery in a future rate proceeding. PAWC Exc. at 18 (citing *Petition of Pennsylvania-American Water Company for Authorization to Defer, and Record as Regulatory Assets for Future Recovery: (1) Incremental Expenses Incurred Because of the Effects of the COVID-19 Emergency; (2) Revenue Reductions Attributable to the Effects of the COVID-19 Emergency; and (3) Carrying Charges on the Amounts Deferred*, Docket No. P-2020-3022426 (Opinion and Order entered September 15, 2021) at 12-13, 30-32, 42, 49-50; *Petition of Pennsylvania American Water Company for Authorization to Defer Expenses Incurred to Pay New Regulatory Fees Imposed by the Pa. Department of Environmental Protection*, Docket No. P-2019-3008253 (Opinion and Order entered May 9, 2019) at 3-4; *Petition of Pa.-Am. Water Co. for Auth. to Defer for Accounting and Fin. Reporting Purposes Expenses Relating to a Water Customer Class Demand Study*, Docket No. P-2012-2308982 (Opinion and Order entered August 20, 2012); *Petition of Columbia Gas of Pa., Inc. for Auth. to Defer, for Accounting Purposes, Certain Costs Associated with a Regulatory*

Asset Related to Other Post-Retirement Benefits Provided by NiSource Corporate Serv. Co., Docket No. P-2011-2275383 (Opinion and Order entered May 24, 2012); *Petition of the Newtown Artesian Water Co. for Permission to Defer and Record Unrecovered Purchased Water Costs*, Docket No. P-2010-221420 (Order entered June 1, 2011); *Petition of Citizens Utils. Water Co. of Pa.*, Docket No. P-00930746 (Order entered February 25, 1994); *Pa. P.U.C. v. Consumers Pa. Water Co.* – Roaring Creek Div., Docket No. R-932655 (Order entered February 3, 1994)).

PAWC also argues that the Company presented unrefuted evidence that pension and OPEB costs determined on an accrual basis in accordance with ASC 715 can materially fluctuate higher or lower than forecasted from year-to-year, which occurs because actuarial forecasts reflect numerous economic and demographic assumptions that are outside of the Company's control, including expected behavior (*i.e.*, decisions about when to retire) and the life expectancy of the participant group. PAWC Exc. at 18-19 (citing PAWC St. at 10-14). Further, PAWC contends that deferred accounting authorization ensures that both customers and the Company only bear actual costs incurred for pension and OPEB expenses. Moreover, PAWC avers that the ALJs failed to consider the record evidence demonstrating that customers would have realized a net benefit of approximately $104 million if pension and OPEB deferral mechanisms had been in place from 2012 through 2022. PAWC Exc. at 19 (citing PAWC M.B. at 31; PAWC Exh. JCS-1R).

PAWC also contends that the ALJs' recommendation is contrary to the record evidence demonstrating that the Company's production expenses can materially increase or decrease based on volatility in the prices charged by suppliers due to market conditions that are outside of the control of the Company and its suppliers. PAWC Exc. at 19 (citing PAWC M.B. at 32-33; PAWC St. 8 at 17-21). PAWC illustrates that its witness, Mr. J. Cas Swiz, testified that when compared to historic levels, the chemical market was extremely volatile in 2022 and 2023, based on impacts from the COVID-19

Pandemic, the conflict in Ukraine, and inflationary growth in commodity prices. Similarly, PAWC asserts that energy market prices are higher than they have been in several years, resulting in the Company's electric generation suppliers increasing contract rates for power supply and being less willing to lock in prices for 12-month terms. PAWC Exc. at 19 (citing PAWC St. 8 at 18-19). PAWC argues that its proposed accounting deferral for production expenses would protect both the Company and customers against this volatility. Further, PAWC contends that the ALJs and the opposing Parties ignored the ways in which the Company's production costs closely resemble the types of costs that the Commission has authorized other utilities to recover under Section 1307 of the Code, 66 Pa.C.S. § 1307, which are also driven by changes in supplier prices beyond the utility's control. Accordingly, PAWC argues that the Commission should approve the Company's proposed deferral mechanisms for its pension, OPEB, and production expenses. PAWC Exc. at 19-20.

In its Replies, I&E counters that the ALJs properly denied PAWC's request for deferred accounting for pension expenses, OPEB expenses, and production expenses. I&E R. Exc. at 8 (citing R.D. at 131). I&E repeats that the Commission has permitted deferred accounting for extraordinary, unanticipated, non-recurring, and substantial expenses, including costs for repairs to avoid and imminent threat to public health and safety, hurricane damage, and across the board accounting changes that would have a significant financial impact on a utility. I&E R. Exc. at 8-9 (citing *Petition of Pennsylvania Util. Co., Inc.,* 2012 Pa. PUC LEXIS 1124, at 2-3; *see also Petition of Pike County Light and Power Company*, 2012 Pa. PUC LEXIS 939 at 5-6; *Petition of Columbia Gas of Pa. Inc.*, 2012 Pa. PUC LEXIS 836). Further, I&E reiterates that based on the standard which a utility must meet when seeking Commission authorization for deferral accounting, such treatment may be granted if the expense is: (1) extraordinary; (2) unanticipated; (3) non-recurring; and (4) substantial. I&E R. Exc. at 9 (citing *Columbia Gas Petition for Deferral*). Moreover, I&E maintains that here, the costs are not extraordinary because pension and OPEB costs: (1) are routine, yearly expenses

incurred by the Company, not one-time expenses; (2) are part of contractual agreements with past employees and, therefore, not unanticipated; and (3) can be forecasted on an annual basis and, therefore, cannot be categorized as non-recurring. I&E R. Exc. at 9 (citing *Popowsky*). Accordingly, I&E maintains that it is not appropriate for the Commission to grant approval for PAWC to defer these costs because pensions and OPEB costs do not meet the requirements for deferral treatment. I&E R. Exc. at 9-10.

In its Replies, the OCA counters that the ALJs properly recommended that the Commission deny PAWC's request for deferred accounting for pension, OPEB expenses, and production expenses. OCA R. Exc. at 6 (citing R.D. at 131, 135).

The OCA asserts that single-issue ratemaking is the deferral of a single cost or cost category in isolation from all other costs. OCA R. Exc. at 6 (citing OCA R.B. at 28). Further, the OCA avers that several costs fluctuate, and examining a single cost without considering others would deny consumers the benefit of offsetting costs and reductions. Moreover, the OCA contends that the Company's requested deferral: (1) would shift the risk of fluctuation away from investors, who are compensated for that risk, to captive ratepayers who would be forced to bear the risk for no compensation; and (2) contradicts the fundamental ratemaking principle of allowing the utility the opportunity to recover its costs, especially in the presence of an FPFTY. OCA R. Exc. at 6 (citing OCA R.B. at 28; OCA M.B. at 45).

According to the OCA, the Company is attempting to "bootstrap" electric utility default service cost recovery and natural gas utility purchased gas cost mechanisms into its argument for a deferred accounting of production costs. OCA R. Exc. at 7 (citing PAWC Exc. at 19-20). The OCA submits that this argument is without merit and should be rejected. Further, the OCA argues that it fully rebutted the Company's argument regarding an alleged net benefit if pension and OPEB deferral mechanisms would have been in place. OCA R. Exc. at 7 (citing PAWC Exc. at 19; OCA R.B. at 27-29).

Accordingly, the OCA submits that the Commission should deny PAWC's Exception No. 5 and instead adopt the ALJs' recommendation. OCA R. Exc. at 7.

In its Replies, PAWLUG counters that the ALJs correctly determined that pension, OPEB expenses, and production expenses are not extraordinary, unanticipated, or nonrecurring. PAWLUG argues that the Company's recitation of prior Commission decisions approving deferral mechanisms for extraordinary or nonrecurring expenses is not persuasive. Accordingly, PAWLUG submits that PAWC's Exception No. 5 should be denied. PAWLUG R. Exc. at 3-4 (citing R.D. at 131; PAWC Exc. at 18, 20; PAWLUG M.B. at 7).

4. Disposition

We agree with the ALJs and I&E that pension and OPEB costs are not extraordinary, unanticipated, or non-recurring. R.D. at 131 (citing I&E M.B. at 31-32). As discussed by I&E, pension and OPEB costs are routine expenses that can be forecasted on an annual basis and are part of contractual agreements with past employees. *See*, I&E M.B. at 32. Therefore, costs for pension and OPEB expense do not qualify for deferred accounting treatment. Indeed, as noted by the ALJs, the OCA, and PAWLUG, to allow deferred recovery for such routine costs would raise concerns of single-issue ratemaking. *See*, R.D. at 131 (citing OCA M.B. at 44-45; PAWLUG M.B. at 7-8).

To the extent that PAWC argues that the ALJs' adjustment of PAWC's pension and OPEB expense claim using a three-year average is improper, we disagree. As noted by I&E, adopting three-year averaging in calculating pension and OPEB expenses is consistent with recent Commission determinations. *See,* I&E M.B. at 36 (citing *PGW 2023* at 86; *PECO 2021* at 90). Furthermore, we agree with the ALJs that I&E adequately demonstrated that PAWC's claims for pension and OPEB costs should be based on averaging. R.D. at 131 (citing I&E St. 1-SR at 20-26; I&E St. 1 at 21-25).

Accordingly, we shall deny the Company's Exception Nos. 4 and 5 and adopt the ALJs' recommendation on this issue. As noted in Table II-Water in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, this results in: (1) a reduction of $4,771,807 to the Company's claim for pension expense, or from $971,071 to a negative allowance of $3,800,736; and (2) a reduction of $1,664,016 to the Company's claim for OPEB income, or from ($6,496,737) to ($8,160,753).

Q. Production Expense (And Request for Deferred Regulatory Accounting Treatment)

1. Positions of the Parties

PAWC claimed $59,989,147 in total Production Expense, broken out as $3,098,544 for Purchased Water and Wastewater Treatment, $21,276,332 for Fuel and Power, $27,485,022 for Chemicals, and $8,129,249 for Waste Disposal. PAWC St. 8 at 17; PAWC Exh. 3-A, at 54-57, 118-20, 238-40. None of the Parties disagreed with PAWC's claimed amount. However, I&E, the OCA, the OSBA and PAWLUG each took issue with the Company's proposed deferral mechanism for production expenses, as discussed below. PAWC M.B. at 32.

PAWC averred that the Company's production expenses can materially increase or decrease based on volatility in the prices charged by suppliers due to market conditions that are outside the control of the Company and its suppliers. PAWC continued that energy prices are higher than they have been in several years and, as a result, the Company's electric generation suppliers have increased contract rates for power supply and are less-willing to lock in prices for 12-month terms. PAWC M.B. at 32-33 (PAWC St. 8 at 17-21). As such, PAWC asserted that the Company's proposed accounting deferral for production expenses would protect both the Company and its

customers against this volatility. Moreover, PAWC averred that pursuant to Section 1307 of the Code, 66 Pa.C.S. § 1307, energy utilities in Pennsylvania are authorized to adjust rates for variations in gas commodity or electric fuel and transmission costs between rate cases and, although no specific statute applies to the Company's production cost recovery, the same ratemaking principles that justify such Section 1307 mechanisms apply to the Company's recovery of production costs. PAWC M.B. at 33 (citing PAWC St. 8-R at 5-6; PAWC St. 8 at 18-19). Therefore, PAWC submitted that the Commission should afford the Company deferred accounting treatment for production expenses. PAWC M.B. at 33.

I&E submitted that the Company's proposed Production Expense tracker should be denied for the same reasons that the Pension and OPEB Tracker, *supra,* should be denied. I&E M.B. at 37. I&E argued that PAWC's Production Expenses are not extraordinary, unanticipated, or non-recurring. I&E M.B. at 38 (citing OSBA St. 1 at 47-48). I&E added that although production expenses may be substantial in some instances, they do not meet the requirements to be deferred for accounting purposes. I&E did not make an adjustment to production expense. I&E M.B. at 38 (citing I&E St. 1 at 33).

The OCA averred that PAWC has not met its burden to demonstrate that the Company's deferred regulatory accounting mechanisms are just and reasonable for: (1) Pension and OPEB Expenses; and (2) Production Expenses. OCA M.B. at 44-45. The OCA further stressed its position that the requested treatments of isolated expenses for deferred recovery in future base rate cases are impermissible single-issue ratemaking, which is similar to retroactive ratemaking and, generally, is prohibited if it impacts on a matter that is normally considered in a base rate case. OCA M.B. at 45 (citing *Nat'l Fuel Gas Dist. Corp. v. Pa. PUC*, 464 A.2d 546, 567 (Pa. Cmwlth. 1983); *Phila. Elec. Co. v. Pa. PUC*, 502 A.2d 722, 727-28 (Pa. Cmwlth. 1985); *Pa. Indus. Energy Coalition v. Pa. PUC*, 653 A.2d 1336, 1350 (Pa. Cmwlth. 1995), *aff'd*, 670 A.2d 1152 (Pa. 1996)

(*PIEC*)). The OCA continued that unlike the proceeding in *PIEC*, which affirmed the Commission's authority to allow a Section 1307 surcharge, this case is a base rate case and PAWC is asking for specific deferred accounting treatment and future recovery of line-item expenses that are addressed in base rate cases. OCA M.B. at 45 (citing *PIEC*).

The OCA asserted that although a utility's cost-of-service is made up of individual cost components which vary from expected values, single-issue ratemaking: (1) ignores that as a single cost component changes in one direction, other components may change in the opposite direction; and (2) denies customers the benefit of these offsetting cost reductions because it shifts the risk of fluctuations in two specific expense items away from investors and onto the customers. OCA M.B. at 45 (citing OCA St. 2-SR at 50-51; OCA St. 2 at 75-79). Further, the OCA noted that isolating and tracking the Pension and OPEB expenses as well as production costs for eventual recovery runs counter to a fundamental principle of ratemaking that a utility should be afforded the *opportunity* to recover its costs of providing service-but that it is *not guaranteed* such recovery. OCA M.B. at 45-46. Moreover, the OCA argued that the Company is utilizing FPFTY costs of providing service, which includes pension and OPEB expenses as well as production expenses. OCA M.B. at 46. Furthermore, the OCA averred that if the Commission were to allow this, then the Company will lose the incentive to manage or reduce these expenses where it is certain the Company will recover the expenses without any review of prudency or reasonable of these expenses within the base rate case. OCA M.B. at 46 (citing OCA St. 2-SR at 50-51, 53; OCA St. 2 at 75-79). As such, the OCA submitted that the Commission should disallow the Company's ancillary requests for Commission approval of deferred regulatory accounting treatment for: (1) Pension and OPEB Expenses; and (2) Production Expenses. OCA M.B. at 46.

The OSBA submitted that the Company's request for deferred accounting treatment for its production expenses should be denied because utility management

should be expected to handle normal business risks and the operation of economic forces without resorting to single-issue ratemaking, such as the requested deferred accounting treatment, except in circumstances of compelling public interest. OSBA M.B. at 13 (citing OSBA St. 1 at 47-48).

PAWLUG referenced its argument regarding Pension and OPEB expense, *supra*. PAWLUG M.B. at 7-8.

2. Recommended Decision

The ALJs recommended that the Commission reject the Company's proposal to afford deferred accounting treatment for production expenses. The ALJs agreed with I&E that production costs are not extraordinary, unanticipated, or non-recurring, and therefore should not qualify for regulatory asset treatment. R.D. at 135 (citing I&E M.B. at 37-38). Similarly, the ALJs agreed with the OCA and PAWLUG that allowing deferred recovery of routine costs would raise concerns of impermissible single-issue ratemaking. R.D. at 135 (citing OCA M.B. at 44-45; PAWLUG M.B. at 7-8).

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation to reject PAWC's proposal to afford deferred accounting treatment for production expenses, as recommended by I&E, the OCA, the OSBA, and PAWLUG.

R. Miscellaneous Expense Adjustment – Credit Card and E-Check Fees

1. Positions of the Parties

I&E's witness, Ms. Okum, found a discrepancy in PAWC's claim for credit card and e-check fees. I&E M.B. at 38-39 (citing I&E St. 1-R at 4). The Company provided that PAWC Exhibit 3-B includes the correct amounts, and PAWC's witness, Ms. O'Malley, stated that the adjustment reduces PAWC's original claim for miscellaneous expense by $182,738. I&E M.B. at 39 (citing PAWC St. 5 at 7). Ms. O'Malley noted that the change is reflected in the revised filing at PAWC Exhibit 3-A Revised at 64R, with supporting calculations at PAWC Exhibit LNO-4R. Table 8 shows that the reduction in the Company's original claim was calculated, as follows:

Table 8: PAWC's Claim for Credit Card and E-Check Fees

	BYR Allocation Factor 1: Customers	Future Allocation Factor 2: Customers	Base Yr	12 Mos Jun 2024	12 Mos Jun 2025
Water Operations	95.39%	85.45%	$1,665,018	$1,540,602	$1,545,547
Wastewater SSS General Operations	2.98%	6.97%	52,049	125,664	126,067
Brentwood WW		0.49%	0	8,834	8,863
BASA WW		1.83%	0	32,994	33,099
Wastewater CSS Operations	1.63%	5.26%	28,381	94,834	95,138
Total	100.00%	100.00%	$1,745,448	$1,802,928	$1,808,715

Adjustment 2023	Adjustment 2024	Adjustment 2025
	($124,416)	$4,945
	73,615	403
	8,834	28
	32,994	106
	66,453	304
$0	$57,480	$5,787

Amount included in Company's claim	$57,480	$5,787
Correct amount	($124,416)	$4,945
Variance	($181,896)	($842)
Total Variance		($182,738)

See, PAWC Exh. LNO-4R.

Accordingly, I&E submitted that this should be reflected in the ALJs' Recommended Decision and the Commission's Final Order in this proceeding. I&E M.B. at 39.

2. Recommended Decision

The ALJs concurred with I&E's proposed adjustment to Miscellaneous Expense Adjustment – Credit Card and E-check Fees and, as such, recommended that the

Company's Miscellaneous Expense for Credit Card and E-check Fees be adjusted to reflect I&E's proposed adjustment, thereby reducing the claimed expense by $182,738. R.D. at 136 (citing PAWC St. 5-R at 7). The ALJs noted that because the Company adopted this adjustment to its initial claims in rebuttal, this adjustment is reflected in the Company Adjustments column in Table I-Water, Table I-Wastewater SSS, and Table I-Wastewater CSS in the Appendix to the Recommended Decision. R.D. at 136.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation that PAWC's claim for Miscellaneous Expense for Credit Card and E-check Fees be adjusted to reduce the claimed expense by $182,738, as proposed by I&E.

S. Service Company Executive Retirement Plan Expense

1. Positions of the Parties

The OSBA recommended an adjustment to remove the Service Company Executive Retirement Plan (SCERP) expense, thereby decreasing the FPFTY revenue requirement by $35,106. OSBA St. 1 at 15. The OSBA noted that PAWC removed the SCERP expense from the revenue requirement in rebuttal testimony. OSBA St. 1-S at 6.

2. Recommended Decision

The ALJs recommended that the Commission remove the Company's claim for Supplemental Retirement Plan costs. The ALJs pointed out that PAWC accepted the OSBA's recommendation to remove this expense. R.D. at 136-37 (citing OSBA St. 1 at 15; PAWC St. 5-R at 6). The ALJs noted that because the Company adopted this

adjustment to its initial claims in rebuttal, this adjustment was reflected in the Company Adjustments column in Table I-Water, Table I-Wastewater SSS, and Table I-Wastewater CSS in the Appendix attached to the Recommended Decision. R.D. at 136-37.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation to remove PAWC's claim for Supplemental Retirement Plan costs, as recommended by the OSBA and accepted by the Company.

T. External Board Expense

1. Positions of the Parties

The OSBA recommended an adjustment to remove the External Board expense based on the Company's stated intention to eliminate its External Board. The OSBA noted that this adjustment decreases the FPFTY revenue requirement by approximately $126,792. OSBA St. 1 at 16. The OSBA noted that PAWC agreed to remove its claim for External Board expense. OSBA St. 1-S at 6.

2. Recommended Decision

The ALJs recommended that the Commission remove the Company's claim for External Board costs. The ALJs pointed out that the Company accepted the OSBA's recommendation to remove this expense. R.D. at 137 (citing OSBA St. 1 at 16; PAWC St. 5-R at 7). The ALJs noted that because the Company adopted this adjustment to its initial claims in rebuttal, this adjustment is reflected in the Company Adjustments column in Table I-Water, Table I-Wastewater SSS, and Table I-Wastewater CSS in the Appendix attached to the Recommended Decision. R.D. at 137.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation to remove PAWC's claim for External Board costs, as recommended by the OSBA.

U. Cash Working Capital

CWC represents the funds needed to pay O&M expenses and taxes that, on average, are incurred in advance of the utility's receipt of revenues. As previously noted, PAWC calculated its cash working capital requirement using the lead-lag method. R.D. at 7, 80 (citing PAWC St. 4 at 13-15). No Party disputed the methodology that the Company employed or challenged its proposed revenue lag, expense lag, or net lag (revenue lag minus expense lag). However, because O&M expenses are an input to the calculation of CWC, adjustments to working capital will be made in accordance with total O&M operating adjustments adopted in this proceeding. *See*, R.D. at 80.

1. Positions of the Parties

I&E recommended an allowance of $26,149,755, representing a reduction of $1,119,556 ($27,269,311 - $1,119,556) to the Company's final CWC claim. However, I&E noted that its recommendation is not a final recommendation. In this regard, I&E explained that all adjustments to the Company's claims must be continually brought together in the ALJs' Recommended Decision and again in the Commission's Final Order. I&E continued that this process, known as "iteration," effectively prevents the determination of a precise calculation until all adjustments have been made to the Company's claims. I&E M.B. at 17.

The OCA provided that given that the Commission should remove the revenue requirements for BASA and Brentwood, the Commission should exclude the Company's claims for the BASA and Brentwood cash working capital. OCA St. 2 at 47, n.8. Accordingly, the OCA's witness, Mr. Smith, made resulting adjustments to the Company's cash working capital claim based on his adjustments to PAWC's O&M expenses and interest and dividend expenses, as well as the different capital structure proposed by the OCA's witness, Mr. Garrett. OCA St. 2 at 46-47; PAWC Exh. 3-A. Specifically, Mr. Smith recommended the following cash working capital adjustments: (1) a negative adjustment to water for $1.761 million; (2) a negative adjustment to wastewater SSS for $150,794; and (3) a negative adjustment to CSS wastewater for $98,811. OCA St. 2 at 47-48, Exh. LA-2, Schs. B-5.B, B-5.C, B-5.D. The OCA submitted that if the Commission adopts the OCA's recommended adjustments to expenses, then the Commission should adopt the OCA's resulting adjustments to cash working capital for the Company's existing systems. OCA M.B. at 33.

2. Recommended Decision

The ALJs, noting none of the Parties challenged the Company's methodology for cash working capital, based their adjustment to PAWC's claim for cash working capital on recommendations elsewhere in the Recommended Decision. Specifically, the ALJs recommended that PAWC's claim for cash working capital be adjusted for the following: (1) Interest and Dividends; (2) Taxes; and (3) O&M Expenses. The ALJs noted that their recommended cash working capital adjustments were detailed in Tables II, IV, V, and VI for Water, Wastewater SSS, and Wastewater CSS in the Appendix to the Recommended Decision. R.D. at 82.

3. OCA Exception No. 4 and Replies

In its Exception No. 4, the OCA avers that if the OCA's adjustment to capital structure proposed in the OCA Exception No. 10, and addressed in Section IX.B, *infra*, is accepted by the Commission, then an additional adjustment to the cash working capital will be necessary, as the ALJs' recommended cash working capital adjustment must be updated. OCA Exc. at 7.

In its replies, PAWC contends that the OCA's assertion that the ALJs' cash working capital adjustment should be denied because the Commission should also reject the OCA's proposed "hypothetical capital structure." PAWC R. Exc. at 12.

4. Disposition

As discussed in Section IX.B of this Opinion and Order, we shall reject the OCA's proposal to employ a hypothetical capital structure in this proceeding. For this reason, we shall also deny the OCA's Exception No. 4. As a result, we shall, likewise, decline to make the OCA's related requested adjustments to CWC, as outlined in its Exception Nos. 4 and 10.

Based on the above discussion of the adjustments to PAWC's individual expense claims, we have approved a total downward adjustment to the Company's water O&M expenses of $9,993,903.[67] The cash working capital components related to interest

[67] As set forth in Table II-Water in the Commission Tables Calculating Allowed Revenue Increase, attached to this Opinion and Order, our total reduction to the Company's water expenses claim is $10,032,096. This figure includes a total reduction of $9,993,903 related to our downward adjustments to the Company's water expense claims for Acquisition Related O&M Expenses, Pension Expense, OPEB Expense, and AMP Credits-Uncollectible Expense, as discussed in this Expenses section. This is combined with a total decrease to expenses of $38,192 related to the Company's claimed revenues associated with its pending acquisitions of AWC and Farmington (water) and

and dividends, taxes, and O&M expense result in a net overall reduction of $990,882 to PAWC's water cash working capital.[68]

Additionally, we have approved a total downward adjustment to the Company's wastewater O&M expenses of $774,387.[69] The cash working capital components related to interest and dividends, taxes, and O&M expense result in a net overall increase of $17,151 to the Company's wastewater CWC. This is broken down as follows: (1) a net decrease to the CWC component for Wastewater SSS of $462, which

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concomitant adjustments for bad debt & general assessment expenses, as discussed in Section VI of this Opinion and Order, *supra.*
[-$9,993,903 plus - $38,193= -$10,032,096]. It is our $9,993,903 reduction to the Company's expenses that flows to our downward adjustment to Cash Working Capital – O&M Expense that is described in the next footnote.

[68] As set forth in Table II-Water, the $990,882 reduction is the net of: (1) an increase of $19,785 to Cash Working Capital – Interest and Dividends; (2) an increase of $146,442 to Cash Working Capital – Taxes; and (3) a decrease of $1,157,109 to Cash Working Capital – O&M Expense. [($19,785 + $1,446,442 - $1,157,109) = - $990,882].

[69] As set forth in Table II-Wastewater SSS in the Commission Tables Calculating Allowed Revenue Increase, attached to this Opinion and Order, our total reduction to the Company's Wastewater SSS expense claim is $670,027. This figure includes a total reduction of $660,641 related to our downward adjustments to the Company's Wastewater SSS expense claims for Acquisition Related O&M Expenses, and AMP Credits-Uncollectible Expense, as discussed in this Expenses section. This is combined with a total decrease to expenses of $9,386 related to the Company's claimed revenues associated with its pending acquisitions of the STMA and Farmington (wastewater) and concomitant adjustments for bad debt & general assessment expenses, as discussed in Section VI of this Opinion and Order, *supra.*
[-$660,641 plus - $9,386= -$670,027]. It is our $660,641 reduction to the Company's wastewater expenses that flows to our downward adjustment to Cash Working – O&M Expense that is described in our footnote regarding the CWC Component for Wastewater SSS, below. Additionally, as set forth in Table II-Wastewater CSS in the Commission Tables Calculating Allowed Revenue Increase, our total reduction to the Company's CSS Wastewater expense claim is $113,746. This figure is related entirely to our downward adjustment to the Company's CSS Wastewater expense claim for AMP Credits-Uncollectible Expense. Therefore, our total adjustment to Wastewater O&M Expense is $774,387. [-$660,641 plus - $113,746 = -$774,387].

reflects, in part, our downward adjustment to O&M expenses of $660,641;[70] and (2) a net increase to the CWC component for CSS Wastewater of $17,613, which reflects, in part, our downward adjustment to O&M expenses of $113,746.[71]
[- $462 + $17,613 = $17,151].

VIII. Taxes

A. Positions of the Parties

PAWC described its claims for federal and state income taxes in PAWC St. 7. The Company stated no Party disputed how it calculated its federal and state income taxes. PAWC M.B. at 33.

I&E stated it made no specific recommendations related to adjustments to PAWC's taxes. According to I&E:

> [a]ll adjustments to the Company's claims for revenues, expenses, taxes, and rate base must be continually brought together in the Administrative Law Judge's Recommended Decision and again in the Commission's Final Order.
> I&E M.B. at 39.

[70] As set forth in Table II-Wastewater SSS, the $462 reduction is the net of: (1) an increase of $8,962 to Cash Working Capital – Interest and Dividends; (2) an increase of $21,955 to Cash Working Capital – Taxes; and (3) a decrease of $31,379 to Cash Working Capital – O&M Expense. [($8,962 + $21,955 - $31,379) = - $462].

[71] As set forth in Table II-Wastewater CSS, the $17,613 addition is the net of: (1) a decrease of $31 to Cash Working Capital – Interest and Dividends; (2) an increase of $17,644 to Cash Working Capital – Taxes; and (3) neither an increase nor a decrease to Cash Working Capital – O&M Expense. [(-$31 + $17,644 + $0) = $17,613].

Therefore, I&E asserted any tax adjustments would be the result of the flow-through of other I&E adjustments and not a specific tax adjustment. I&E M.B. at 39.

B. Recommended Decision

The ALJs noted no Party disputed how PAWC calculated its federal and state income taxes. Accordingly, the ALJs recommended that PAWC's taxes be adjusted as detailed in Tables II and III of the Appendix to the Recommended Decision. R.D. at 138.

C. Disposition

None of the Parties filed Exceptions objecting to the ALJs' recommendation on this issue. We find that the manner in which PAWC calculated its federal and state income taxes is supported by ample record evidence and is just and reasonable. Noting any tax adjustments are the result of the flow-through of other adjustments and not a specific tax adjustment, we shall adopt PAWC's calculation method. PAWC's tax adjustments are outlined in Table II-Water, Table III-Water, Table II-Wastewater SSS, Table III-Wastewater SSS, Table II-Wastewater CSS, and Table III-Wastewater CSS in the rate tables that outline the Commission Tables Calculating Allowed Revenue Increase, which are attached to this Opinion and Order.

IX. Fair Rate of Return

A. Proxy Groups

A proxy group is a group of companies that have similar traits as compared to the subject utility, in this case PAWC. This group of companies acts as a benchmark

for determining the subject utility's rate of return in a base rate case. A proxy group is also typically used because using data exclusively from one company may be less reliable than using a group of companies because the data for one company may be subject to short-term anomalies that distort its ROE. Use of a proxy group smooths these potential anomalies. In addition, the use of a proxy group 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. I&E M.B. at 42; I&E St. 2 at 7-8.

1. Positions of the Parties

PAWC employed a proxy group (Proxy Group)[72] of eleven companies using the following specific criteria:

1. The companies pay consistent quarterly cash dividends. PAWC submitted that companies that do not do so cannot be analyzed using the Constant Growth Discounted Cash Flow (DCF) model;
2. Each company has investment grade long-term issuer ratings from Standard & Poor's (S&P) and/or Moody's;
3. Each company is covered by at least two utility industry analysts;
4. The companies have positive long-term earnings growth forecasts from at least two utility industry equity analysts;
5. Each company derives more than 70.00% of its total operating income from regulated operations; and

[72] In this Opinion and Order, when the term "Proxy Group" is capitalized, it shall refer to the proxy group proposed by PAWC. In all other instances, the term will not be capitalized.

6. None of the companies were parties to a merger or transformative transaction during the analytical periods relied on.

PAWC St. 13 at 25, 26. PAWC explained that because of on-going consolidation in the water utility industry, the *Value Line Investment Research (Value Line)* research service commonly relied upon by investors identifies only seven companies in the United States as water utilities. Additionally, the Company's above screening criteria further reduced that group of water utilities to only four. PAWC stated that because a small proxy group can lead to one company having an outsized effect on any proxy group calculation, the Company included several electric and gas utilities with water operations in its proxy group. According to the Company, the similar nature of electric and natural gas utilities is well understood by other public utility commissions, as well as industry leaders. PAWC stresses that it applied screening criteria to select electric and gas utilities with comparable risks to PAWC. PAWC M.B. at 38-39.

I&E proposed to use a proxy group of five water companies. In selecting a proxy group that resembles the water utility industry, I&E applied the following criteria:

1. Fifty percent or more of the company's revenues must be generated from the regulated water utility industry;
2. The company's stock must be publicly traded;
3. Investment information for the company must be available from more than one source, which includes *Value Line*;
4. The company must not have been currently involved in an announced merger or material acquisition at the time of I&E's analysis;
5. The company must have four consecutive years of historical earnings data.

I&E observed that the Company's Proxy Group included four of the five companies utilized by I&E. However, I&E included PAWC's parent company, AWK, and excluded all electric and natural gas companies that were included by PAWC, including Essential Utilities, Inc. (Essential Utilities), which has water, wastewater, and natural gas segments. I&E submitted that: (1) it does not appear that there is a good reason to exclude AWK from the proxy group; and (2) companies that are in the water industry are the most representative of the financial and operational risks faced by PAWC. Thus, I&E reasoned that using gas and electric utilities in the proxy group can distort the information that the proxy group provides. Additionally, I&E submitted that Essential Utilities should be excluded from the proxy group because it fails to meet I&E's first proxy group criterion, *supra,* that 50% or more of the company's revenues must be generated from regulated water utility operations. According to I&E, Commission precedent favors relying on a company's percentage of regulated revenue for determining whether a company should be included in a proxy group. I&E M.B. at 42-47.

The OCA utilized the same proxy group as the Company. Although the OCA opined that it is reasonable for the Commission to focus only on water utilities within the proxy group, the results of the OCA's analyses were not materially different with the inclusion of electric and gas utilities. Therefore, as a practical matter, the OCA focused on the results of the Company's Proxy Group. OCA M.B. at 48; OCA R.B. at 29.

In response to I&E's criticism of its Proxy Group, PAWC argued that I&E's decision to include AWK but exclude Essential Utilities in its own proxy group compounds the flaws of an already-diminished proxy group. First, PAWC opined that including AWK would create a circular effect. In this regard, PAWC highlighted that it is responsible for approximately 23.4% of AWK's revenue, such that I&E has effectively used the Company to determine its own ROE. Second, PAWC argued that I&E focused solely on the fact Essential Utilities' revenue from water operations in 2022 was only

47.33% while it ignored the facts that 2022 was an anomalous year due to high gas prices, and that Essential Utilities' operating revenue from its water operations has historically been above 50%. PAWC M.B. at 39-40.

Table 9, below, provides a summary of the companies each Party proposed to be used in their respective water proxy groups:

Table 9: Summary of the Proposed Water Proxy Groups in this Proceeding

PAWC	OCA	I&E
American States Water Company	American States Water Company	American Water Works
Atmos Energy Corporation	Atmos Energy Corporation	American States Water Company
California Water Service Group	California Water Service Group	California Water Service Group
Essential Utilities, Inc.	Essential Utilities, Inc.	Middlesex Water Company
Eversource Energy	Eversource Energy	SJW Water Group
Middlesex Water Company	Middlesex Water Company	
NiSource Inc.	NiSource Inc.	
Northwest Natural Gas Company	Northwest Natural Gas Company	
ONE Gas, Inc.	ONE Gas, Inc.	
SJW Water Group	SJW Water Group	
Spire, Inc.	Spire, Inc.	

PAWC St. 13 at 26; I&E M.B. at 43; OCA Exh. DGJ-2.

2. Recommended Decision

The ALJs recommended that the Commission adopt I&E's proxy group. According to the ALJs, although I&E's proxy group included four water utilities also used in the proxy groups of PAWC and the OCA, I&E properly included AWK in its proxy group. In this regard, the ALJs found that it is not uncommon for the Commission to include a parent company in a proxy group. R.D. at 144-45. The ALJs also ruled that I&E properly excluded Essential Utilities from its proxy group because less than 50% of Essential Utilities' operating revenues come from regulated water service. *Id.* at 145 (citing PAWC St. 13-R at 22). Additionally, the ALJs concluded that neither electric nor

natural gas utilities are properly included in the proxy group for use in this proceeding. The ALJs were persuaded by I&E's position that companies that are in the water industry are the most representative of the financial and operational risks faced by PAWC, while electric and natural gas utilities are too dissimilar. R.D. at 145.

3. PAWC Exception Nos. 1.1, 1.2, and 1.3 and Replies

In its Exception No. 1.1, PAWC maintains that contrary to the ALJs' recommendation, Essential Utilities should be included in the Proxy Group used to calculate the Company's ROE. PAWC restates its argument that the sole reason why the percentage of Essential Utilities' revenue from its regulated water operations in 2022 was below 50% was the higher cost of natural gas, which affected the percentage of water versus natural gas operations on a revenue basis but did not affect operating income since natural gas costs are recovered as a pass through directly to customers. Therefore, PAWC reasons that although the 2022 data on a revenue basis might suggest that Essential Utilities should be excluded from the proxy group, Essential Utilities clearly meets I&E's screening criteria on an operating income basis and should be included. PAWC asserts that operating income, and not operating revenue, more appropriately reflects the risk profile of the utility's operations. However, PAWC further reasons that when the revenues are adjusted to remove the effect of these higher incremental natural gas costs, revenues from Essential Utilities' regulated water operations in 2022 were also above 50%. PAWC Exc. at 5 (citing PAWC St. 13-R at 21-22).

In its Exception No. 1.2, PAWC notes that each Party who set forth a proposed proxy group in this proceeding included Middlesex Water in its proxy group. However, PAWC submits that if the Commission chooses to rely on the proxy group proffered by I&E, then it must exclude Middlesex Water from the proxy group. In this regard, PAWC submits that when Middlesex Water's DCF result was calculated, the result was a "remarkably low 5.77%." Therefore, PAWC argues that given the small size

of I&E's proxy group, Middlesex Water was effectively given a 20% weight in I&E's DCF calculation of 8.45%. PAWC reasons that this caused the ALJs' recommended ROE to be artificially low, given the ALJs' finding that PAWC's allowed ROE should be calculated by averaging this DCF result with I&E's capital asset pricing model (CAPM) calculation.[73] PAWC Exc. at 5-6.

In its Exception No. 1.3, PAWC argues that given the ongoing consolidation in the water utility industry, and the resulting small number of water utilities, the Commission should rely on a larger proxy group of distribution utilities. The Company explains that, to that end, and consistent with the actions of other public utility commissions, it proposed the Proxy Group of eleven-companies consisting of four water companies and seven natural gas and electric utilities with water operations. According to PAWC, the ALJs erred in finding that the Commission should focus on a water-only proxy group. Rather, PAWC remains of the opinion that it is most appropriate to utilize a broader proxy group for purposes of establishing the ROE in this proceeding. Accordingly, PAWC insists that the Commission should modify the Recommended Decision and adopt the Company's Proxy Group for use in setting the appropriate ROE and overall rate of return. PAWC Exc. at 8-10.

In its Replies to Exceptions, I&E submits that the ALJs correctly recommended that the Company's Proxy Group be rejected in favor of the one set forth by I&E. I&E submits that in continuing to argue for the inclusion of Essential Utilities in its Proxy Group, PAWC is effectively claiming that this company should be included based on its net operating income from water. However, I&E notes that a company's net income depends on various factors, including management efficiency, operational and financial efficiency, O&M cost containment, and capital expenditures. Therefore, I&E restates its position that a utility's revenue composition is the appropriate measure to

[73] The DCF, CAPM, and ROE are discussed, in detail, in Section IX.D, *infra.*

gauge when developing a proxy group because a proxy group should establish a set of companies that are of a similar risk profile to the subject utility. I&E insists that because less than 50% of Essential Utilities' revenues came from the regulated water sector in the subject year it considered in its analysis, the ALJs correctly recommended that it be excluded. I&E R. Exc. at 1, 2-3.

On the other hand, I&E claims that despite PAWC's arguments to the contrary, Middlesex Water should be included in I&E's proxy group, which the ALJs correctly recommended be adopted. I&E reinforces that if this company was removed, it would undermine the purpose of the proxy group in this proceeding, which is to employ a group of similarly situated water utilities to smooth out any anomalous data points in a ROE analysis. I&E also counters PAWC's argument that including Middlesex Water causes the ROE to be artificially low, and submits that removing low-end results, while simultaneously retaining the high-end results only serves to inflate the results and skew the ROE in PAWC's favor. I&E R. Exc. at 4.

Finally, I&E claims that PAWC's contention that I&E's proxy group is "too small" is undermined by the testimony of PAWC's own witness. More specifically, I&E argues that at the hearing, the Company's witness, Ms. Ann Bulkley, testified that the appropriate size for a proxy group is five utilities of comparable risk, as established by the Federal Energy Regulatory Commission (FERC). I&E R. Exc. at 2 (citing Tr. at 2100). Thus, I&E asserts that its proxy group is sufficiently large, and the ALJs were correct in relying on it in their recommendation. I&E stresses its position that its own proxy group is the appropriate proxy group to use in this proceeding because companies that are in the water industry best represent the financial and operational risks faced by PAWC. I&E R. Exc. at 2, 4.

4. Disposition

On review, we find that I&E's proxy group, comprised solely of water utilities, is the proxy group proffered in this proceeding that most closely resembles PAWC. Therefore, we shall deny PAWC's Exceptions on this issue, consistent with the following discussion.

As previously discussed, I&E, in setting forth its proxy group of five water companies, included four of the five water companies in PAWC's Proxy Group. Namely, both PAWC and I&E included American States Water Company, California Water Service Group, Middlesex Water Company, and SJW Water Group in their respective proxy groups. However, I&E also included PAWC's parent company, AWK, while excluding Essential Utilities. I&E M.B. at 44-45. We note that PAWC did not specifically except to the ALJs' finding regarding the inclusion of AWK. Nonetheless, we shall reinforce that this company is properly included in the proxy group. Like I&E and the ALJs, we find no valid reason or basis to exclude this company. Although PAWC expressed concern that including its parent company in the proxy group would create a circular effect, we find that AWK's vast operations across many states and numerous divisions and its required compliance to an equal number of state regulatory bodies eliminates the potential for any circular effect, as opposed to if only PAWC itself was included in the proxy group. *See*, I&E St. 2-SR at 13. In addition, we note the ALJs' observation that it is not uncommon for this Commission to include a utility's parent company in the proxy group it utilizes to set that utility's rate of return. R.D. at 144-45. For example, in *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835 (Order entered February 19, 2021) (*Columbia Gas 2021*), we adopted I&E's proposed proxy group, which included the Columbia parent company, NiSource, in setting the appropriate rate of return in that proceeding. *Columbia Gas 2021* at 107, 110.

Conversely, in its Exception No. 1.1, PAWC argues that the ALJs erred by recommending that Essential Utilities should be excluded in the proxy group used to set the Company's rate of return in this proceeding. PAWC remains of the opinion that a company's operating revenue is not an appropriate screening criterion for determining if the company belongs in a proxy group. Rather, PAWC asserts that a company's operating income more appropriately reflects the risk profile of the company's operations. PAWC Exc. at 5; PAWC St. 13-R at 20. However, we find that PAWC's position runs contrary to the precedent that has been set by this Commission. We recently affirmed this precedent in *Pa. PUC v Columbia Water Company*, Docket No. R-2023-3040258, (Opinion and Order entered January 18, 2024) (*Columbia Water 2024*) wherein we stated, as follows:

> Columbia contends that because the financial community is more likely to rely on measures of income than measures of revenue when making credit assessments and investment decisions, the Commission should examine the water utility's income and earnings when deciding whether it should be included in the proxy group. In our view, however, while the financial community relies more on measures of income, it is more appropriate to examine the use of percentage of revenues in a base rate proceeding, because this measure represents the percentage of cash flow a company receives from each business segment. As noted by I&E, revenue is the total income a business, or a business segment, produces. On the other hand, net operating income is an indicator of financial performance and strength and is a direct result of a company's business decisions and operations.

Columbia Water 2024 at 76 (citations omitted). *See also, Columbia Gas 2021* at 110; *PECO 2021* at 137-38. In our view, this same standard should be applied in this instant proceeding. As I&E notes in its Replies to Exceptions, when considering that a company's net income depends on various factors, including management efficiency, operational and financial efficiency, O&M cost containment, and capital expenditures, it becomes evident that revenue composition is the more appropriate measure because a

proxy group should establish a set of companies that are of a similar risk profile to the subject utility. I&E R. Exc. at 2.

The record indicates that in 2022, Essential Utilities' revenue from its regulated water operations was 47.33% of its total revenues. Thus, this data indicates that this company is not comparable to the subject utility, PAWC, as it does not provide a similar level of regulated water business. I&E St. 2-SR at 14-15. Further, we acknowledge the Company's contention that Essential Utilities' percentage of revenues derived from its regulated water operations has historically been above 50%. Nonetheless, I&E's analysis, which we are adopting, was based on S&P Global's Fiscal Year (FY) 2022 business segment analysis of Essential Utilities, which was the most recent information available at the time of I&E's analysis. *Id.* at 14. As Essential Utilities' percentage of operating revenues derived from its regulated water operations was below the 50% threshold in the subject year, we find no error in the ALJs' recommendation that Essential Utilities should be excluded from the proxy group.

Next, we disagree with PAWC's argument in its Exception No. 1.2 that if we adopt the ALJs' recommendation to use the proxy group proffered by I&E, then we should exclude Middlesex Water. PAWC contends that when Middlesex Water's DCF result was calculated, the result was a "remarkably low 5.77%." Thus, PAWC claims that given the small size of I&E's proxy group, *i.e., five companies,* Middlesex Water was effectively given a 20% weight, which, when combined with Middlesex Water's DCF result, produces an "artificially low" ROE. PAWC Exc. at 6-7. However, we find I&E's argument persuasive that the key purpose of assembling a proxy group is to avoid relying on data for a single company in order to smooth out any abnormalities. Accordingly, any attempt to disregard "low end" results, or to disregard one side of a range of results is inconsistent with the purpose of a proxy group. In turn, this will subjectively influence the results of an otherwise unbiased analysis. Thus, contrary to the position of PAWC, we find that removing Middlesex Water from the proxy group would

yield an *artificially high* ROE and would defeat the very purpose of using a proxy group. I&E St. 2-SR at 17, 24.

We likewise disagree with the Company's argument, in its Exception No. 1.3, that given the small amount of water utilities, we should rely on a larger proxy group of distribution utilities. PAWC Exc. at 8-10. Initially, we note the veracity of PAWC's position that, in general, it is preferable to have a larger number of companies in a proxy group. Nonetheless, the Company has proposed to use electric and natural gas companies in its Proxy Group. *Id.* Thus, the Company's proposal would result in using companies that are too dissimilar to the subject company, PAWC. I&E St. at 13.

In this regard, water companies face different degrees of operational, safety, and weather-related risks and uncertainties, in addition to substantially different environmental regulations, than do electric and natural gas distribution companies. Additionally, water utilities have a more captive customer base, as customers cannot eliminate the need for water. In contrast, other fuel sources can be substituted for natural gas. Further, while customers of electric and natural gas distribution companies can shop competitively for the generation of electricity and natural gas, there is no such opportunity for customers of water companies, as these utilities remain vertically integrated. These differences, among others, make electric and natural gas utilities dissimilar enough from water companies to properly be excluded from a water proxy group. Thus, in this instance, we find that it is more appropriate to include fewer companies that are more similar to the subject company, PAWC, in the proxy group because it will produce a more valid result. I&E St. 2 at 16-17. For this reason, and the others discussed above, we shall utilize I&E's proxy group, consisting only of water utilities.

Based upon the record before us, we shall adopt the ALJs' recommendation to utilize I&E's proposed proxy group in setting the Company's authorized rate of return. Accordingly, we shall deny PAWC's Exception Nos. 1.1, 1.2, and 1.3.

B. Capital Structure

A capital structure represents how a utility has financed its rate base with different sources of funds. Determining the appropriate capital structure is crucial in developing the weighted average cost of capital (WACC), which, in turn, determines the overall authorized rate of return in the revenue requirement equation, *supra*. The primary funding sources for the utility are long-term debt and common equity. Additionally, a capital structure may include preferred stock and/or short-term debt. However, PAWC is financed only with long-term debt and common equity. I&E M.B. at 47; I&E St. 2 at 14-15.

1. Positions of the Parties

PAWC proposed to utilize an actual capital structure, as set forth in Table 10, as follows:

Table 10: PAWC's Proposed Actual Capital Structures

Total Company	
Common Equity	55.30%
Preferred Stock	0.00%
Long-Term Debt	44.70%
Water Services	
Common Equity	55.99%
Preferred Stock	0.00%
Long-Term Debt	44.01%
Wastewater Services	
Common Equity	52.87%
Preferred Stock	0.00%
Long-Term Debt	42.73%
WW Specific Debt	4.40%

PAWC M.B. at 41. PAWC explained that because there is specific debt that has been identified for its wastewater services, the capital structures for its water and wastewater services were calculated separately. PAWC calculated the capital structure for the total company first, including all debt issuances and all sources of capital. Next, PAWC calculated the capital structure for its water operations by removing the wastewater specific debt instruments from the total long-term debt of the Company and recalculating the ratios of the remaining capital stock. PAWC then calculated its wastewater specific capital structure by applying the total company debt ratio to the wastewater rate base, excluding the specific wastewater debt issuances. PAWC St. 13 at 59-60.

According to the Company, it is well settled that the use of an actual capital structure represents the utility's decision, in which it has full discretion, on how to capitalize its rate base. Thus, PAWC reasons, a utility's actual capital structure is to be used in rate of return analysis unless that capital structure is atypical or too heavily weighted on either the debt or equity side. PAWC represents that its proposed capital structure recognizes the composition of the financing that the Company is currently using to fund its investments and obligations, and that this capital structure is well within the

range of equity ratios of its Proxy Group of utilities. *Id*. at 41-42; PAWC R.B. at 31 (citing *PPL 2012*, *Aqua 2022*, and *Columbia Water 2024*).

I&E argued that the Company's claimed capital structures for both water and wastewater should be utilized because these capital structures fall within the range of I&E's proxy group. I&E M.B. at 47-48.

In contrast, the OCA posited that the Commission should impute a hypothetical capital structure for PAWC that is equal to that of the Company's Proxy Group average (inclusive of the non-water utilities), which consists of 51% equity and 49% debt.[74] According to the OCA, PAWC's proposed actual capital structure is too heavily weighted toward the equity side and represents an additional cost to consumers of $30.7 million per year when compared to the OCA's proposed hypothetical capital structure. In addition, the OCA claimed that PAWC's proposed debt ratio is "clearly too low" when compared to the Company's proxy group (49%), its parent Company, AWK (55%), and comparable industries (60% to 68%). OCA M.B. at 48-50. In the OCA's view, the use of the hypothetical capital structure is appropriate in cases like this present proceeding to reduce costs to ratepayers, as opposed to increasing costs, where the utility's management proposes an actual capital structure that imposes an unfair cost burden on ratepayers. *Id.* at 50 (citing *T.W. Phillips Gas and Oil Co. v. Pa. PUC*, 474 A.2d 355, 362 (Pa. Cmwlth. 1984); *Carnegie Natural Gas Co. v. Pa. PUC*, 433 A.2d 938 (Pa. Cmwlth. 1981); *Pa. PUC v. Carnegie Natural Gas Co.*, 54 Pa. PUC 381, 393 (1980), *aff'd* by *Carnegie*; and *Big Run Tel. Co. v. Pa. PUC*, 449 A.2d 86, 89 (Pa. Cmwlth. 1982) (*Big Run*)). Moreover, the OCA claimed that a

[74] In discussing its position that PAWC should utilize a hypothetical capital structure, the OCA explicitly stated its proposed hypothetical capital structure for PAWC's water operations. As noted in Section IX.E, *infra*, the OCA's proposed hypothetical capital structure for PAWC's wastewater operations consisted of 48.76% common equity, 46.84% long-term debt, and 4.40% wastewater-specific long-term debt. *See*, OCA St. 2, Exh. LA-6 at 8.

hypothetical capital structure will ensure that wealth is not unfairly transferred from ratepayers to shareholders. OCA R.B. at 30-31.

2. Recommended Decision

The ALJs recommended that the Commission adopt PAWC's proposal to use an actual capital structure. The ALJs found that PAWC's proposed capital structure recognizes the composition of the financing that the Company is currently using, and that it falls within the range of equity ratios of PAWC's Proxy Group. In contrast, the ALJs concluded that the cases cited to by the OCA are inapplicable to the instant proceeding because such cases represent rate proceedings where a company's actual capital structure was inconsistent with a comparable group of utilities. R.D. at 150-51.

3. OCA Exception No. 10 and Replies

In its Exception No. 10, the OCA objects to the ALJs' recommendation to adopt the Company's proposed actual capital structure. The OCA claims that contrary to the ALJs' conclusion, the cases cited by the OCA are not factually different from the proposed capital structure at issue in this proceeding. The OCA restates its position that the Company's proposed capital structure would cost ratepayers an additional $30.7 million per year. The OCA argues that although this amount would be reduced if the Commission adopts the ALJs' recommended reductions to rate base, along with those contained in the OCA's Exceptions, the Company's proposed capital structure still represents an excessive return granted to the Company that results in an overall unreasonable revenue requirement that benefits the Company's shareholders at the expense of its ratepayers. OCA Exc. at 13-15.

The OCA remains of the opinion that its own proposed hypothetical capital structure of 51% equity and 49% debt would more closely match the capital structure to

that of PAWC's proposed Proxy Group, and to PAWC's parent company, AWK. Thus, the OCA insists that the cases it cited in its Main Brief are applicable to this proceeding. The OCA restates its position that the Commission can and should exercise its discretion to impute a capital structure for ratemaking purposes because the use of a hypothetical capital structure is appropriate to reduce costs to ratepayers who would otherwise face an unfair cost burden if an actual capital structure was employed. OCA Exc. at 13, 15.

In reply, PAWC notes that the Commission has rejected the OCA's proposal to utilize a hypothetical capital structure in several recent base rate cases on the same grounds for which it should do so in this instant proceeding. PAWC insists that the OCA's proposed hypothetical capital structure is neither reasonable nor supported by the record evidence. PAWC R. Exc. at 1-3. The Company restates that, as the Commission decided, most recently in *Columbia Water 2024,* an actual capital structure represents [the utility's] decision, over which it has full discretion, on how to capitalize its rate base. *Id.* at 2 (citing *Columbia Water 2024* at 83). PAWC also rebuts the OCA's contention that a hypothetical capital structure of 51% equity and 49% debt would "more closely match" the capital structure of the OCA's proxy group and the capital structure of PAWC's parent company, AWK. Namely, PAWC submits that the OCA's comparison is inapposite because the OCA was relying upon the capital structure of utility holding companies, with corporate level debt from unregulated operations, and not utility operating subsidiaries. Accordingly, the Company submits that the Commission should adopt the ALJs' recommendation to employ an actual capital structure in this proceeding. PAWC R. Exc. at 2-3.

4. Disposition

In setting the appropriate overall rate of return in this proceeding, we shall adopt PAWC's proposal, and the associated recommendation of the ALJs, to use the Company's actual capital structure for both its water and wastewater operations.

Initially, we find it prudent to emphasize, as we have 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. *See, PPL 2012* at 68; *Columbia Gas 2021* at 116; *PECO 2021* at 144; and *Columbia Water 2024* at 83. *See also*, PAWC M.B. at 31. For example, as discussed below, in Section IX.C, PAWC has proposed the following long-term debt cost rates: (1) a cost of long-term debt of 4.71% on a total company basis; (2) a 4.76% cost of long-term debt for water operations; and (3) a 4.76% cost of long-term debt for wastewater operations, in addition to a 2.67% cost rate of long-term debt for wastewater-specific debt issuances. None of the Parties to this proceeding have objected to this proposal. This represents the level of long-term debt funding that the Company has deemed appropriate in capitalizing its rate base.

Next, we note that in *Columbia 2024*, we reaffirmed the legal standard that has been established in Pennsylvania for deciding whether to use a party's proposed hypothetical capital structure in setting rates. We restate this standard, in pertinent part, as follows:

> Absent a finding by the Commission that a utility's actual capital structure is atypical or too heavily weighted on either the debt or equity side, we would not normally exercise our discretion with regard to implementing a hypothetical capital structure.

Columbia Water 2024 at 84; s*ee also, PPL 2012* at 68; *Columbia Gas 2021* at 116-17; *PECO 2021* at 144-45; and *Aqua 2022* at 139.

Applying the above to this instant proceeding, we are not persuaded by the arguments of the OCA that we should preempt the Company's use of its proposed actual capital structure and employ a hypothetical capital structure. As discussed in Section

IX.A, *supra*, we have found that I&E's proxy group should be utilized in this proceeding. As I&E pointed out, the Company's proposed actual capital structure falls within the range of this proxy group's most recently available capital structures, as set forth in Table 11, below.

Table 11: Capital Structures of I&E's Proxy Group Companies

Proxy Group Capital Structure

($ in Millions)

	2022		2021		2020		2019		2018		Average
American Water Works Company, Inc.											
Long-term Debt	$ 10,999,000	58.84%	$ 10,424,000	58.82%	$ 9,414,000	59.33%	$ 8,733,000	58.79%	$ 7,576,000	56.37%	58.43%
Preferred Stock	$ -	0.00%	$ -	0.00%	$ -	0.00%	$ -	0.00%	$ -	0.00%	0.00%
Common Equity	$ 7,693,000	41.16%	$ 7,298,000	41.18%	$ 6,454,000	40.67%	$ 6,121,000	41.21%	$ 5,864,000	43.63%	41.57%
	$ 18,692,000	100.00%	$ 17,722,000	100.00%	$ 15,868,000	100.00%	$ 14,854,000	100.00%	$ 13,440,000	100.00%	100.00%
American States Water Company											
Long-term Debt	476,637	40.18%	595,596	46.47%	584,184	47.66%	492,735	45.03%	376,587	40.28%	43.93%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	709,549	59.82%	685,947	53.53%	641,673	52.34%	601,530	54.97%	558,223	59.72%	56.07%
	1,186,186	100.00%	1,281,543	100.00%	1,225,857	100.00%	1,094,265	100.00%	934,810	100.00%	100.00%
California Water Service Group											
Long-term Debt	1,066,325	44.73%	1,069,395	47.59%	794,968	46.32%	799,682	50.63%	710,027	49.30%	47.71%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	1,317,590	55.27%	1,177,594	52.41%	921,344	53.68%	779,906	49.37%	730,157	50.70%	52.29%
	2,383,915	100.00%	2,246,989	100.00%	1,716,312	100.00%	1,579,588	100.00%	1,440,184	100.00%	100.00%
Middlesex Water Company											
Long-term Debt	293,986	42.22%	310,887	45.67%	278,286	44.41%	236,509	42.05%	152,851	37.83%	42.44%
Preferred Stock	2,084	0.30%	2,084	0.31%	2,084	0.33%	2,084	0.37%	2,433	0.60%	0.38%
Common Equity	400,328	57.49%	367,726	54.02%	346,208	55.25%	323,792	57.57%	248,787	61.57%	57.18%
	696,398	100.00%	680,697	100.00%	626,578	100.00%	562,385	100.00%	404,071	100.00%	100.00%
SJW Group											
Long-term Debt	1,491,965	57.32%	1,492,935	59.07%	1,287,580	58.40%	1,283,597	59.05%	431,424	32.67%	53.30%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	1,110,868	42.68%	1,034,519	40.93%	917,160	41.60%	889,984	40.95%	889,312	67.33%	46.70%
	2,602,833	100.00%	2,527,454	100.00%	2,204,740	100.00%	2,173,581	100.00%	1,320,736	100.00%	100.00%
Five-Year Average Capital Structure											
Long-term Debt	49.16%		Maximum	58.43%	Minimum	42.44%					
Preferred Stock	0.08%										
Common Equity	50.76%		Minimum	41.57%	Maximum	57.18%					
	100.00%										

I&E Exh. 2, Sch 2. As Table 11 indicates, the most recent five-year average range of the individual company capital structure ratios in the proxy group that we shall employ in this proceeding are from 42.44% to 58.43% long-term debt and 41.57% to 57.18% common equity. Therefore, PAWC's proposed actual capital structure of: (1) 44.01% long-term debt and 55.99% common equity for its water operations; (2) 42.73% long-term debt, 4.40% wastewater specific debt (*i.e.*, total long-term debt of 47.30%), and 52.87% common equity for its wastewater operations; and (3) 44.70% long-term debt and 55.30% common equity on a total Company basis are all well within this range. For this reason, we find that PAWC's proposed actual capital structure is neither atypical nor too heavily weighted on either the debt or equity side.

We also disagree with the assertion of the OCA that the cases it cited in support of its use of a hypothetical structure are not factually different from the proposed

capital structure at issue in this proceeding. As the ALJs noted, each of the cases cited by the OCA represent cases where the utility's actual capital structure was *inconsistent* with a comparable group of utilities. For example, in *Big Run*, the Commonwealth Court noted that Big Run proposed a capital structure entirely devoid of debt, which was inconsistent with the average capital structures of the forty-two (42) smallest independent Pennsylvania telephone companies besides Big Run of 53% debt and 42% equity. Therefore, the Commonwealth Court upheld the Commission's decision to employ a hypothetical capital structure. *Big Run* at 296, 302. In contrast, we have established that PAWC's proposed actual capital structure is consistent with a comparable group of utilities, *i.e.*, the companies in the proxy group we have elected to employ in setting the Company's authorized rate of return in this proceeding. In our view, the Company's proposed use of an actual capital structure for both its water operations and its wastewater operations will not impose an unfair burden on its ratepayers.

For each of the above reasons, we shall deny the OCA's Exception No. 10 and adopt the recommendation of the ALJs on this issue.

C. Cost of Debt

1. Positions of the Parties

PAWC proposed the following actual costs of long-term debt: (1) a cost of long-term debt of 4.71% on a total company basis; (2) a 4.76% cost of long-term debt for water operations; and (3) a 4.76% cost of long-term debt for wastewater operations, in addition to a 2.67% cost rate of long-term debt for wastewater-specific debt issuances. PAWC Exh. 13-A at Schs. 11 and 12; Exh. 13-R at Sch 14.

I&E accepted PAWC's claimed cost rate of long-term debt of 4.76% for water and wastewater, as well as its claimed 2.67% cost rate of long-term debt for

wastewater specific issuances. I&E submitted that the Company's claimed cost rates are reasonable and representative of the industry. In this regard, I&E noted that the Company's claimed cost rates on a total company basis, and for its water operations, fall within I&E's proxy group's implied long-term cost of debt range of 3.19% to 5.67%. In addition, I&E reasoned that while the Company's claimed 2.67% cost rate for wastewater specific debt is slightly below this range, it is sufficiently close to the low end of the range, and, therefore, is appropriate to use for this proceeding. I&E M.B. at 48.

The OCA did not oppose the Company's proposed debt cost rates. OCA M.B. at 51; OCA R.B. at 32.

2. Recommended Decision

The ALJs observed that none of the Parties disagreed with PAWC's proposal to use its actual cost of long-term debt, including the specific actual cost of long-term debt that it identified for wastewater services. Therefore, the ALJs recommended that the Company's proposal be adopted. R.D. at 152.

3. Disposition

None of the Parties filed Exceptions on this issue with regard to the ALJs' recommendation. Finding the ALJs' recommendation to be reasonable, and supported by substantial evidence in the record, we shall adopt it without further comment. Accordingly, we shall approve the following long-term debt cost rates for PAWC in this proceeding: (1) a cost of long-term debt of 4.71% on a total company basis; (2) a 4.76% cost of long-term debt for water operations; and (3) a 4.76% cost of long-term debt for wastewater operations, in addition to a 2.67% cost rate of long-term debt for wastewater-specific debt issuances.

D. Cost of Common Equity

1. Methods for Determining the Cost of Equity

a. Discounted Cash Flow Method (DCF)

The DCF method applied to a proxy group of similar utilities has historically been the primary determinant utilized by the Commission in determining the cost of common equity. *Pa. PUC v. City of Lancaster – Bureau of Water*, Docket No. R-2010-2179103 (Order entered July 14, 2011) at 56; *Pa. PUC v. PPL Electric Utilities Corp*., Docket No. R-00049255 (Order entered December 22, 2004) (*PPL 2004*) at 59. The DCF model assumes that the market price of a stock is the present value of the future benefits of holding that stock. These benefits are the future cash flows of holding the stock, *i.e.*, the dividends paid and the proceeds from the ultimate sale of the stock. Because dollars received in the future are worth less than dollars received today, the cash flow must be "discounted" back to the present value at the investor's rate of return.

(1) Positions of the Parties

PAWC used the following single-stage constant growth DCF model, $K_e = (D_0 (1+g))/P + g$, where K_e is the cost of common equity, D_0 is the annualized dividend, P is the current stock price, and g is the growth rate. The Company's dividend yield calculation used the unadjusted dividend yields of the Proxy Group's dividends divided by the average of the closing market prices for the 30-, 90-, and 180-trading days ending October 31, 2023. PAWC then adjusted the dividend yields upward to reflect one-half the average projected growth rate since the companies in the Proxy Group increase their quarterly dividend at various times during the year. PAWC St. 13 at 33-34.

PAWC used long-term forecasts of earnings per share growth from three separate sources: (1) Zacks Investment Research; (2) Thomson as reported by Yahoo! Finance; and (3) *Value Line*. The Company calculated a low end DCF result using the minimum growth rate for each of its Proxy Group companies. Similarly, PAWC calculated a high-end result using the maximum growth rate for each of the Proxy Group companies. Lastly, the Company calculated a mean result using the average growth rate for each Proxy Group company. Based on these calculations, PAWC's DCF-indicated common equity cost rate range is 8.69% to 10.96%, with a mean of 9.60%. PAWC St. 13 at 35-36.

As will be discussed in more detail below, in Section X.D.2, PAWC also made a business risk adjustment and financial risk adjustment to its DCF cost rate. The Company explained that an adjustment is necessary to reflect the increased business risk due to the small size of the Company relative to the Proxy Group. PAWC St. 4 at 47, Sch. DWD-8. Therefore, PAWC added 1.00% to the indicated range of common equity cost rates to reflect the increased business risk. PAWC St. 4 at 50-51. The Company also made a downward adjustment of 0.11% to the indicated range of common equity cost rate to reflect the financial risk of its capital structure compared to that of the Proxy Group. PAWC St. 4 at 51-54, Sch. DWD-9. After applying the 1.00% size adjustment and the negative 0.11% financial risk adjustment to the indicated range of ROEs between 10.09% and 11.09%, PAWC proposed a range of common equity cost rates between 10.98% and 11.98%. PAWC St. 4 at 55.

At the outset, I&E noted its recommendation to use the DCF method is consistent with the methodology historically used by the Commission in base rate proceedings, most recently acknowledged in *UGI Electric 2018* at 104-06, 121. Through the methodologies outlined in its testimony, I&E calculated that the DCF methodology produces a cost of common equity of 8.45%. I&E M.B. at 48-49.

I&E employed the standard DCF model, $K = D_1/P_0 + g$, where K is the cost of common equity, D_1 is the dividend expected during the year, P_0 is the current price of the stock, and g is the expected growth rate of dividends. I&E argued that a representative dividend yield must be calculated over a time frame that avoids problems of both short-term anomalies and stale data. I&E's dividend yield calculation placed equal emphasis on the most recent spot and the 52-week average dividend yields, resulting in an average dividend yield of 2.15%. I&E M.B. at 49-50.

I&E used earnings growth forecasts to calculate its expected growth rate. I&E's earnings forecasts are developed from projected growth rates using 5-year estimates from established forecasting entities for its proxy group of companies, yielding an average 5-year growth forecast of 6.30%. I&E M.B. at 50.

I&E criticized PAWC's DCF analysis for its elimination of low-end results while considering mean and high-end results. The Company did this to support its claim that higher interest rates and yields on government bonds caused utility stocks to underperform. However, I&E avers this adjustment to PAWC's DCF undermines the purpose of utilizing a proxy group of similar water utilities to smooth out anomalous data in the DCF analysis. Additionally, I&E argues that removing low-end results and retaining high-end results inflates the Company's DCF results and skews the ROE higher in PAWC's favor. I&E M.B. at 52-53.

The OCA calculated a 9.40% DCF cost of equity, based on the following DCF model: $k = D_0 (1 + g) / P_0 + g$. However, the OCA made two separate DCF calculations with one using a sustainable growth rate and one using analysts' growth rates. OCA St. 3 at 27-28. To obtain the stock price (P_0), the OCA selected a 30-day average for each company in the proxy group. OCA St. 3 at 20-22. The dividend terms used by the OCA are forward-looking annualized dividends published by Yahoo! Finance (D_0). OCA St. 3 at 22. In the sustainable growth rate DCF model, the OCA used the

projected long-term U.S. growth domestic product (GDP) growth rate (g) of 3.8%. For its analysts' growth rate DCF model, the OCA used projected short-term dividend growth rate estimates published by Value Line. OCA Exh. DJG-6.

The OCA submitted that PAWC's DCF analysis is overstated because it used unsustainable growth rates that are unreasonably high. Specifically, the OCA points out the Company's use of long-term growth projections that exceed long-term growth projections of U.S. gross domestic product (GDP). OCA M.B. at 52.

b. Capital Asset Pricing Model (CAPM)

The CAPM uses the yield on a risk-free interest-bearing obligation (such as those issued by the U.S. Treasury) plus a rate of return premium that is proportional to the systematic risk of an investment. To compute the cost of equity with the CAPM, three components are necessary: (1) a risk-free rate of return (R_f); (2) the beta measure of systematic risk (β); and (3) the market risk premium (R_m-R_f) derived from the total return on the market of equities reduced by the risk-free rate of return. The CAPM specifically accounts for differences in systematic risk (*i.e.*, market risk as measured by the beta) between an individual firm or group of firms and the entire market of equities.

PAWC, I&E, and the OCA each used the following standard CAPM formula:

$$k = R_f + b(R_m - R_f)$$

Where: k = the cost of equity and the remaining terms are as defined above.

Additionally, the Company believes the Empirical Capital Asset Pricing Model (ECAPM) is an appropriate ROE model due to academic research indicating that

the risk-return relationship is different than estimated by the CAPM. Accordingly, the Company states the ECAPM addresses the tendency of the CAPM to underestimate the cost of equity for companies with low beta coefficients. PAWC St. 13 at 42-43.

(1) Positions of the Parties

PAWC calculated a traditional CAPM cost of equity based on three risk-free rates: (1) the current 30-day average yield on 30-year U.S. Treasury bonds, which is 4.84%; (2) the average projected 30-year U.S. Treasury bond yield for the first quarter of 2024 through the first quarter of 2025, which is 4.44%; and (3) the average projected 30-year U.S. Treasury bond yield for 2025 through 2029, which is 3.80%. PAWC utilized various data to calculate a market risk premium range of 7.64% to 8.69%. The Company used the average beta of its Proxy Group companies reported by Bloomberg and the average beta of its Proxy Group companies as reported by *Value Line*. PAWC's ECAPM model calculates the product of the adjusted beta coefficient and the market risk premium and applies a weight of 75% to that result. The model then applies a 25% weight to the market risk premium without any effect from the beta coefficient. PAWC's traditional CAPM produced a 10.15% to 11.17% cost of equity range, while its ECAPM produced a range from 10.73% to 11.50%. PAWC St. 4 at 36-44.

In calculating the CAPM cost of common equity, I&E determined the risk-free rate of return of 4.00% from the projected yield on 10-year Treasury bonds as the most stable risk-free measure. I&E explained that its decision to use 10-year Treasury bonds balanced out issues related to the use of 30-year long-term bonds and short-term T-Bills. I&E used the average of its proxy group betas from *Value Line* of 0.80. To arrive at a representative expected return on the overall stock market, I&E stated that it reviewed *Value Line*'s 1700 stocks and the S&P 500. I&E explained that the result of the overall stock market returns based on its CAPM analysis is 12.05%, which yields a cost of equity result of 10.44%. I&E St. 1 at 31-34.

I&E disagreed with PAWC's use of the CAPM as a means of calculating the Company's ROE. Citing various rate cases where the Commission affirmed the DCF and rejected other methods, including the CAPM, I&E claimed only the DCF should be used to calculate the Company's ROE. I&E also noted that the Commission only varies from the DCF methodology in very specific circumstances, where DCF only results may understate the ROE. In this case, I&E asserted no evidence was presented to indicate I&E's DCF only results understate PAWC's cost of equity. Additionally, I&E disapproved of the CAPM as it can be manipulated based on the inputs used. I&E stated, to calculate the CAPM risk free rate, the Company used 30-year Treasury Bonds which have a high maturity risk and subsequently higher yields. Further, I&E noted the Commission has recognized the 10-year Treasury Note as the appropriate measure of the risk-free rate. Finally, I&E disagreed with PAWC's use of the ECAPM as it has the same flaws as the CAPM but with greater input subjectivity. I&E M.B. at 53-57.

In its CAPM analyses, the OCA used a 30-day average of 30-year Treasury Bond yields to calculate a risk-free rate of 4.42%. OCA St. 3 at 35. The OCA used betas published by *Value Line* for each company in its proxy group. OCA St. 3 at 36. To find the equity risk premium, the OCA relied on expert surveys and an implied equity risk premium (ERP). For an expert survey, the OCA chose the IESE Business School survey. For 2023, this survey reported an average ERP of 5.7%. The OCA calculated the implied equity risk premium by subtracting the risk-free rate from an implied expected market return. Using this data, the OCA estimated the proper CAPM ROE is 8.7%. OCA St. 3 at 39-42.

The OCA disagreed with PAWC's market risk premium, stating the OCA's testimony is more credible than the Company's for two reasons. First, the OCA claims its ERP is more reasonable as it used three ERP sources plus its own ERP estimate. When compared to its ERPs, the OCA states PAWC's risk premium is not within the range of reasonableness established by the OCA's ERPs. Second, the OCA avers the

Company is suggesting its risk premium is more accurate than the OCA's ERPs, which are based on estimates published by independent sources. OCA M.B. at 53-55.

c. Recommended Decision

The ALJs recommended adopting a ROE based on both the DCF and CAPM models, consistent with the Commission's decisions in *Aqua 2022* and *Columbia Water 2024*.[75] At the outset, the ALJs noted that they agreed with PAWC's position that I&E's sole reliance on the DCF model is flawed. The ALJs observed that I&E cited previous Commission decisions that accepted only the DCF model. However, the ALJs stated that PAWC correctly asserted more recently the Commission adopted the use of both the DCF and CAPM models to determine the ROE in *Aqua 2022* and *Columbia Water 2024*. Moreover, the ALJs were convinced by PAWC's argument that economic factors that led to the Commission's decision in *Aqua 2022* and *Columbia Water 2024*, such as high inflation, high interest rates, and high capital costs, still existed during this proceeding and are likely to persist. The ALJs also stated I&E used a spot dividend yield and a 52-week dividend yield for its DCF model and 10-year Treasury notes for its CAPM, which is the same as I&E's models adopted by the Commission in *Aqua 2022* and *Columbia Water 2024*. Therefore, the ALJs recommended adopting a ROE based on both the DCF and CAPM models, consistent with the Commission's decisions in *Aqua 2022* and *Columbia Water 2024*. Lastly, the ALJs recommended the Commission reject PAWC's ECAPM analysis because it introduces subjectivity to the CAPM analysis by reducing reliance on the company-specific beta. Although the ALJs agreed with PAWC that both the DCF and CAPM models should be used, they recommended the use of I&E's DCF and CAPM models. The ALJs noted this is also consistent with the Commission's decision in *Aqua 2022* and *Columbia Water 2024*. R.D. at 167-69.

[75] As discussed below, in Section IX.D.3, the ALJs recommended that I&E's DCF and CAPM results be averaged in arriving at the appropriate ROE in this proceeding. *See*, R.D. at 167.

d. Exceptions and Replies

(1) PAWC Exception No. 1 and Replies

In its Exception No. 1, PAWC contends that the ALJs erred by relying on I&E's DCF and CAPM results in calculating its recommended ROE. As discussed in section IX.A, the Company contends I&E's proxy group is flawed. Therefore, PAWC submits that by accepting I&E's proxy group, the ALJs also erred by subsequently utilizing I&E's DCF and CAPM calculations. PAWC submits that if the Commission instead utilizes the Company's Proxy Group, this will correct the ALJs' errors and will produce a more appropriate ROE. PAWC Exc. at 2-4.

In response, I&E notes PAWC's Exception No. 1 is based on the ALJs use of I&E's proxy group to determine the ROE, as discussed in Section IX.A, *supra*. Therefore, I&E disagrees with PAWC that its DCF and CAPM calculations are erroneous based on I&E's proxy group. I&E R. Exc. at 1, 4.

In its Reply to PAWC's Exception 1, the OCA claims the Commission should deny PAWC's arguments as no Party had an opportunity to respond on the record to the averaging of I&E's DCF and CAPM results, discussed, *infra,* while also utilizing the Company's Proxy Group. According to the OCA, rather than making a decision based on the record, granting PAWC Exception No. 1 would place the Commission in the role of creating a record to justify its decision. OCA R. Exc. at 9.

(2) I&E Exception No. 1 and Replies

In its Exception No. 1, I&E contends that the ALJs erred by recommending the use of I&E's DCF and CAPM results. I&E alleges the Recommended Decision is flawed due to the ALJs' reasoning that I&E did not use its CAPM as a comparison to its

DCF result. Responding to the ALJs reasoning, I&E claims it did use the CAPM as a comparison to its DCF results. However, I&E clarifies that the CAPM is a less reliable model because it measures the cost of equity indirectly and can be manipulated by the time period used. I&E insists that the DCF is more reliable as it measures the cost of equity directly by calculating the discounted present value of future cash flows. I&E Exc. at 3-5.

In its Reply to I&E's Exception No. 1, PAWC maintains the ALJs correctly used both the DCF and CAPM results. The Company states the ALJs properly noted that the Commission has recently adopted the use of both the DCF and CAPM methodologies to determine the ROE in *Aqua 2022* and *Columbia Water 2024*. PAWC notes the ALJs' explanation that the DCF is slow to respond to interest rate changes, as it does not directly account for interest rates. Furthermore, PAWC states the ALJs were convinced by the Company's argument that the conditions that led to the Commission's ROE determinations in *Aqua 2022* and *Columbia Water 2024* still exist during this proceeding. PAWC R. Exc. at 3-4.

In its Reply to I&E's Exception No. 1, the OCA agrees with I&E's Exception No. 1 that the ALJs erred by averaging I&E's DCF and CAPM ROE results. The OCA believes the Commission should select a ROE from the on-the-record testimony of one of the parties in this case based on a fully substantiated cost of equity analysis. The OCA claims it did not have an opportunity in rebuttal or surrebuttal testimony to address I&E's CAPM and averaging I&E's DCF and CAPM. Further, the OCA argues that since I&E did not give its CAPM any weight when recommending a ROE, the OCA did not respond to I&E's CAPM. Therefore, the OCA avers it was denied due process as it did not have an opportunity to be heard at a meaningful time and in a meaningful manner. OCA R. Exc. at 7-8, citing *Montefiore Hospital Ass'n of Western Pa. v. Pa. PUC*, 421 A.2d 481, 484 (Pa. Cmwlth. 1980) (*Montefiore*). OCA R. Exc. at 7-8.

(3) OCA Exception No. 11 and Replies

In its Exception No. 11, the OCA claims the ALJs erred by using the average of I&E's DCF and CAPM analysis. The OCA avers the ALJs modified I&E's recommendation by averaging I&E's DCF and CAPM results, although I&E did not recommend this method. By using both DCF and CAPM results, the OCA maintains it provided an accurate assessment of PAWC's ROE as it measures market risk and its impact on individual companies. OCA Exc. at 15-17.

In its Reply to the OCA's Exception No. 11, PAWC contends that the OCA's criticism of the long-term growth rate used in its DCF does not meet the OCA's own standard. Second, the Company notes that the OCA used an ERP based on surveys and its own calculations. PAWC argues that its ERP based on *Value Line* projected growth rates is more accurate, as it is consistent with historical equity returns. PAWC R. Exc. No. 11 at 6-7.

e. Disposition

Based on the record, we agree with the ALJs that it is appropriate to consider the CAPM results, in addition to the DCF results, to determine PAWC's ROE. We concur with the ALJs' determination that:

> PAWC correctly noted that more recently the Commission adopted use of both the DCF and CAPM models to determine ROE in *Aqua 2022* and *Columbia Water 2024*. PAWC convincingly argued that the conditions that lead [sic] the Commission to its determinations in *Aqua 2022* and *Columbia Water 2024*, i.e., higher inflation and associated higher interest rates and capital costs, still exist and are likely to continue.

R.D. at 168.

In *Aqua 2022* and *Columbia Water 2024*, the Commission determined the ROE by using informed judgement based on I&E's DCF and CAPM methodologies. Based on our above determination to deny PAWC's Exception No. 1, we agree with the ALJs' recommendation to employ I&E's DCF and CAPM results based on its proxy group. We agree with the ALJs that I&E's DCF model correctly considers spot price, the 52-week high and 52-week low price in the calculation of the average spot dividend yield and average 52-week dividend yield. Although I&E did not recommend its CAPM as a method to determine PAWC's ROE, I&E did present its CAPM analysis in testimony and briefed the ALJs as to the veracity of its CAPM inputs. I&E M.B. at 48-51. Additionally, we agree with the ALJs that I&E's CAPM appropriately uses 10-year Treasury notes and eliminates the shortcomings of using short term Treasury bills or 30-year long-term Treasury bonds. R.D. at 168-69. Therefore, we will disregard the Company's and the OCA's DCF and CAPM results and base our recommended ROE on the results of I&E's DCF and CAPM analyses. Therefore, we shall deny PAWC's Exception No. 1, I&E's Exception No. 1, and the OCA's Exception No. 11 on this issue.

2. Business Risks and Management Performance

a. Positions of the Parties

PAWC sought an upward adjustment of twenty-five basis points to its ROE claim in recognition of the Company's business risks and management performance. Both I&E and the OCA opposed any such allowance.

PAWC identified several business risks that the Company faces, including: (1) risks associated with the Company's capital expenditure program to combat aging infrastructure; (2) risks associated with environmental and water quality regulations; and

(3) flotation costs.[76] PAWC submitted that these risks should be viewed in comparison to the companies in its Proxy Group. PAWC represented that its alternative ratemaking proposals, *infra*, will not reduce its risk in comparison to these companies. Next, PAWC claimed that it has exhibited excellent management performance in a variety of areas critically important to providing safe and reliable service, including the Company's: (1) industry-leading programs to assist low-income and payment-troubled customers; (2) environmental record and commitment to water quality; (3) strong safety performance; (4) commitment to operational and water efficiency for the benefit of its customers; (5) significant infrastructure investment; (6) community engagement and consumer education initiatives; (7) efforts to support the long standing policy of the Commission and the PADEP to eliminate the problems of small, troubled and nonviable water and wastewater systems by acquiring those systems and making the improvements needed to achieve and continue to provide safe and reliable service; and (8) efforts to extend service to meet the needs of customers without access to safe and reliable water service. PAWC M.B. at 52-53.

PAWC submitted that under Section 523 of the Code, 66 Pa.C.S. § 523, the Commission considers the management performance of a utility and, where appropriate, may include an upward adjustment to the utility's ROE for management effectiveness. Accordingly, PAWC insisted that its superior management performance should be appropriately recognized by granting the Company a ROE at the upper end of the range of 10.00% to 11.25% that it sought. Alternatively, PAWC submitted that if the Commission were to authorize a ROE less than 10.95%, then it should award the

[76] Flotation costs are associated with the sale of new issues of common stock. According to PAWC, to the extent that a utility is denied the opportunity to recover prudently incurred flotation costs, actual returns will fall short of expected (or required) returns, thereby diluting equity share value. Flotation costs are part of the invested costs of the utility and are not otherwise recovered. PAWC M.B. at 52.

Company an upward adjustment of no less than 25 basis points for business risks and management performance.[77] PAWC M.B. at 53; PAWC R.B. at 40-47.

I&E submitted that PAWC's claimed business risk is already accounted for in the proxy group proffered by I&E and does not need to be further accounted for when setting the Company's ROE. I&E argued, *inter alia*: (1) that infrastructure is a common problem for water and wastewater utilities in Pennsylvania that generally requires significant investment; (2) that flotation costs accounted for and recovered as an O&M expense or they are amortized over time on the books of the issuing company such that it would be inappropriate to account for the potential impact thereof through the awarding of an upward adjustment to ROE; and (3) the DSIC, which allows PAWC to recover the costs associated with replacing and repairing aging water and wastewater infrastructure already serves to lessen the Company's business risk. Thus, I&E took the position that nothing on the record demonstrates that PAWC faces any extraordinary risk in comparison to other water and wastewater utilities. I&E M.B. at 59-60.

As to the Company's claimed superior management performance, I&E countered that the true measure of strong management performance is earning a higher return through efficient use of resources and cost cutting measures, resulting in a higher level of net income available to be passed on to shareholders. In I&E's view, no utility should reap additional rewards for simply meeting its statutory obligation under Section 1501 of the Code, 66 Pa.C.S. § 1501, to provide safe and reliable service through the administration of programs funded by ratepayers. I&E submitted that if the Company is as effective at controlling operating and maintenance costs as it argues, those savings should flow through to its ratepayers and/or investors. At the same time, I&E contended that PAWC's claimed savings to its ratepayers would likely be offset by the addition of basis points for management performance, as ratepayers would have to fund the

[77] The specific proposed ROEs of PAWC, I&E, and the OCA are discussed in Section IX.D.3 of this Opinion and Order.

additional costs. I&E M.B. at 60-63. Moreover, I&E argued that a review of the recent Management and Operations Audit Report, prepared by the Commission's Bureau of Audits (Audits), illustrates that out of the twelve functional areas examined in the audit, PAWC did not meet expectations in any. *Id.* at 64 (citing Management and Operations Audit of Pennsylvania-American Water Company, Docket No. D-2022-3035217 (released October 2023) (*2023 Management Audit*)). As such, I&E submitted that the Commission should reject, in its entirety, the Company's request for an upward adjustment of twenty-five basis points to its ROE. I&E M.B. at 64-65.

The OCA, likewise, opposed any upward adjustment to PAWC's ROE for either its claimed business risk or its claimed superior management performance. According to the OCA, the Commission would be acting outside the zone of reasonableness to grant PAWC's request for an upward adjustment, which results in nothing more than unsubstantiated and excessive rates. In the OCA's view, although Section 523 of the Code authorizes the Commission to *consider* the efficiency, effectiveness, and adequacy of service when determining just and reasonable rates, under no circumstances is the Commission obliged to *grant* an upward adjustment for management performance. The OCA reasoned that it would be neither proper nor appropriate for the Commission to award shareholder interests based upon the utility's prudent managerial performance when shareholders themselves cannot expect to earn an additional ROE for a firm's prudent managerial performance when the shareholders invest in competitive firms in the marketplace. OCA M.B. at 55-57.

The OCA also claimed that the Company has failed to justify its requested upward adjustment. In this regard, the OCA submitted that while PAWC represented that it took "superior management performance" into consideration in making its proposed 10.95% ROE, the Company's witness, Ms. Bulkley, admitted at the hearing that neither the Company's DCF model, nor its CAPM analysis accounted for managerial performance. OCA M.B. at 57-58 (citing Tr. at 2113). Additionally, the OCA argued

that the Company's specific request for an upward adjustment of twenty-five basis points was arbitrary and unsupported by the record. For this reason, the OCA took the position that it would also be arbitrary for the Commission to award the Company an upward adjustment in this amount. Furthermore, the OCA claimed that the Company has not demonstrated that its managerial performance is exemplary in all areas of service to its customers. Rather, the OCA submitted that PAWC has, at best, demonstrated that it is meeting its obligations under Section 1501 of the Code, and in some instances has demonstrated less than exemplary management. Namely, the OCA asserted that PAWC has failed to respond, and is not responding, to the issues related to long-term arrears that have now been presented in two management audits; and that the Company has demonstrated poor performance in several other areas of customer service. The OCA further pointed to "the unprecedented volume of customer opposition" to this rate proceeding. OCA M.B. at 58-59; OCA R.B. at 36-39.

b. Recommended Decision

The ALJs recommended that the Commission award an upward adjustment of ten basis points to PAWC's cost of common equity in recognition of the Company's business risks and management performance. According to the ALJs, this adjustment is warranted because the Company has completed sixteen acquisitions of very small, less-viable water and wastewater systems over the last ten years. The ALJs stressed that the Company has completed the acquisitions of systems that were not, at the time of acquisition, providing adequate, efficient, safe, and reasonable service, and in some instances where the Company also acted as a receiver prior to acquisition. Specifically, the ALJs pointed to PAWC's acquisitions of Delaware Sewer Company (Delaware Sewer) and Winola Water Company (Winola Water). The ALJs noted that the Commission's Policy Statement regarding incentives for the acquisition of small nonviable water and wastewater systems, set forth in the Commission's Regulations at 52 Pa. Code § 69.711, explicitly contemplates the awarding of upward adjustments to a

utility's rate of return to encourage the acquisition of such systems. The ALJs further stated that PAWC's assertion that it provides service to customers in extraordinary circumstances further supports an upward adjustment. R.D. at 183. The ALJs noted that in *Aqua 2022*, the Commission awarded an upward adjustment to Aqua in recognition of similar efforts. *Id.* (citing *Aqua 2022* at 169).

The ALJs disagreed with the OCA's arguments that awarding an upward adjustment for management performance would cause the Commission to act outside the zone of reasonableness and that the adder will result in unsubstantiated and excessive rates. According to the ALJs, the Company's willingness to provide aid to other water and wastewater providers indicates that the Company is doing more than is required under Section 1501 of the Code. At the same time, however, the ALJs agreed with the OCA that the record does not support awarding the Company the full twenty-five basis points upward adjustment that it sought. In this regard, the ALJs concurred with the OCA that PAWC has not demonstrated that its service is exemplary in all areas. Rather, the ALJs found that the activities PAWC cited in favor of its requested upward adjustment of twenty-five basis points simply demonstrated that the Company is complying with its public service obligations under Section 1501 of the Code. The ALJs further pointed to the significant amount of criticism voiced by PAWC's customers, through the filing of complaints and/or participation at public input hearings, as justification for recommending that the Commission award an upward adjustment of ten basis points, in lieu of the full amount requested by the Company. R.D. at 183-84.

c. Exceptions and Replies

(1) PAWC Exception No. 2 and Replies

In its Exception No. 2, PAWC finds fault with the ALJs' recommendation that the Commission award an upward adjustment of ten basis points, rather than the full

upward adjustment of twenty-five basis points requested by the Company. PAWC notes that in recommending a reduced upward adjustment, the ALJs referenced the Commission's decision in *Aqua 2022*. However, PAWC submits that in *Aqua 2022*, the Commission awarded Aqua an upward adjustment of twenty-five basis points to its ROE. PAWC continues that the Commission awarded this adjustment based solely on Aqua's history of service to troubled communities. PAWC reasons that nowhere in its analysis did the Commission reference any finding of Aqua's extraordinary or exemplary performance "in all areas," nor is any such requirement imposed under Section 523 of the Code. PAWC Exc. at 10-11 (citing *Aqua 2022* at 168-73).

The Company highlights that similar to the Commission's decision in *Aqua 2022,* the ALJs recommended an upward adjustment to PAWC's ROE based entirely on PAWC's history of acquiring sixteen small, less viable water and wastewater systems in the last ten years, including systems that were not providing adequate, safe, and reasonable service; and PAWC's history of providing service to customers in extraordinary circumstances. However, PAWC claims that the ALJs erred in recommending that the Company's requested upward adjustment be reduced based upon a finding that PAWC did not show that its service was "exemplary in all areas." PAWC insists that the ALJs did nothing to demonstrate that the Commission's decision in *Aqua 2022* is distinguishable from the instant proceeding. Accordingly, PAWC argues that the Commission should modify the Recommended Decision and award the Company an upward adjustment of twenty-five basis points to its ROE. PAWC Exc. at 10-12.

In its reply to PAWC's Exception No. 2, I&E restates its position that no utility should be awarded additional rate of return basis points for doing what it is required to do to meet its obligation to provide adequate, efficient, safe, and reasonable service in accordance with Section 1501 of the Code, or for increasing profits, as it is incentivized to do by its board of directors and shareholders. Therefore, as it discussed in its own Exceptions, *infra*, I&E is of the opinion that while the Commission should deny

PAWC's Exception No. 2, it also should not award the Company *any* upward adjustment to its ROE for management performance. I&E R. Exc. at 5.

In its reply to the Company's Exception No. 2, the OCA stresses its position that there is neither a constitutional nor a statutory requirement that a public utility be awarded an upward adjustment to its ROE for management performance. Rather, the OCA submits that the Commission has discretion on whether to award such an adjustment, based upon the specific record evidence. Similar to I&E, *supra*, the OCA asserts that based upon the record in this proceeding, the Commission should deny PAWC's Exception No. 2, but should also deny the Company's request for an upward adjustment to its ROE in its entirety. The OCA asserts that even an upward adjustment of ten basis points would unnecessarily increase consumer rates by more than $4.52 million per year. The OCA restates its position that there is no evidentiary basis for such an increase because PAWC has not demonstrated that its overall management performance is exemplary. Moreover, the OCA submits that PAWC has failed to demonstrate that its performance related to the sixteen acquisitions or its willingness to act as a receiver of certain systems is worthy of a management performance adjustment. OCA R. Exc. at 11-12.

(2) I&E Exception No. 2, OCA Exception Nos. 1 and 12, and Replies

In its Exception No. 2, I&E emphasizes its position that the ALJs erred by recommending that the Company be awarded *any* upward adjustment to its ROE for business risk or management performance. I&E restates its argument that awarding the Company an upward adjustment would erode any cost-saving measures that PAWC may be implementing. Additionally, I&E submits that while it is true that PAWC has acquired many small and potentially less viable water and wastewater systems, the Company passes on the capital expenditures related to these acquisitions to its ratepayers.

Therefore, I&E opines that without a sound reason beyond the Company's acquisition of systems, which ratepayers ultimately pay for, no upward adjustment for business risk or management performance is warranted. Moreover, I&E stresses that because this is PAWC's third requested rate increase in the last four years, an upward adjustment would only further burden the Company's ratepayers. I&E Exc. at 5-8.

In its Exception No. 1, the OCA opposes Finding of Fact No. 44, which states that "[i]n the last ten years the Company has completed sixteen acquisitions of very small, less-viable water and wastewater systems with less than 1,000 customers each." OCA Exc. at 4 (citing R.D. at 12; additional citations omitted). According to the OCA, the ALJs erred in making this finding of fact because they failed to specify or identify the sixteen acquisitions to which they referred. As a result, the OCA asserts that there is no evidentiary basis for the ALJs to have made their associated recommendation that these acquisitions warrant an upward adjustment to the Company's ROE. OCA Exc. at 4.

In its Exception No. 12, the OCA argues that the ALJs correctly concluded that PAWC's testimony of activities it referenced in support of its twenty-five basis points adjustment better reflects the Company's compliance with its public service obligations under the law, rather than any provision of extraordinary service. The OCA also agrees with the ALJs' finding that the significant amount of criticism voiced by PAWC customers through, *inter alia*, participation at public input hearings, merits against awarding the Company its requested adjustment. However, similar to I&E, *supra*, the OCA submits that the ALJs erred by recommending that the Commission award the Company *any* upward adjustment to its ROE. OCA Exc. at 18-23.

According to the OCA, the ALJs' citation to the Commission's "explicit endorsement" of rate return premiums in the Commission's Policy Statement at

52 Pa. Code § 69.711(b)(1)[78] was erroneous because the ALJs did not make any specific findings that the Company satisfied the requirements under 52 Pa. Code § 69.711(a), [79] that must first be met in order for the Commission to give consideration to a utility's proposed acquisition incentive. The OCA restates its position that the ALJs failed to specify or identify the sixteen acquisitions to which they referred. Additionally, the OCA contends that the Company failed to develop a record with substantial evidence to, at a minimum, identify the sixteen acquisitions and to demonstrate that each acquisition has met the criteria set forth in Section 69.711(a) of the Commission's Regulations. As to the Company's acquisitions of Delaware Sewer and Winola Water, the OCA argues that PAWC did not acquire these systems voluntarily. Instead, the OCA notes that the Commission directed the Company to acquire these systems pursuant to Section 529 of the Code. According to the OCA, Section 529 makes it the public service obligation of a "capable public utility," like PAWC, to acquire a "small water or sewer utility" pursuant to a Commission order, when certain conditions exist. Thus, the OCA submits that such

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[78] This section states, as follows:

> (b) Acquisition incentives. In its efforts to foster acquisition of suitable water and wastewater systems by viable utilities when the acquisitions are in the public interest, the Commission seeks to assist these acquisitions by permitting the use of a number of regulatory incentives. Accordingly, the Commission will consider the following acquisitions incentives:
>
> (1) Rate of return premiums. Under 66 Pa.C.S. § 523 (relating to performance factor considerations), additional rate of return basis points may be awarded for certain acquisitions and for certain associated improvement costs, based on sufficient supporting data submitted by the acquiring utility within its rate case filing. The rate of return premium as an acquisition incentive may be the most straightforward and its use is encouraged.

52 Pa Code § 69.711(b)(1).

acquisitions do not demonstrate extraordinary management performance and do not merit the awarding of an upward adjustment to the Company's ROE. OCA Exc. at 18-20.

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[79] This section states, in pertinent part, as follows:

> The following parameters shall first be met in order for Commission consideration of a utility's proposed acquisition incentive. It should be demonstrated that:
>
> (1) The acquisition serves the general public interest.
> (2) The acquiring utility meets the criteria of viability that will not be impaired by the acquisition; that it maintains the managerial, technical and financial capabilities to safely and adequately operate the acquired system, in compliance with 66 Pa.C.S. (relating to the [Code]), the Pennsylvania Safe Drinking Water Act (35 P. S. § § 721.1—721.17) and other requisite regulatory requirements on a short and long-term basis.
> (3) The acquired system has less than 3,300 customer connections; the acquired system is not viable; it is in violation of statutory or regulatory standards concerning the safety, adequacy, efficiency or reasonableness of service and facilities; and that it has failed to comply, within a reasonable period of time, with any order of the [PADEP] or the Commission.
> (4) The acquired system's ratepayers should be provided with improved service in the future, with the necessary plant improvements being completed within a reasonable period of time.
> (5) The purchase price of the acquisition is fair and reasonable and the acquisition has been conducted through arm's length negotiations.
> (6) The concept of single tariff pricing should be applied to the rates of the acquired system, to the extent that it is reasonable. Under certain circumstances of extreme differences in rates, or of affordability concerns, consideration should be given to a phase-in of the rate difference over a reasonable period of time.

52 Pa. Code § 69.711(a).

The OCA stresses its position that the standards set forth in *Bluefield* and *Hope Natural Gas, supra*, do not establish the concept of a fair rate of return as a "quid-pro-quo" concept where non-market-based increments to cost of equity are awarded to a utility's shareholders in return for a utility's management operating the utility in a prudent manner as required by law. As such, the OCA maintains that the Commission is not obligated to award an upward adjustment for management performance. Rather, the OCA argues, the Company's request is at the discretion of the Commission. The OCA submits that because the Company has failed to support its request, the Commission should reject its claim in its entirety and modify the Recommended Decision accordingly. According to the OCA, doing so will send a clear signal to water utilities that they must demonstrate exemplary service related to the acquisition of, and improvements to, small, non-viable systems. OCA Exc. at 21-23.

In its Replies to Exceptions, PAWC rebuts that the ALJs correctly concluded that an upward adjustment to the Company's ROE is warranted. PAWC submits that no Party objected to the testimony of the Company's witness, Ms. Ashley Everette, regarding the Company's sixteen acquisitions of very small, less-viable water and wastewater systems over the last ten years. PAWC R. Exc. at 7-9. PAWC also insists that the OCA has mischaracterized the Company's acquisitions of Delaware Sewer and Winola Water. Namely, PAWC avers that it: (1) voluntarily acquired Delaware Sewer after a settlement of a proceeding initiated by Delaware Sewer, and not the Commission; and (2) voluntarily acquired Winola Water after a settlement in that proceeding following the Company being appointed as a receiver. *Id.* at 9 (citing *Delaware Sewer 2020* and *Winola Water 2020*).

Further, PAWC argues that although it did not detail every investment it made in the sixteen systems it acquired, the Company's witness, Mr. Bruce Aiton testified to PAWC's extensive investments in troubled water systems. PAWC R. Exc. at 9 (citing PAWC St. 3-R at 10-11). Based on the above, PAWC submits that the

assertions of I&E and the OCA that any upward adjustment is improper because acquisitions of troubled systems are simply an obligation of a regulated water utility and may increase customers' rates plainly ignore: (1) Section 523 of the Code; (2) Commission precedent; and (3) the Commission's policies explicitly authorizing an upward adjustment to the ROE for water and wastewater utilities to foster the acquisition of small water and wastewater systems. Accordingly, PAWC claims that the Commission should deny the Exceptions of both I&E and the OCA on this issue and should grant PAWC's Exception No. 2, *supra,* by awarding an upward adjustment of twenty-five basis points in recognition of the Company's efforts. PAWC R. Exc. at 10.

d. Disposition

Pursuant to the Code, the Commission may reward utilities through rates for their performance. In pertinent part, Section 523 of the Code, 66 Pa.C.S. § 523 provides:

> **§ 523. Performance factor consideration.**
>
> (a) **Considerations.** – The Commission shall consider, in addition to all other relevant evidence of record, the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates under this title. On the basis of the commission's consideration of such evidence, it shall give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate. Any adjustment made under this section shall be made on the basis of specific findings upon evidence of record, which findings shall be set forth explicitly, together with their underlying rationale, in the final order of the commission.
>
> (b) **Fixed utilities.** – As part of its duties pursuant to subsection (a), the commission shall set forth criteria by which it will evaluate future fixed utility performance and in

> assessing the performance of a fixed utility pursuant to subsection (a), the commission shall consider specifically the following:
>
> (1) Management effectiveness and operating efficiency as measured by an audit pursuant to Section 516 (relating to audits of certain utilities) to the extent that the audit or portions of the audit have been properly introduced by a party into the record of the proceeding in accordance with applicable rules of evidence and procedure.
>
> * * *
>
> (4) Action or failure to act to encourage development of cost-effective energy supply alternatives such as conservation or load management, cogeneration or small power production for electric and gas utilities.
>
> * * *
>
> (7) Any other relevant and material evidence of efficiency, effectiveness and adequacy of service.

66 Pa.C.S. § 523.

Based on the record evidence and the arguments of the Parties, we concur with the positions of I&E and the OCA that PAWC's requested upward adjustment to its ROE for management performance should be denied in its entirety. Accordingly, we shall modify the recommendation of the ALJs consistent with the following discussion.

The Company claims it has presented evidence demonstrating that its performance in a variety of critical areas related to providing safe and reliable service, including, but not limited to, water quality, operational efficiency, and infrastructure investments warrants an upward adjustment to its ROE. We disagree. As discussed in Section III of this Opinion and Order, *supra*, there has been substantial negative input from the public regarding PAWC's quality-of-service, particularly in the northeastern

Pennsylvania region of the Company's service territory. As such, we find it inappropriate to award an upward adjustment to the Company's ROE in this proceeding. In our view, awarding PAWC's requested additional basis points to its ROE would conflict with precedent for granting such ROE adders. More specifically, such upward adjustments are awarded where the utility has clearly demonstrated extraordinary service worthy of recognition and reward. *See*, 66 Pa.C.S. § 523, *supra*; *Aqua 2022* at 380. While PAWC has exhibited evidence to substantiate a rate increase in this matter, the record evidence in this proceeding, along with the public input discussed in Section III of this Opinion and Order, do not exhibit service quality and effectiveness to a level warranting an upward adjustment to the Company's ROE.

In addition to the above, we find that both I&E and the OCA provided additional evidence to demonstrate that an upward adjustment to the Company's ROE for management performance is not warranted in this proceeding. For example, the OCA provided evidence to demonstrate that PAWC has not addressed issues related to arrears (*i.e.*, "bills behind").[80] Specifically, the OCA demonstrated that PAWC's collections performance was deficient when compared to the performance of Pennsylvania's other large water utility, Aqua PA. Using 2022 data, the OCA noted that, when compared to Aqua PA, PAWC had: (1) a higher percentage of its residential billings in debt (6.3% versus 4.03%); (2) a higher percentage of its residential customers in debt (17.4% vs. 13.8%); and (3) a disproportionate number of residential disconnections. Namely, PAWC disconnected its residential customers at a rate of 3.83%, which is a rate of more than three times higher than Aqua PA's rate of 1.35%. *See*, OCA R.B. at 36-37; OCA St. 5 at 113-14.

[80] Measuring "bills behind" allows a utility not only to compare its collection performance between time periods (which may have differing bill levels), but between utilities as well. OCA St. 5 at 114.

The OCA also provided additional evidence to show that the Company cannot be found to have demonstrated superior management in several areas of customer service. These areas are summarized, as follows:

1. Customer Complaints: in 2022, the most recent year for which complete data is available, the Commission's Bureau of Consumer Services (BCS) received 681 consumer complaints from PAWC's customers. Of those complaints, BCS found 25% of these complaints to be "justified.[81]" This rate of justified complaints was 25% higher than Aqua PA, which had a 2022 justified complaint rate of 20%, and nearly two times higher than the justified complaint rate of other Class A water utilities in Pennsylvania. In addition, the 686 PAWC complaints found to be justified in the first three quarters of 2023 represented a 29% increase from the 532 justified complaints in the first three quarters of 2022.

2. Payment Arrangements: In 2022, the last year for which complete data was available, the number of PAWC's justified payment arrangement requests to BCS was more than four times higher than the number of Aqua PA requests, despite PAWC having just over half (53%) of all residential water customers.

3. Verified infractions: Through the first three quarters of 2023, the Company had 191 "verified infractions," which was 50% more than Aqua PA. Of those, 185 (97%) involved infractions of the standards for billing practices for residential public utility service outlined in Chapter 56 of the Commission's Regulations at 52 Pa. Code § 56. Moreover, these verified infractions remained at a level nearly six times higher than prior to the COVID pandemic. More specifically, in the first three quarters of 2019, BCS reported that the Company had a total of 34 verified infractions.

[81] A justified Payment Arrangement Request is one, where, prior to BCS intervention, the Company did not comply with Commission regulations, reports, Secretarial Letters, tariffs or guidelines. OCA St. 5 at 117.

4. Customer Surveys: PAWC has not compiled information that could have been used to assess how the Company might improve its customer satisfaction or its collections outcomes from customers. Additionally, the Company's quarterly surveys that it conducts are not targeted toward Confirmed Low-Income customers or toward Bill Discount Program participants.

OCA R.B. at 37; OCA St. 5 at 116-21.

Further, I&E highlighted the *2023 Management Audit.* More specifically, Audits found it was necessary for PAWC to make either a minor improvement or a moderate improvement in the following functional areas: (1) Executive Management and Organizational Structure; (2) Corporate Governance; (3) Cost Allocations and Affiliated Interests; (4) Financial Management; (5) Water Operations; (6) Wastewater Operations; (7) Emergency Preparedness; (8) Purchasing and Materials Management; (9) Customer Service; (10) Information Technology; (11) Fleet Management; and (12) Human Resources Diversity. *See*, I&E M.B. at 74-75 (citing *2023 Management Audit*). In summary, we find that each of the examples proffered by I&E and the OCA provide additional persuasive evidence for why it is not appropriate to award the Company an upward adjustment to its ROE in this proceeding.

Consistent with the above discussion, we shall deny PAWC's Exception No. 2. In addition, we shall grant I&E's Exception No. 2, and the OCA's Exception Nos. 1 and 12. Finally, we shall reverse the recommendation of the ALJs on this issue and reject PAWC's request for an upward adjustment to its ROE for management performance. Instead, as noted in Section X.D.3, *infra*, we shall authorize a total ROE for the Company of 9.45%.

3. Rate of Return on Common Equity

a. Positions of the Parties

PAWC notes in *Columbia Water 2024*, the Commission recognized the need to use both the DCF and CAPM in times of high inflation and high interest rates. Consistent with *Columbia Water 2024,* and based upon its DCF and CAPM results and consideration of the Company's business, financial and regulatory risks, and its management performance, PAWC sought a ROE of 10.95%. PAWC M.B. at 43-44.

I&E recommended a DCF-based 8.45% ROE for the Company. I&E stressed its position that the DCF measures the cost of equity directly, recognizes the time value of money, is forward-looking, and has wide-spread regulatory acceptance. I&E submitted that for a point of comparison, its 10.44% CAPM ROE confirms the reasonableness of its 8.45% DCF ROE calculation. As the CAPM measures the cost of equity indirectly and can be manipulated by the time period used, I&E gave no specific weight to its CAPM ROE. I&E stated that while the CAPM is also forward-looking and is based on the concept of risk and return, it has flaws that should discount its use to determine PAWC's ROE. I&E M.B. at 48-51.

The OCA recommended a 9.1% ROE. The OCA calculated this ROE by taking the average of its DCF ROE (9.4%) and its CAPM ROE (8.7%). The OCA noted that its recommended ROE of 9.1% falls within PAWC's DCF range. Therefore, the OCA claimed its recommended ROE balances the interests of investors and consumers. However, the OCA argued that if the Commission accepts PAWC's actual capital structure and/or adopts any of the Company's alternative ratemaking proposals, then it should grant the Company a ROE of no more than 8.7%. OCA M.B. at 51-52.

The OSBA supported either I&E's proposed ROE of 8.45%, or the OCA's proposed ROE of 9.1%, using the hypothetical capital structure proffered by the OCA. To calculate PAWC's revenue requirement, the OSBA utilized the water industry 9.65% ROE authorized for the DSIC in the most recent Report of TUS on the Quarterly Earnings of Jurisdictional Utilities. The OSBA claimed the DSIC ROE provided a more realistic calculation of revenue requirement impact of the OSBA's acquisition related adjustments. OSBA M.B. at 14.

PAWLUG averred that PAWC's proposed ROE was unreasonable based on the recommendations developed by I&E and the OCA. PAWLUG noted that the Company's proposed ROE of 10.95% exceeded I&E's 9.45% average ROE by 150 basis points. According to PAWLUG, the Company's suggested ROE was also unreasonable because it omitted adjustments for the various alternative rate and deferral mechanisms proposed by PAWC in this proceeding, which serve to further reduce the Company's operational risks. Although PAWLUG did not make a specific ROE recommendation, it requested that the Commission reject PAWC's proposed 10.95% ROE and consider the evidence presented by PAWLUG to determine a reasonable ROE based on range of reasonableness supported by I&E's and the OCA's ROE analysis. PAWLUG M.B. at 9-12.

b. Recommended Decision

Consistent with the Commission's decisions in *Aqua 2022* and *Columbia Water 2024*, the ALJs recommended a ROE based on both I&E's DCF and CAPM models. By taking the average of I&E's DCF (8.45%) and CAPM (10.44%) analysis, the ALJs recommended that the Commission adopt a ROE of 9.55%. This consisted of a base ROE 9.45% plus an upward adjustment of ten (10) basis points for management performance, discussed, *supra*. [9.45%+0.10%=9.55%]. R.D. at 167, 184.

c. Exceptions and Replies

(1) PAWC Exception No. 1 and Replies

In its Exception No. 1, PAWC contends that the ALJs erred by relying on I&E's DCF and CAPM results in calculating the recommended ROE. As discussed in Section IX.A, the Company contends I&E's proxy group is flawed. Therefore, by accepting I&E's proxy group, PAWC states the ALJs calculated a ROE that is below the ROE awarded in *Columbia Water 2024* of 9.75% and below the Commission authorized DSIC ROE of 9.65%.[82] Based on four different modifications to I&E's proxy group, PAWC insists that the Commission should award the Company one of the following ROE's: 9.76%, 9.88%, 10.05%, or 10.46%. PAWC Exc. at 2-9.

In its Reply to the Company's Exception No. 1, I&E agrees with PAWC that the ALJs erred by recommending a 9.45% ROE with an additional ten (10) basis point management performance adder. However, it is I&E's position that the ROE proposed by the ALJs is too *high* while the Company in this Exception argues that the ROE was too low. I&E notes PAWC's Exception No. 1 is based on the ALJs' use of I&E's proxy group to determine the ROE, as discussed in section IX.A, *supra*. I&E R. Exc. at 1,4.

In its Reply to PAWC's Exception No. 1, the OCA restates its argument that the Commission should deny PAWC's Exception No. 1 because no Party had an opportunity to respond on the record to the Company's recommendation to calculate its ROE by taking the average of I&E's DCF and CAPM model results utilizing multiple proxy groups picked by PAWC. The OCA states the Company presented these calculations for the first time in its Exceptions, with PAWC arguing the ROE should be

[82] *Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended December 31, 2023*, Docket No. M-2024-3048688 (May 9, 2024).

one of the following: 9.76%, 9.88%, 10.05%, or 10.46%. Since this is the first time that PAWC has presented these calculations, the OCA claims it is extra record evidence and deprives the Parties of their due process rights. OCA R. Exc. at 9 (citing *Montefiore* at 484). Furthermore, the OCA claims that replacing the proxy group inputs in I&E's DCF and CAPM analyses and then averaging the results will change I&E's DCF and CAPM analyses that is on the record. The OCA stresses its position that rather than making a decision based on the record, granting PAWC's Exception No. 1 will place the Commission in the role of creating a record to justify its decision. OCA R. Exc. at 9.

(2) I&E Exception No. 1 and Replies

In its Exception No. 1, I&E contends that the ALJs erred by recommending a ROE by taking the average of I&E's DCF and CAPM results. I&E alleges the ALJs' recommendation is flawed due to the ALJs' reasoning that I&E did not use its 10.44% CAPM ROE as a comparison to its 8.45% DCF ROE. Additionally, I&E states the ALJs essentially gave the CAPM a 50% weight by averaging the DCF and CAPM ROE results. I&E deems that given the flaws of the CAPM, there is no way to give an appropriate weight to the CAPM. Hence, I&E explains that it has simply used the CAPM as a comparison to the DCF and does not incorporate it in its ROE calculation. Therefore, I&E asserts that the Commission should rely primarily on the I&E DCF analysis and grant PAWC a ROE of 8.45%. I&E Exc. at 3-5.

In its Reply to I&E's Exception No. 1, PAWC maintains the ALJs correctly used both the DCF and CAPM results. The Company states the ALJs properly found that the Commission has recently adopted the use of both the DCF and CAPM methodologies to determine the ROE in *Aqua 2022* and *Columbia Water 2024*. PAWC R. Exc. at 3.

In its Replies to Exceptions, the OCA agrees with I&E that the ALJs erred by averaging I&E's DCF and CAPM ROE results. The OCA insists the Commission

should select a ROE from the testimony of one of the Parties in this case based on a fully substantiated cost of equity analysis. Regarding averaging I&E's DCF and CAPM ROE results, the OCA declares I&E did not present testimony, the ALJs did not present findings of fact in the Recommended Decision, nor is there any record evidence to support the ALJs' recommendation that the Commission set a ROE based upon the average of I&E's DCF and CAPM results. The OCA further claims it did not have an opportunity in rebuttal or surrebuttal testimony to address I&E's CAPM or the averaging of I&E's DCF and CAPM. Moreover, the OCA argues that since I&E did not give its CAPM any weight when recommending a ROE, the OCA did not respond to I&E's testimony concerning its CAPM. Therefore, the OCA avers it was denied due process as it did not have an opportunity to be heard at a meaningful time and in a meaningful manner. OCA R. Exc. at 7-8, (citing *Montefiore*). Finally, the OCA asserts that while its own ROE testimony presented an average of its DCF and CAPM results, the other Parties had an opportunity to respond to this testimony. OCA R. Exc. at 8.

(3) OCA Exception No. 11 and Replies

In its Exception No. 11, the OCA reinforces its claim that the ALJs erred by recommending a 9.45% ROE that used the average of I&E's DCF and CAPM analysis. The OCA avers the ALJs modified I&E's recommendation by averaging I&E's DCF and CAPM results, although I&E did not recommend this method. By picking what parts of I&E's ROE analysis to use, and ignoring other evidence, the OCA argues that the ALJs recommended a ROE that is excessive by thirty-five (35) basis points. The OCA states that its own recommended ROE falls within the zone of reasonableness that protects both consumer and shareholder interests and provides just and reasonable rates. As previously noted, based on DCF and CAPM results, the OCA's ROE recommendation is either 9.1% or 8.7% depending on whether alternative ratemaking requests or the Company's actual capital structure are granted in this proceeding. Since the ALJs recommended granting the Company's actual capital structure, the OCA insists that the Company's ROE should

be no higher than 8.7%. The OCA notes that its proposed ROE is based on the average of its DCF and CAPM results. By using both DCF and CAPM results, the OCA maintains it provided an accurate assessment of PAWC's ROE as it measures market risk and its impact on individual companies. Lastly, the OCA restates that its 9.1% proposed ROE falls within PAWC's DCF ROE range. OCA Exc. at 15-17.

In its Replies to Exceptions, PAWC restates its position that the OCA's hypothetical capital structure is improper and the ALJs decision to not use the OCA's ROE analysis is supported by the record evidence. The Company argues the OCA's ROE recommendations have two primary errors. First, PAWC contends that the OCA's criticism of the long-term growth rate used in its DCF does not meet the OCA's own standard. Second, the Company notes that the OCA used an ERP based on surveys and its own calculations. PAWC argues that its ERP based on *Value Line* projected growth rates is more accurate, as it is consistent with historical equity returns. PAWC R. Exc. at 4-7.

d. Disposition

We agree with the ALJs' recommendation to take the average of I&E's DCF and CAPM ROE results. This produces a ROE of 9.45%, noting I&E's DCF and CAPM produce a ROE range of reasonableness from 8.45% to 10.44%. Based upon our informed judgment, which includes consideration of a variety of factors such as increasing inflation leading to increases in interest rates and capital costs, we find that a ROE of 9.45% is reasonable and appropriate for PAWC. As discussed in Section IX.D.2, *supra*, we have also determined that the Company's request for an upward adjustment to its ROE for management performance should be denied. Therefore, we shall award the Company a total ROE of 9.45%.

Before concluding this section, we stress that based upon the specific record developed in this proceeding, we have determined that taking the average of the DCF and CAPM results produces a reasonable ROE. However, we do not strictly endorse averaging the DCF and CAPM in other proceedings where it is determined that methodologies other than the DCF are necessary to determine the utility's ROE. Consistent with these determinations, we shall deny PAWC's Exception No. 1, I&E's Exception No. 1, and the OCA's Exception No. 11.

E. Overall Rate of Return

1. Positions of the Parties

PAWC claimed that it should be permitted to earn the following overall rates of return in this proceeding:

(1) An overall rate of return of 8.17% on a total company basis, comprised of a weighted average of a 4.71% rate of return on long-term debt, and a 10.95% rate of return on common equity, inclusive of an upward adjustment for management effectiveness. Additionally, this is based on an actual capital structure of 44.70% long-term debt and 55.30% common equity;

(2) An overall rate of return of 8.22% for its water operations, comprised of a weighted average of a 4.76% rate of return on long-term debt, and a 10.95% rate of return on common equity, inclusive of an upward adjustment for management effectiveness. Additionally, this is based on an actual capital structure of 44.01% long-term debt and 55.99% common equity; and

(3) An overall rate of return of 7.94% for its wastewater operations, comprised of a weighted average of a 4.76% rate of return on long-term debt, a 2.67% rate of return on long-term debt for wastewater-specific debt

> issuances, and a 10.95% rate of return on common equity, inclusive of an upward adjustment for management effectiveness. Additionally, this is based on an actual capital structure of 42.73% long-term debt, 4.40% wastewater-specific long-term debt, and 52.87% common equity.

PAWC Exh. 13-A at Schs. 11 and 12; Exh. 13-R at Sch 14.

I&E argued that PAWC should be afforded the opportunity to earn the following overall rates of return:

> (1) An overall rate of return of 6.82% for PAWC's water operations. This recommended overall rate of return is comprised of a weighted average of a 4.76% rate of return on long-term debt and an 8.45% rate of return on common equity, and is based off of the Company's proposed capital structure for its water operations.
>
> (2) An overall rate of return of 6.62% for PAWC's wastewater operations. This recommended overall rate of return is comprised of a weighted average of a 4.76% rate of return on long-term debt, a 2.67% rate of return on wastewater-specific long-term debt, and an 8.45% rate of return on common equity, and is based off of the Company's proposed capital structure for its wastewater operations.

I&E M.B. at 65; I&E St. 2-SR at 44.[83]

The OCA proffered that the Commission should allow PAWC the opportunity to earn the following overall rates of return on its rate base:

> (1) An overall rate of return of 6.97% for PAWC's water operations. This recommended overall rate of return is comprised of a weighted average of a 4.76% rate of

[83] We note that I&E did not provide a proposed overall rate of return for PAWC on a total company basis.

return on long-term debt, a 2.62% rate of return on wastewater-specific long-term debt, and a 9.10% rate of return on common equity, and is based on a hypothetical capital structure of 49% long-term debt and 51% common equity.

(2) An overall rate of return of 6.97% for PAWC's water operations. This recommended overall rate of return is comprised of a weighted average of a 4.76% rate of return on long-term debt and a 9.10% rate of return on common equity and is based on a hypothetical capital structure of 46.84% long-term debt, 4.40% wastewater-specific long-term debt, and 48.76% common equity.

OCA M.B. at 46-47; OCA St 2., Exh. LA-6 at 7-8; OCA St. 3 at 4.[84]

2. Recommended Decision

The ALJs recommended that the Company be afforded the opportunity to earn an overall rate of return of 7.44% for its water operations and an overall rate of return of 7.20% for its wastewater operations. These recommended overall rates of return are based upon the ALJs' recommendations, *supra*: (1) that the Commission adopt PAWC's proposed actual capital structures; (2) that the Commission adopt PAWC's proposed claimed cost rates for long-term debt and wastewater-specific long-term debt; (3) averaging the results of I&E's DCF and CAPM analyses; and (4) awarding PAWC an upward adjustment of ten basis points to its ROE in recognition of the Company's business risks and management performance. The ALJs' recommended overall rates of return are outlined in Tables 12 and 13, as follows:

[84] Like I&E, the OCA did not provide a proposed overall rate of return for PAWC on a total Company basis. Additionally, in calculating its proposed overall rate of return for PAWC's wastewater operations, the OCA utilized PAWC's originally proposed rate of return on long-term debt for wastewater-specific debt issuances of 2.62%. The Company revised this to 2.67% in its rebuttal testimony. *See*, PAWC St. 13-R at 11.

Table 12: The ALJs' Recommended Capital Structure and Overall Rate of Return for PAWC's Water Operations

Type of Capital	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	44.01%	4.76%	2.09%
Common Equity	55.99%	9.55%	5.35%
Total	100.00%		7.44%

Table 13: The ALJs' Recommended Capital Structure and Overall Rate of Return for PAWC's Wastewater Operations

Type of Capital	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	42.73%	4.76%	2.03%
WW-Specific Long-Term Debt	4.40%	2.67%	0.12%
Common Equity	52.87%	9.55%	5.05%
Total	100.00%		7.20%

The ALJs applied these rates of return to Table IA of each of the sets of rate tables set forth in Appendix A to the Recommended Decision. R.D. at Appendix A, Table IA-Water, Table IA-Wastewater SSS, and Table IA-Wastewater CSS.[85]

3. Exceptions and Replies

As outlined above, each of PAWC, I&E, and the OCA filed Exceptions to the ALJs' recommendations on a fair rate of return for the Company. Each Party's Exceptions and Replies to Exceptions on the overall rate of return are based on their respective Exceptions and Replies to Exceptions regarding the ALJs' recommended proxy group, capital structure, and the cost of common equity, *supra.*

[85] The ALJs did not provide a recommended overall rate of return for PAWC on a total company basis.

4. Disposition

For the reasons discussed above, we have adopted the ALJs' recommendation as to the appropriate proxy group, capital structure and cost of debt for PAWC. Additionally, as we have rejected the Company's request for an upward adjustment to its ROE for management performance, we have modified the ALJs' recommendation as to the appropriate cost of common equity for PAWC. This will, in turn, modify the ALJs' recommended overall rate of return. The following tables summarize our final determinations regarding PAWC's capital structure, cost of debt, and cost of common equity, as well as the resulting weighted costs. As these tables indicate, we shall set an authorized overall rate of return for PAWC of: (1) 7.33% on a total Company basis;[86] (2) 7.39% for the Company's water operations; and (3) 7.15% for the Company's wastewater operations. We shall apply these rates of return, as set forth in Table IA, to each of the sets of rate tables that are attached to the Commission Tables Calculating Allowed Revenue Increase at the end of this Opinion and Order.

Table 14: PAWC Capital Structure – Authorized Overall Rate of Return on a Total Company Basis

Type of Capital	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	44.70%	4.71%	2.11%
Common Equity	55.30%	9.45%	5.23%
Total	100.00%		7.33%

[86] As previously noted, the ALJs did not make a recommended overall rate of return for PAWC on a total Company basis.

Table 15: PAWC Capital Structure – Authorized Overall Rate of Return for Water Operations

Type of Capital	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	44.01%	4.76%	2.09%
Common Equity	55.99%	9.45%	5.29%
Total	100.00%		7.39%

Table 16: PAWC Capital Structure – Authorized Overall Rate of Return for Wastewater Operations

Type of Capital	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	42.73%	4.76%	2.03%
WW-Specific Long-Term Debt	4.40%	2.67%	0.12%
Common Equity	52.87%	9.45%	5.00%
Total	100.00%		7.15%

X. Rate Structure and Rate Design

This section of the Opinion and Order addresses the ALJs' recommendations pertaining to cost-of-service, revenue allocation, and rate design. When a utility files for a rate increase and the requested increase exceeds $1 million, the utility must include with its filing a cost-of-service study (COSS) in which it assigns to each customer class a rate based upon the operating costs that it incurred in providing that service. 52 Pa. Code § 53.53; *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1015 (Pa. Cmwlth. 2006) (*Lloyd*). Public utility rates should enable the utility to recover its cost-of-service through the creation of a rate design that recovers costs from the appropriate customer class as closely as possible to the allocated cost-of-service. These rates are required by statute to be just, reasonable, and non-discriminatory. 66 Pa.C.S. §§ 1301.

PAWC submitted five separate COSSs, one for its water operations (PAWC Exh. 12-A Revised) and four for its wastewater operations. PAWC presented a COSS for its wastewater SSS operations (PAWC Exh. 12-B Revised), for its CSS wastewater operations (PAWC Exh. 12-C Revised), and it prepared separate wastewater service COSSs for the Brentwood operations (PAWC Exh. 12-D Revised) and the BASA operations (PAWC Exh. 12-E Revised).[87]

A. Cost-of-Service Studies – Water Operations

1. Positions of the Parties

PAWC utilized the Base-Extra Capacity (BEC) method in preparing its Water COSS. This method is described in the American Water Works Association's Water Rates Manual (AWWA Manual) and, according to the Company, has been accepted by the Commission as the appropriate methodology for determining class cost-of-service. PAWC M.B. at 54-55. Under the BEC method, investment and costs are first classified into four primary functional cost categories: (1) base or average capacity; (2) extra capacity; (3) customer; and (4) fire protection. Once investment and costs are classified to these functional categories, they are allocated to the various customer classes. OCA St. 4 at 12.

The OCA and the OSBA generally agreed with PAWC's use of the BEC methodology; however, the OCA and the OSBA recommended modifications to the system-wide maximum day extra-capacity demand factor of 1.4 and the maximum hour extra-capacity factor of 2.1 utilized by PAWC to allocate functionalized costs to the

[87] PAWC submitted a separate COSS for the BASA operations to comply with the settlement filed in *BASA*. While PAWC submitted a COSS for the Brentwood acquisition in its initial filing and rebuttal case, as previously explained, PAWC agreed to remove the Brentwood acquisition from this case.

various customer classifications, contending that they are outdated. *See*, OCA M.B. at 61-65; OSBA M.B. at 14-17. The OCA also contended that interruptible industrial usage should be included in the extra capacity allocations because those customers have not been regularly interrupted during periods of peak demand. OCA M.B. at 65 (citing OCA St. 4-SR at 9). For its part, PAWLUG criticized the demand study statistics used in the Water COSS because the study was conducted from 2013-2015 and residential consumption has declined since that time. *See*, PAWLUG M.B. at 14-15.

PAWC explained that its proposed system-wide maximum day demand factor of 1.4 is based on a detailed analysis, reflecting PAWC's actual maximum daily send-out since its formation in 1987. PAWC St. 12-R at 5. Specifically, the Company's actual maximum day send-out was 1.4 times average day send-out in each of the years 1988, 1995, 1996, 1999, and 2003, and, according to PAWC, it has experienced system-wide maximum day factors close to that value in other years since 1987. PAWC M.B. at 55. Additionally, PAWC indicated that the water usage on the maximum day of 2021 in several areas within its overall water operations was more than 1.4 times the average usage for that year. *Id.* PAWC submitted that the 1.4 system-wide maximum day demand factor employed in its Water COSS produces a diversity factor that is reasonable based on the range recommended in the AWWA Manual. PAWC M.B. at 55-56 (citing PAWC St. 12-R at 6-8).

PAWC further explained that its system-wide maximum hour demand factor of 2.1 was based on a detailed analysis of its actual maximum hour send-out. PAWC St. 12-R at 8.

As the OCA averred that PAWC's maximum day demand factor is outdated and not representative of PAWC's actual system-wide experience, it proposed the use of a maximum day factor of 1.2, based on its truncated data set to include data for only the

last twelve years.[88] OCA R.B. at 40. PAWC pointed out that the OCA's proposed maximum day factor of 1.2 was experienced in 2012 and is the highest maximum day factor within the OCA's limited twelve-year window. PAWC St. 12-R at 5.

In lieu of the 2.1 maximum hour factor employed in PAWC's Water COSS, the OCA and the OSBA proposed the use of a maximum hour demand factor of 1.5 and 1.8, respectively. OCA St. 4 at 15-17; OCA St. 4-SR at 6-9; OSBA St. 1-R at 9, 13. PAWC noted that, rather than conducting their own analysis of maximum hour send-out, the OCA proposed a maximum hour ratio derived from demand data using a study conducted by The York Water Company and the OSBA proposed a maximum hour factor derived from its recommended adjustment to the maximum day factor. PAWC M.B. at 56-57.

Both the OCA and the OSBA challenged PAWC's proposal to continue relying on demand data from a 1988 analysis to determine a maximum hour demand factor for its COSS. The OCA contended that PAWC ignores that its data and analysis is increasingly less reliable with each rate case and cannot reasonably be considered "representative" of PAWC's actual, recent customer demands, particularly where PAWC's own witness makes an adjustment to the Company's revenues for the future test years to reflect what he claims has been a "significant and pervasive decline in usage for [residential, commercial and municipal] classes over the past ten years." OCA R.B. at 40-41 (citing PAWC St. 10 at 67-72, 78-79).

Additionally, the OCA explained that the 2.1 maximum hour factor utilized by PAWC is based on a 1988 analysis and recommended that PAWC should be required to update its analysis of system-wide maximum hour extra capacity demands prior to its

[88] In rebuttal testimony, the OSBA supported the OCA's maximum day factor. *See*, OSBA St. 1-R at 8-13; OSBA M.B. at 16-17; OSBA R.B. at 11.

next base rate proceeding. OCA M.B. at 65. The OSBA noted its agreement with this recommendation. OSBA St. 1-R at 13.

As indicated, *supra*, the OCA also contended that interruptible industrial usage should be included in the extra capacity allocations because those customers have not been regularly interrupted during periods of peak demand. OCA M.B. at 65 (citing OCA St. 4-SR at 9). The OCA based its proposal on the Commission's recent decision in a Philadelphia Gas Works (PGW) rate case. More specifically, the OCA noted that in *PGW 2023*, the Commission agreed with PGW that interruptible demand should be treated as firm for the purpose of PGW's COSS. OCA M.B. at 65 (citing *PGW 2023* at 111-12, 138-39). The OCA requested that the Commission make the same finding here on grounds that PAWC's sole interruptible customer has not been interrupted in 20 years. *See*, OCA St. 4-SR at 9.

PAWLUG does not contest PAWC's proposal to utilize the BEC methodology for the Water COSS. However, PAWLUG opposed PAWC's proposed maximum hour demand ratio for the residential customer class. PAWLUG averred that the Commission should adjust PAWC's proposed COSS to use the actual maximum hour demand ratio for the residential customer class. PAWLUG M.B. at 13-14.

PAWLUG also opposed various proposals advanced by other Parties to adjust PAWC's COSS. PAWLUG disagreed with the OCA, noting that the OCA's proposal to simply include interruptible usage with industrial customer class allocation for extra capacity demand costs does not align with cost causation because the vast majority of PAWC's industrial customers are firm service customers and are already paying rates set in alignment with cost causation for firm service. PAWLUG M.B. at 13. PAWLUG noted the testimony of PAWC's witness, Ms. Constance Heppenstall, that "this adjustment to the cost of service for industrial curtailment customers has been reflected in the Company's cost of service studies since at least the Company's 2007 rate

case and Docket No. R-00072229 and has long been accepted by the Commission and other parties." *Id.* at 17 (citing PAWC St. 12-R at 10). PAWLUG contended that increasing the cost-of-service for PAWC's industrial class to now include interruptible usage creates substantial complications that were not present in *PGW 2023*, including a likelihood of intraclass subsidization of PAWC's sole interruptible industrial customer by the remaining firm industrial customers. PAWLUG M.B. at 13, 17.

Lastly, PAWLUG asserted that the estimated system wide maximum demand allocators developed by the OCA and the OSBA should be rejected in favor of prospective solutions to comprehensively update PAWC's demand data. PAWLUG M.B. at 13, 18-20.

While I&E made various recommendations based on the COSSs presented by PAWC, I&E did not challenge specific elements of the COSSs presented by PAWC. Additionally, as discussed, *infra*, regarding the customer cost analysis, I&E recommended the results of the Company's more direct customer cost be used to determine the customer charge. I&E M.B. at 67; I&E R.B. at 26.

2. Recommended Decision

In their Recommended Decision, the ALJs found that the COSS methods and factors utilized by PAWC for its water operations are reasonable and consistent with past practice and recommended that the Commission adopt the Company's COSS without modification. R.D. at 195.

However, while the ALJs recommended adoption of PAWC's COSS, they did agree with the OCA that for PAWC's next base rate case, PAWC should be required to update its analysis of system wide maximum hour extra capacity demands and then include the results of its updated analysis in its Water COSS for that case. The ALJs

found that PAWC's analysis of system wide maximum hour extra capacity should be updated to better reflect demands on PAWC's system. R.D. at 195.

3. Exceptions and Replies

a. PAWC Exception No. 7 and Replies

In its Exception No. 7, PAWC reiterates its previous arguments, maintaining that no Party has identified any errors in the 1988 analysis used to determine the maximum hour demand factor for its COSS and its results have been accepted in prior PAWC cases. PAWC Exc. at 26. Therefore, PAWC submits that the ALJs' recommendation for a large, multi-year study of PAWC's system-wide maximum hour demands prior to its next base rate case is unwarranted. Moreover, PAWC contends that in performing such an analysis, the Company faces challenges in accurately measuring maximum hour demand in districts with multiple groundwater sources due to a number of factors, such as missing SCADA connections, tank filling, and metering issues. *Id*.

In Replies, the OCA asserts that the Company's data cannot reasonably or reliably be considered representative of PAWC's actual, recent demand, particularly where PAWC's own witness makes an adjustment to the Company's revenues for the future test years to reflect what he claims has been a "significant and pervasive decline in usage for [residential, commercial and municipal] classes over the past ten years." OCA R. Exc. at 13 (citing PAWC St. 10 at 67-72, 78-79). The OCA explains that this is a continuation of the declining consumption trend that PAWC's witness, Mr. Charles Rea, identified from reports analyzing water usage since 1992 and the impact of energy efficiency legislation in 1992 and 2007– all of which occurred *after* the 1988 demand analysis relied on by PAWC. OCA R. Exc. at 13 (citing PAWC St. 10 at 67-70). Therefore, the OCA maintains that the Company's assertions ignore that PAWC's data and analysis become less reliable with each rate case.

b. OCA Exception No. 13 and Replies

In its Exception No. 13, the OCA argues that the ALJs erred by recommending that the Commission reject the OCA's proposal to adjust PAWC's Water COSS to include interruptible usage[89] in the extra capacity factor allocations. OCA Exc. at 23-25. The OCA maintains that there is no factual premise for excluding interruptible industrial usage in the extra capacity factor allocations, since these customers have not been required to curtail their usage in the last 20 years. The OCA maintains that this is consistent with the Commission's decision in *PGW 2023*, wherein the Commission found that interruptible demand should be included with firm industrial customers in PGW's COSS based on a record showing no interruptions for over 20 years. OCA Exc. at 24-25.

In their Replies, PAWLUG and Cleveland-Cliffs each maintain that the OCA's arguments are misplaced. PAWLUG R. Exc. at 1-3; Cleveland-Cliffs R. Exc. at 1-2. Specifically, PAWLUG maintains that the Commission's decision in *PGW 2023* should be distinguished because: (1) in *PGW 2023*, the Commission approved the COSS proposed by the utility; whereas here, the OCA seeks to modify the COSS proposed by PAWC; and (2) the Commission's findings in *PGW 2023* sought to align PGW's Rate IT customer class, consisting exclusively of interruptible customers, with cost-of-service. PAWLUG R. Exc. at 2 (citing *PGW 2023* at 138). Here, because the interruptible customers in the instant proceeding are not a separate class, they are a part of the larger industrial class, which is mostly made up of firm customers. As such, PAWLUG argues that including interruptible usage as firm would cause firm industrial customers to subsidize costs. PAWLUG R. Exc. at 2-3.

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[89] PAWC provides service under an Industrial Curtailment Rate that applies a reduced tail block rate to participating customers' usage over 15 million gallons a month. In exchange, participants must curtail usage of Company-supplied water for industrial purposes when requested or be subject to penalties for failure to curtail. *See*, Supplement No. 2 to Tariff Water – PA P.U.C. No. 5, First Revised Pages 18-19, effective January 1, 2018.

Since PAWC's interruptible load allows the Company to plan for a higher peak load without additional capacity investment, which results in savings to the system even in the absence of interruption events, and interruptible customers do not contribute to extra-capacity demand costs, Cleveland-Cliffs argues that the adjustment to the COSS proposed by the OCA would unreasonably attribute cost savings made possible by industrial, non-firm customers to other customer classes and artificially inflate the amount of costs that the Company incurs to serve industrial load. Cleveland-Cliffs R. Exc. at 2.

4. Disposition

The Commission uses the results from COSSs as a guide in developing appropriate customer class rates. Nevertheless, as we have stated in past rate decisions, COSSs are tools to be used in the ultimate design of customer rates, but they are necessarily subject to the philosophies of the analysts preparing them. We therefore emphasize that appropriate judgment and discretion is required in analyzing the COSSs and using them to help set the final customer class rates based on the evidentiary record.

We agree with the ALJs' recommendation that PAWC's proposed water COSS be approved, and the OCA's arguments in support of including interruptible industrial usage in the extra capacity factor allocations be rejected. Since interruptible customers must be prepared to curtail their water usage during peak periods when requested, it is appropriate to exclude interruptible usage from the extra capacity components of PAWC's allocation factors. Including interruptible load in the extra capacity components of these factors would over-allocate costs to the industrial class by failing to recognize the value of curtailment.

Although curtailment has not occurred for several years, participating customers must be prepared to curtail their usage when requested or face penalties for

failure to curtail. PAWC's tariff provides a reduced rate for customers served on the Industrial Curtailment Rate and it is appropriate to also reflect the value of this demand-side resource in the cost allocation process. Accordingly, we shall deny the OCA's Exception No. 13.

Although, for the purposes of this proceeding, we have found that the Company's water COSS should be accepted as adequate given the data available in this case, we acknowledge that PAWC has not updated its analysis of system-wide maximum hour extra capacity demands since 1988. As indicated by the Company, the system-wide maximum day extra capacity demand factor used in its water COSS was last experienced in 2003, which was over twenty (20) years ago. Since 2003, water demand on the PAWC system has changed due to water conservation, legislation, development, and changing land uses.[90] Therefore, since PAWC does not have recent actual maximum peak hour demand data for its water system, we agree with the ALJs' recommendation that PAWC should be required to update this analysis prior to its next base rate proceeding and include the results of that analysis in the COSS filed in the next base rate proceeding. Accordingly, we shall deny PAWC's Exception No. 7.

B. Cost-of-Service Studies – Wastewater Operations

1. Positions of the Parties

For its Wastewater SSS operations, PAWC's COSSs were prepared using the functional cost allocation methodology described in *Financing and Charges for*

[90] We note that although it is possible that total residential demand has increased due to more people working from home, when people work at home, the days and number of hours that water can be used increases significantly; therefore, the maximum day and maximum hour demands of residential customers are likely to decrease. This is because residential customers no longer need to concentrate their use of water to days and hours they are not at work outside of their homes.

Wastewater Systems, Manual of Practice No. 27, published by the Water Environment Federation. PAWC St. 12 at 16-24; *See*, PAWC Exh. 12-B Revised. That allocation methodology was modified to determine the incremental cost related to handling stormwater for PAWC's CSS Wastewater operations. PAWC St. 12 at 25-31; *See*, PAWC Exh. 12-E Revised.

While none of the Parties raised any objections to the allocation methodology employed in PAWC's wastewater COSSs, I&E noted that it used the Company's COSS to develop its various wastewater rates that move the relative rates of return for each class toward zero. PAWC M.B. at 58-59; I&E M.B. at 68. Similarly, the OCA noted that its positions on excluding the pending wastewater acquisitions and the Act 11 shift are reflected in the Wastewater revenue allocation and rate design of the OCA's witness, Mr. Jerome Mierzwa. OCA M.B. at 67 (citing OCA St. 4 at 38-39).

2. Recommended Decision

Since none of the Parties raised any objections to the allocation methodology employed in PAWC's wastewater COSSs, the ALJs recommended that the Commission adopt PAWC's wastewater COSSs. R.D. at 197.

3. Disposition

None of the Parties filed Exceptions to the ALJs' recommendation. Finding the ALJs' recommendation to be reasonable, we adopt it without further comment.

C. Cost-of-Service Studies – Cost-of-Service for Future General Rate Increases

1. Positions of the Parties

PAWC objected to providing additional cost-of-service information in its future base rate filings for systems acquired pursuant to Section 1329 of the Code, as proposed by I&E and the OCA. PAWC M.B. at 59; I&E M.B. at 68-69; OCA M.B. at 67-68. PAWC averred that the Commission should reject this recommendation and continue its approach of moving toward single tariff pricing for all of PAWC's systems, including those acquired under Section 1329, and evaluate the necessity of separate COSSs as part of future acquisition proceedings. PAWC M.B. at 59 (citing PAWC St. 1-R at 29-31); PAWC R.B. at 48.

Further, PAWC has historically excluded Rider Demand Industrial Sales (DIS) and Rider Demand Resale Sales (DRS) customers from the COSS and allocated revenue from these customers as a credit to the overall cost-of-service, thereby reducing the overall revenue requirement for all customers. *See*, OCA St. 4, at 19. PAWC explained that in approving Riders DIS and DRS, the Commission found that those riders create benefits for all PAWC water customers by preserving or attracting incremental sales that, because of competitive forces, could not otherwise be made. PAWC St. 12-R at 11. Therefore, PAWC objected to the OCA's request for the Company to include Riders DIS and DRS as separate customer classes in its Water COSS, arguing that revenues from those riders are appropriately reflected as a deduction to all classes' cost-of-service. PAWC M.B. at 59-60.

Specifically, I&E recommended that when PAWC files its next base rate case, should it then own the BASA and/or Brentwood systems, a separate COSS be provided for each system to ensure the rates charged thereto are just, reasonable, non-discriminatory, and in the public interest. I&E R.B. at 27-28. Likewise, the OCA

requested that if the Commission rejects the inclusion of BASA and Brentwood in the current rate case, and PAWC claims them in a future rate case, the Company should be required to provide a separate COSS for each. OCA M.B. at 67.

The OCA further suggested that for future Section 1329 acquisitions, PAWC should prepare separate COSSs in the first base rate case that includes those systems, unless the utility shows in the underlying Section 1329 proceeding that a separate COSS should not be required. OCA M.B. at 67-68. Going forward, after the initial base rate case in which a Section 1329 system is properly included, the OCA asserted that PAWC should continue to provide separate COSSs for the Section 1329 systems either individually or (for non-CSS wastewater only) as a group. Where Section 1311(c) is used to require water customers to subsidize revenue shortfall for systems acquired under Section 1329, the amount of that subsidy should be known and transparent, so a determination can be made whether the proposed Act 11 reallocation is in the "public interest." OCA M.B. at 68.

As discussed, *supra*, PAWLUG opposed the OCA's proposal to modify PAWC's system-wide demand factors in this proceeding; however, PAWLUG supports prospective efforts to update PAWC's demand study. Therefore, PAWLUG recommended that PAWC conduct a new demand study to confirm its demand ratios reflect current usage and demand patterns. PAWLUG did not object to PAWC's suggestion of proceeding with a feasibility study as an initial step but requested that the feasibility study be presented with PAWC's next base rate filing rather than being presented for comment and review between rate filings. PAWLUG noted that this proposal would necessarily extend the use of PAWC's existing demand study for one additional rate case, but also achieve incremental progress towards a comprehensively updated demand study. PAWLUG M.B. at 20-21.

Additionally, PAWLUG asserted that the OCA's proposal to modify PAWC's prospective COSSs to include Rider DIS and Rider DRS customers should be denied. PAWLUG contended that the OCA's proposal presents a solution to a perceived problem that has not been remotely substantiated through the available means, since both Rider DIS and Rider DRS prescribe minimum rate requirements for these customers in the tariffs, and there is no record of discovery disputes where PAWC has declined to respond to any inquiry concerning compliance with the minimum rate requirements. PAWLUG M.B. at 21.

2. Recommended Decision

Finding the OCA's proposal to be reasonable, the ALJs recommended that the Commission direct PAWC to prepare separate COSSs in the initial base rate case that includes systems acquired under Section 1329, unless PAWC shows in the underlying Section 1329 proceeding that a separate COSS should not be required[91] and, after the initial base rate case, the Company should continue to provide separate COSSs for the Section 1329 systems. R.D. at 202-03. The ALJs found this requirement will "allow greater transparency for the system to determine whether an Act 11 reallocation to subsidize a revenue shortfall is actually in the public interest." R.D. at 203.

In recommending that the Commission direct PAWC to provide additional water cost-of-service information in its future base rate filings, the ALJs specifically recommended PAWC include Rider DIS and Rider DRS customers as separate customer classes in the Water COSS in its next base rate proceeding. R.D. at 203. The ALJs noted that, in the current proceeding, PAWC did not separately determine the costs associated with serving Rider DIS and DRS customers in its Water COSS; the Company simply

[91] The ALJs noted that this recommendation also encompasses I&E's request that PAWC be required to provide separate COSSs for BASA and Brentwood, should PAWC own these systems by that time. R.D. at 203.

reflected revenues from Rider DIS and DRS customers as a credit to the overall cost-of-service. R.D. at 202-03. As such, the ALJs found the OCA's proposal to be reasonable and agreed with the OCA that having cost-of-service information for these two riders in the next base rate case will ensure that the rates charged to these riders are reasonable and in the public interest. R.D. at 203.

Lastly, the ALJs noted that, while they found PAWLUG's proposal to be generally reasonable, they disagree about presenting the feasibility study with PAWC's next base rate filing rather than in between filings. The ALJs reasoned that filing the feasibility study between rate cases will allow more time for review without the many distractions that can be associated with a base rate case. Accordingly, while the ALJs recommended approval of the requested feasibility study, they also recommended that the Commission direct PAWC to file the feasibility study ninety (90) days before its next base rate case so parties will have adequate time for review. R.D. at 203-04.

3. Exceptions and Replies

a. PAWC Exception No. 8 and Replies

In its Exception No. 8, PAWC objects to the ALJs' recommendation that the Company maintain separate COSSs for systems acquired under Section 1329 of the Code *after* the initial base rate case where the acquisition is reflected in the Company's revenue requirement.[92] PAWC Exc. at 26. First, PAWC argues that this would be time-consuming and unnecessary based on PAWC's movement toward single tariff pricing, as well as adding unnecessary complexity to its future base rate cases. PAWC Exc. at 26-27. Second, PAWC argues that it would be unwieldly to provide separate

[92] The Company notes it is not excepting to the ALJs' recommendation that PAWC prepare separate COSSs for Section 1329 acquisitions in the first base rate proceeding where the systems are included in revenue requirement. PAWC Exc. at 26.

COSSs for the ten Section 1329 acquisitions already consolidated with its revenue requirement and COSSs for its water and wastewater SSS operations. PAWC Exc. at 27.

In its Replies, I&E states that no matter how time-consuming and complex for the Company, it is in the public interest that the rates charged to customers are just, reasonable, and based on an appropriate cost to service. I&E R. Exc. at 13.

In its Replies, the OCA explains that PAWC can continue to propose rates that move Section 1329 systems towards consolidation with its wastewater SSS and CSS wastewater divisions; however, the difference is that the information provided in the COSS will enable the Commission and parties to evaluate the reasonableness of the proposed subsidies. The OCA contends that the ALJs properly found this requirement will "allow greater transparency for the system to determine whether an Act 11 reallocation to subsidize a revenue shortfall is actually in the public interest." OCA R. Exc. at 15 (citing R.D. at 203).

Furthermore, the OCA also notes that the ALJs recommended adoption of the OCA's proposal, which provides the option for PAWC to provide separate COSSs for the Section 1329 systems individually or as two groups: (1) CSS wastewater Section 1329 systems; and (2) non-CSS wastewater Section 1329 systems. OCA R. Exc. at 16 (citing R.D. at 201, 203). Therefore, in response to the Company's concerns regarding separate COSSs for each Section 1329 system, the OCA explains that the Company can limit the number of COSSs for Section 1329 systems to those that are included for the first time, and as few as two other studies (CSS and non-CSS).

b. PAWC Exception No. 9, PAWLUG Exception No. 2, and Replies

In their Exceptions, PAWC and PAWLUG each object to the ALJs' recommendation that the Company provide cost-of-service information about Riders DIS

and DRS in future base rate filings as separate customer classes. PAWC Exc. at 27-28; PAWLUG Exc. at 3-4.

PAWC maintains that these Riders are designed to retain or attract industrial and resale load for the benefit of all PAWC customers,[93] and therefore, the revenues derived from Rider DIS and DRS customers are appropriately reflected as a deduction to all classes' cost-of-service. PAWC Exc. at 27-28.

PAWLUG argues that the potential usefulness of such information does not support the Commission's requirement that PAWC modify its COSS. Additionally, PAWLUG suggests that the burden should be on the OCA and other Parties to ask for information about cost-of-service for PAWC's Rider DIS and Rider DRS customers. PAWLUG Exc. at 4.

In its Replies, the OCA explains that the requirement does not change PAWC's ability to continue to negotiate discounted rates; however, the difference is that the information provided in the COSS will enable the Commission and the Parties to evaluate the reasonableness of the negotiated rates. OCA R. Exc. at 14 (citing R.D. at 203).

The OCA additionally contends that PAWLUG's argument, in its Exceptions, should be rejected, given the fact that PAWLUG also requested additional information regarding demand ratios on which PAWC bases its COSS. The OCA points

[93] PAWC explains that Riders DIS and DRS authorize the Company to negotiate contracts at rates, with specified minimum and maximum levels, designed to retain or attract industrial and resale load for which the customer or applicant for service has a viable competitive alternative that the customer intends to select to the detriment of the Company and its other customers. PAWC Exc. at 27 (citing PAWC St. 12-R at 11).

out that in response to PAWLUG's request, the ALJs noted the limited time during a rate case:

> [f]ilings under Section 1308(d) of the Public Utility Code trigger a strict statutory deadline which limits the amount of time available to the parties and the Commission to review the associated filings. However, filing the feasibility study between rate cases will allow more time for review without the many distractions that can be associated with a base rate case.

OCA R. Exc. at 14 (citing R.D. at 203-04). The OCA notes the ALJs finding that the request for PAWC to provide cost-of-service information for the Riders with its filing to be a reasonable one, and providing the information does not prejudge whether negotiated rates for these customers should be discontinued – it simply facilitates review within the limited time available in a base rate case. OCA R. Exc. at 14.

4. Disposition

We agree with the ALJs' recommendation that, not only should PAWC continue to prepare separate COSSs for new Section 1329 acquisitions in the first base rate proceeding where those systems are included in PAWC's revenue requirement, but for Section 1329 acquisitions that are included in the present base rate case, PAWC should continue to prepare separate COSSs either individually for each acquisition or as a group.[94] This requirement is reasonable given the amount of revenue requirement at issue and the principle that rates should be reasonably cost-based.[95] As noted, the OCA's proposal only applies going forward. Therefore, according to the OCA's proposal,

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[94] This group should include only non-CSS wastewater Section 1329 systems. The CSS wastewater systems (whether or not acquired under Section 1329) should be included in the separate COSS for CSS wastewater systems.

[95] PAWC claimed that the full cost-of-service for the two Section 1329 systems (BASA and Brentwood) is $41.9 million. *See*, PAWC Exhs. 12-D and 12-E.

PAWC is not required to provide separate or group COSSs for the ten systems acquired under Section 1329 that have already been consolidated into water operations, wastewater SSS operations, and CSS wastewater operations. We find that this requirement allows for greater transparency of the system in order to determine whether an Act 11 reallocation to subsidize a revenue shortfall is actually in the public interest. Accordingly, we shall deny PAWC's Exception No. 8.

Additionally, we agree with the ALJs' recommendation that in its next base rate proceeding, the Company should include Rider DIS and Rider DRS customers as separate customer classes in its water COSS, rather than simply reflecting the revenues from these Riders as a credit to the overall cost-of-service. Including Rider DIS and DRS customers in the water COSS will not prejudge whether negotiated rates for these customers should be discontinued but will assist in ensuring that the rates charged to Rider DIS and DRS customers are reasonable. PAWLUG's suggestion, that the burden should be on the Parties to ask for information about cost-of-service for PAWC's Rider DIS and Rider DRS customers, rings hollow given PAWLUG's own request for additional information to which the ALJs' response took note of the limited time during a rate case. Therefore, we find the request for PAWC to provide cost-of-service information for the Riders with its filing to be a reasonable one, and providing this information does not prejudge whether negotiated rates for these customers should be discontinued, it simply facilitates review within the limited time available in a base rate case. Accordingly, we shall deny PAWC's Exception No. 9 and PAWLUG's Exception No. 2.

D. Cost-of-Service Studies – Allocation of Arrearage Management Program (AMP) Costs and Administrative Costs for H2O Programs

1. Positions of the Parties

Currently, PAWC offers customer assistance through its Help to Others (H2O) programs, which are administered by the Dollar Energy Fund (DEF) and is expanding its H20 program to assist low-income customers by offering arrearage forgiveness through its AMP.[96] *See*, CAUSE-PA St. 1 at 40; *see also*, PAWC St. 1 at 15-16, 34.

As previously referenced, PAWC presented revised COSSs in its rebuttal testimony. In addition to correcting the aforementioned adjustment to exclude interruptible load from the COSS, PAWC also revised its allocation of low-income program costs by directly allocating those costs to residential customers only, including costs of its AMP and administrative costs for other low-income programs.[97] *See*, PAWC St. 12-R at 10-11.

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[96] Under the AMP, qualifying residential customers will receive $25 of arrearage forgiveness monthly. PAWC St. 1 at 15-16.

[97] PAWC recovered the direct costs of the Company's residential low-income discounts from the residential class in the Company's rate design. However, in its original filing, PAWC allocated $3,180,090 caused by the Company's AMP and administrative costs associated with its low-income residential programs among *both* residential and non-residential customer classes in its COSSs. OSBA M.B. at 18. Initially, PAWC claimed that costs associated with its AMP are recovered in base rates from residential customers. Later, the Company acknowledged that these costs are not directly assigned to the residential class in its COSSs. Therefore, PAWC adopted the OSBA's recommendation, agreeing that its AMP credits are incremental to other uncollectible expense and its customer assistance programs are designed to benefit residential customers, and directly assigned AMP costs and residential low-income program administrative costs to the residential class. *Id.*; PAWC St. 12-R at 10-11.

The OCA contended that the costs for PAWC's AMP and administration of its H2O Grant and Discount programs are properly allocated consistent with the allocation of uncollectible costs generally, *i.e.*, to all customer classes, as the Company did in its initial filing. OCA M.B. at 68-70 (citing OCA St. 5-R at 1-6). The OCA's witness, Mr. Colton, provided data showing that the arrears that would be made subject to arrearage forgiveness are substantial and sufficiently high that PAWC will have already contributed to its reserve for write-offs before these low-income customers enter the arrearage forgiveness program. To the extent that the program succeeds in prompting future in-full payments toward current bills, plus a copayment toward arrears, PAWC will reduce the dollars that will ultimately be found to be uncollectible. There would be no new, and no incremental, arrearage forgiveness program costs to be directly assigned to the residential class. OCA M.B. at 68-69.

The OCA also opposed PAWC's proposal to directly allocate its customer assistance program administrative costs to residential customers only, asserting that the only way to appropriately capture, and to allocate, both the costs and the cost reductions, is to allocate the costs as PAWC initially proposed to do, based on an O&M composite factor. OCA M.B. at 70.

In its Main Brief, CAUSE-PA argued that it "supports PAWC's practice of equitably allocating certain universal service program costs across all ratepayers." CAUSE-PA M.B. at 20. CAUSE-PA cited 52 Pa. Code §§ 69.261-69.267 to support its argument. CAUSE-PA argued that it is unreasonable to review universal services, such as the AMP and the H20 programs, strictly as a benefit for residential customers. CAUSE-PA M.B. at 20-21. As CAUSE-PA's witness, Mr. Geller, stated, the societal impacts of utility insecurity "significantly undermine worker productivity, impacting businesses, non-profits, government entities, schools, and other nonresidential customer groups." *Id.*; CAUSE-PA St. 1-R at 6-7.

PAWC, the OSBA, and PAWLUG objected to the OCA's and CAUSE-PA's positions, maintaining that the programs are designed to benefit residential customers, and, therefore, support the Company's current practice of recovering costs associated with its AMP, and administrative costs associated with the H2O programs and DEF amongst both residential and non-residential customers. PAWC M.B. at 60; OSBA M.B. at 18; PAWLUG M.B. at 22.

PAWLUG concurred with the OSBA that, to the extent the Commission approves recovery of incremental costs of the AMP, such costs are properly allocated to residential customers. Similarly, the administrative costs of other low-income programs are properly allocated to residential customers. Any positive impact on bad debt expense resulting from these programs would benefit the residential class by improving collectibles for residential customers and reducing the class's allocation of bad debt expense. Moreover, CAUSE-PA's reliance on the Commission's policies related to cost recovery for mandatory electric and gas Customer Assistance Programs should be disregarded as irrelevant to PAWC's voluntary low-income programs.[98] Accordingly, PAWLUG argued that the Commission should approve PAWC's COSS revisions allocating any incremental AMP costs and administrative costs for other low-income programs to residential customers. PAWLUG M.B. at 22.

2. Recommended Decision

In their Recommended Decision, the ALJs agreed with the OSBA and PAWLUG that costs for PAWC's AMP and administration of its H2O Grant and Discount programs are appropriately assigned to the residential class. The ALJs reasoned that since these programs are only available to residential customers, the costs of these programs are appropriately assigned to the residential class. Moreover, the ALJs noted

[98] *See*, PAWLUG St. 1-S at 15.

that there is no evidence in the record to demonstrate that the residential class will suffer an undue economic impact by requiring it to be solely responsible for these programs and administrative costs. The ALJs also agreed with PAWLUG that any positive impact on bad debt expense resulting from these programs will benefit the residential class by improving collectibles for residential customers and reducing the class's allocation of bad debt expense. Accordingly, the ALJs recommended that the Commission adopt the OSBA's proposal to assign these costs to the residential class. R.D. at 209.

Separately, the OCA requested that, regardless of what determination is made regarding recovery of AMP costs going forward, the amortization of the regulatory liability for AMP costs in the last base rate case, but never incurred, should be directly credited to the residential class. *See*, OCA M.B. at 69-70. The OCA observed that PAWC directly assigns the administrative expenses associated with these programs without also identifying and directly assigning the administrative savings. The ALJs reasoned that if the costs are assigned to the residential class, any savings should similarly be assigned to the residential class. Accordingly, the ALJs found the OCA's proposal to be reasonable and recommended that it be adopted by the Commission. R.D. at 209-10.

3. OCA Exception No. 14 and Replies

In its Exception No. 14, the OCA contends that the ALJs erred by recommending that AMP costs and the administrative costs of the H2O Grant and Discount programs be directly assigned to the residential class only. The OCA maintains that the costs for PAWC's AMP and administration of its H2O Grant and Discount programs are properly allocated consistent with the allocation of uncollectible costs generally, *i.e.*, to all customer classes. OCA Exc. at 25-26.

In their Replies, the OSBA and PAWLUG maintain that the ALJs were correct in adopting the OSBA's recommendation on this issue because these programs are only available to residential customers, and as such, the costs of these programs are appropriately assigned to the residential class. OSBA R. Exc. at 3-4; PAWLUG R. Exc. at 3. The OSBA pointed out that, in their Recommended Decision, the ALJs recommended that the Commission reduce the incremental AMP costs in the revenue requirement from $2,377,200 as originally proposed by PAWC to $209,746 (excluding BASA and Brentwood), thereby removing the large majority of AMP costs that otherwise would be directly assigned to the residential class as specified by the Recommended Decision. The OSBA asserted that in addition to the remaining $209,746 of AMP costs, the ALJs were correct in recommending that the administrative costs for the H2O Grant and Discount programs (which total $315,390) should be allocated to the residential class only. OSBA R. Exc. at 3.

PAWLUG submits that the OCA has not offered a compelling basis for diverting from the Commission's long-standing adherence to cost-of-service principles regarding recovery of program costs from customers eligible to participate in the program. PAWLUG R. Exc. at 3.

4. Disposition

The direct revenue shortfall from residential low-income discounts is recovered from the residential class in the Company's rate design. As previously indicated, $3,180,090 in AMP costs and administrative costs associated with its H2O Grant and Discount and DEF programs is proposed by PAWC to be allocated among its residential class customers. Specifically, PAWC proposes to allocate $2,031,317 for its proposed AMP and $416,569 in DEF administrative costs among its residential water customers. For wastewater, PAWC proposes to allocate a total of $345,883 in AMP expense and $70,931 in DEF administrative costs among its residential customers within

its four claimed wastewater operations (Wastewater SSS, CSS Wastewater, BASA, and Brentwood). In addition, as shown in Table 17, PAWC allocated $315,390 in administrative costs for its H2O Grant and Discount program among residential water customers.

Table 17: PAWC's Allocation of H20 Grant and Discount Program Administrative Costs

Residential Low-Income Program Costs	
AMP Expense Claim (Water)	$2,031,317
Dollar Energy (Water)	$416,569
AMP Expense Claim (WW)	$345,883
Dollar Energy (WW)	$70,931
H2O Grant and Discount Programs	$315,390
Total	**$3,180,090**

See, PAWC Exh. 3-B at 336; *see also*, PAWC Exhs. 12-A Revised, 12-B Revised, 12-C Revised, 12-D Revised, and 12-E Revised under Proposed Rates.

We agree with the ALJs that costs for PAWC's AMP and administration of its residential low-income programs are appropriately assigned to the residential class. It does not appear that PAWC has adjusted its uncollectible costs downward to account for bad debt that will be "forgiven" through the AMP. PAWC calculates its uncollectible expense by applying the historical two-year average uncollectible percentage of 1.176% to total proposed sales revenue. *See*, PAWC Exh. 3-B at 339. To this amount, PAWC adds $2,377,200 in AMP-related uncollectible expense[99] plus $487,500 in DEF

[99] As described in Section VII.J, *supra*, we have reduced this amount to $209,746, consisting of an allowance of $183,485 for the Company's water operations, $14,967 for the Company's wastewater SSS operations, and $11,295 for the Company's wastewater CSS operations. Additionally, we have excluded all amounts related to BASA and Brentwood.

administrative costs. *See*, PAWC Exh. 3-B at 336. We do not find persuasive the OCA's argument that AMP expense represents a subset of uncollectible expense. Incremental AMP expense appears to represent a new cost that would not otherwise be accounted for as uncollectible expense. Therefore, we agree with the ALJs that these costs should be directly assigned to the residential class, on whose behalf they are incurred. Accordingly, we shall deny the OCA's Exception No. 14.

E. Revenue Allocation and Act 11

1. Positions of the Parties

As Victory Brewing noted in its Main Brief, the purpose of revenue allocation is to establish the responsibility of each customer class for a portion of the revenue requirements that are approved by the Commission. A key factor in determining the appropriate portion of the revenue requirements that is allocated to each class is the COSS. Victory Brewing M.B. at 7 (citing *Lloyd*).[100]

PAWC's proposed revenue allocation is described on pages 60-61 of the Company's Main Brief and is set forth in PAWC Exhibits 10-A Revised, 10-B, 10-C, 10-D and 10-E Revised and is generally based on the Company's COSSs.

As discussed below, the OCA and the OSBA recommended alternative revenue allocations for water service based on their respective COSSs. OCA M.B. at 71; OSBA M.B. at 19. Regarding its water operations, PAWC's proposed allocation of its requested revenue requirement is shown in Table 18, below:

[100] It should be noted that Victory Brewing has not contested the results of costs being allocated to certain customer classes, given that the Company's revenue allocation goals were consistently applied in accordance with prior rate cases. Victory Brewing M.B. at 7-8.

Table 18: PAWC's Proposed Water Operations Revenue Distribution

	Pro Forma FPFTY Cost of Service						
	Cost of Service	Act 11 Re-Allocation	Total COS	Present Rates	Proposed Rates	Proposed Increase	
Residential	$612,997,598	$45,864,399	$658,861,997	$528,290,043	$657,085,231	$128,795,188	24.4%
Commercial	$233,858,828	$17,571,738	$251,430,566	$202,779,636	$254,604,000	$51,824,364	25.6%
Industrial	$44,198,427	$4,547,070	$48,745,497	$37,580,738	$48,143,784	$10,563,046	28.1%
Public Authority	$24,425,618	$2,664,710	$27,090,328	$22,559,539	$26,209,929	$3,650,390	16.2%
Other Water Utilities - Group A	$11,845		$11,845	$51,822	$53,666	$1,844	3.6%
Other Water Utilities - Group B	$628,455		$628,455	$202,436	$277,021	$74,585	36.8%
Private Fire Protection	$5,808,618	$439,468	$6,248,086	$5,301,032	$6,304,285	$1,003,253	18.9%
Public Fire Protection	$11,863,933		$11,863,933	$9,519,368	$11,847,068	$2,327,700	24.5%
Total Sales of Water	**$933,793,321**	**$71,087,384**	**$1,004,880,707**	**$806,284,614**	**$1,004,524,984**	**$198,240,370**	**24.6%**

See, PAWC Exh. 12-A Revised. PAWC objected to the OCA's and the OSBA's proposals for the same reasons the Company rejected the Parties' revisions to its water COSS. PAWC R.B. at 49.

In this filing, PAWC invoked Section 1311(c)[101] of the Code, 66 Pa.C.S. § 1311(c), to mitigate the impact of revenue increases on wastewater customers by recovering a portion of the Company's wastewater revenue requirement from its total water and wastewater customer base. Table 19 outlines PAWC's purported effect on each wastewater operation of allocating a portion of wastewater revenue requirement to water operations:

[101] As previously noted, Section 1311(c) of the Code, 66 Pa.C.S. § 1311(c), provides, in relevant part, that the Commission, "when setting base rates, after notice and an opportunity to be heard, may allocate a portion of the wastewater revenue requirement to the combined water and wastewater customer base if in the public interest."

Table 19: PAWC's Purported Revenue Requirement Allocated from Wastewater to Water Customer Base

Wastewater Operations	**FPFTY June 30, 2025**
Wastewater Sanitary Sewer Systems General Operations	$31,962,411
Butler Wastewater ("WW") Operations	$21,552,699
~~Brentwood WW Operations~~	~~$1,565,232~~
Wastewater Combined Sewer Systems Operations	$16,007,052
Total	**$69,522,162**

See, PAWC St. 1 at 20.[102] Several Parties took issue with PAWC's proposal to use Section 1311(c) to mitigate the impact of rate increases on wastewater customers by recovering a portion of the Company's wastewater revenue requirement from its total water and wastewater customer base. *See*, I&E St. 3 at 12; OCA St. 4 at 22-28; OSBA St. 1 at 33-34; Cleveland-Cliffs St. 1 at 7-8; PAWLUG St. 1 at 23-27. PAWC argued that, while Section 1311(c) allocation plays an important role in mitigating the increases to PAWC's 76,000 wastewater customers, it has a modest effect on water customers' bills – representing an increase of approximately $6 per month to an average residential customer. PAWC M.B. at 60-61 (citing PAWC St. 1 at 20-21; PAWC St. 10 at 51-52).

In addition, PAWC submitted that its proposed rates would properly move the rates of return for all classes closer to the overall system average rate of return,[103] as

[102] As indicated previously, PAWC agreed to exclude Brentwood. *See*, PAWC M.B. at 60. However, this does include revenue associated with Farmington (wastewater), STMA and BASA operations. I&E, the OCA, and the OSBA oppose the shifting of any revenue requirement related to the pending BASA acquisition. I&E M.B. at 71; OCA M.B. at 74; OSBA M.B. at 8-9. Removing BASA reduces PAWC's proposed shift by an additional $21.5 million.

[103] *See*, PAWC St. 1 at 19-20.

demonstrated by the following indexed relative rates of return by customer class at present and proposed rates in Table Nos. 20 and 21, below:

Table 20: PAWC's Relative Rates of Return for its Water Operations

Class	Under Present Rates	Under Proposed Rates
Residential	0.98	0.99
Commercial	1.03	1.03
Industrial	0.98	0.98
Public Authority	1.17	0.93
Other Water Utilities - Group A	8.51	6.57
Other Water Utilities - Group B	(0.17)	0.08
Private Fire Protection	1.16	1.02
Public Fire Protection	0.98	1.00
Total	1.00	1.00

See, PAWC Exh. 12-A Revised.

Table 21: PAWC's Relative Rates of Return for its Wastewater Operations

	Wastewater SSS Operations		CSS Wastewater Operations	
Class	Under Present Rates	Under Proposed Rates	Under Present Rates	Under Proposed Rates
Residential	1.35	1.27	1.10	1.08
Non-Residential	1.00	1.16	0.73	0.79
Industrial	0.79	1.02	0.23	0.45
Bulk	1.36	0.87	1.90	1.65
Total	1.00	1.00	1.00	1.00

See, PAWC Exhs. 12-B Revised and 12-C Revised. Moreover, PAWC averred that denial of the Company's proposal could result in significant rate increases in several wastewater zones, eroding wastewater affordability and posing potential for rate shock to the Company's wastewater customers. PAWC M.B. at 50-51.

The Company proposed allocating the Act 11 wastewater revenue requirement directly to water customers based on wastewater class contributions to the revenue requirement deficiency and, where such contributions are not class specific, allocating to water customers based on relative levels of water cost-of-service. *See*, PAWC Exhs. 10-B through 10-E. The Company contended that its proposal is reasonable since, as its witness, Mr. Rea, explained, there is not a complete match between wastewater and water customer classes. PAWC St. 10-R at 34, 36.

According to I&E, the Commission should not permit the Company to allocate any of its wastewater revenue requirement to water customers. I&E explained that, given that the Company is proposing that its water customers subsidize wastewater customers by $71,087,394, simply removing the BASA and Brentwood systems from this proceeding reduces the Act 11 subsidy to $47,969,463. I&E M.B. at 70-71 (citing PAWC Exh. 3-A); I&E St. 3 at 12. Based upon I&E's proposed wastewater rates, the total subsidy needed to operate the wastewater SSS systems is $357,517. *Id*. This $357,517 is the amount necessary based on PAWC's full requested increase being approved. Therefore, I&E contended that if its proposed increase is adopted, there is no need for a subsidy at all. I&E M.B. at 71.

Other Parties acknowledged that the Commission should permit the Company to allocate some portion of its wastewater revenue requirement to water customers, but not the amount sought by the Company.

The OCA argued that the Company's proposed allocation should be reduced given the Commission's determination in *Aqua 2022* to limit Aqua's proposed allocation. The OCA asserted that shifting 94% of the claimed wastewater revenue deficiency is in no way reasonable. This would recover 27% of the total wastewater revenue requirement through the rates for water service. Allocating such a significant percentage of the total wastewater revenue requirement to water, the OCA reasoned,

moves all customers further from paying rates that reflect their indicated cost-of-service and would result in wastewater rates that have no reasonable relationship to the cost of serving those customers. The OCA asserted that its proposal would move the wastewater SSS and CSS rates closer to their indicated cost-of-service while not disproportionately increasing rates for water customers. OCA M.B. at 72-74.

As noted in Section VI.E of this Opinion and Order, *supra*, the OCA proposed a revenue requirement increase of $45,437,081 for PAWC on a total Company basis. The OCA submitted that it would be reasonable to shift up to 75% of the wastewater SSS revenue requirement increase and up to 50% of the CSS wastewater revenue requirement increase to water customers. OCA St. 4 at 28. Regarding the wastewater revenue requirement, the OCA recommended a Pre-Act 11 Allocation wastewater SSS revenue requirement increase of $20.3 million, and a CSS Wastewater revenue requirement increase of $7.3 million for a combined total increase of $27.6 million at PAWC's claimed revenue requirement. Therefore, the OCA submitted that after the Act 11 wastewater allocation, this would result in an approximate increase in revenue requirement as shown below:

OCA Recommended Revenue Requirement		
Water Operations	Wastewater SSS Operations	Wastewater CSS Operations
4.5%	5.3%	4.7%
$36,690,821	$5,078,655	$3,667,604

See, OCA R.B. at 49. Regarding how to assign wastewater revenue requirement to the water customer base, the OCA contended that the dollars are properly allocated based on the Water COSS adopted by the Commission. OCA M.B. at 74-75.

The OSBA and Cleveland-Cliffs only commented on the method of determining the allocation, not the amount of the allocation. *See*, OSBA M.B. at 19-21;

Cleveland-Cliffs M.B. at 3-4.[104] Cleveland-Cliffs agreed with the OCA that the Act 11 subsidy should be allocated among water classes based on the results of the water COSS. Cleveland-Cliffs M.B. at 3-6. According to Cleveland-Cliffs, the Commission should "require the Company to maintain its current practice of allocating any subsidy approved by the Commission based on the underlying water cost of service percentages from PAWC's COSS."[105] Cleveland-Cliffs M.B. at 5.

The OSBA supported the Company's methodology. Its principal arguments are that allocating the subsidy as the OCA has done treats wastewater costs like water costs and thus violates the plain language of 66 Pa.C.S. § 1311(c) and the cost-causation requirements of *Lloyd*. OSBA M.B. at 20-21. In its Main Brief, the OSBA pointed out the legal problem with the OCA's and Cleveland-Cliffs' methodology- it transforms wastewater costs into water costs, and then those "transformed" wastewater costs are allocated based upon PAWC's water COSS. Such a "transformation" violates the plain language of the statute. Specifically, Section 1311(c) explicitly uses the word "allocate" – not "transform" or "change." The OSBA averred that while it is true that the Commission has latitude in interpreting its statutes, the Commission has no authority to change the words of those statutes. OSBA M.B. at 20-21.

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[104] CAUSE-PA stated that it did not take a position with respect to Act 11 in this proceeding and contended that the Company's proposal be rejected based on arguments raised by others. CAUSE-PA M.B. at 23-24.

[105] In current rates, the wastewater subsidy is recovered from water customers according to the customer class share of water costs. Since the total wastewater subsidy cannot be tracked to specific water service classes, the total wastewater subsidy reallocation is currently based on each water service class's proportionate share of total water service cost responsibility under current rates. Therefore, Cleveland-Cliffs contended that PAWC's new allocation methodology in which wastewater subsidies from wastewater service classes are directly assigned to the corresponding water service classes is not reasonable. Cleveland-Cliffs M.B. at 4.

The OSBA further argued that such a transformation of wastewater costs into water costs so that a water COSS can be applied violates the basic tenets of the *Lloyd* decision. The OSBA contended that if cost-of-service is the polestar, then diluting a water COSS with wastewater costs is forbidden. OSBA M.B. at 21.

PAWLUG recommended that the Commission slightly modify PAWC's allocation of the Act 11 subsidy to reflect cost causation for directly assignable costs:

PAWLUG Brief Table 1[106]
Revised Re-allocation of Wastewater Subsidy
($Millions)

Customer Class	PAWC Proposed Re-allocation		PAWLUG Proposed Re-allocation	
	$	%	$	%
Residential	$45.9	64.5%	$46.0	64.8%
Commercial	$17.6	24.7%	$19.6	27.6%
Large Industrial	$4.5	6.4%	$4.3	6.0%
Municipal	$2.7	3.8%	$1.1	1.5%
Fire	$0.4	0.6%	$0.07	0.1%
Total	$71.1	100.0%	$71.1	100.0%

PAWLUG averred that its revised allocation acknowledges some incongruity between the water and wastewater customer classes, but appropriately aligns a greater portion of the Act 11 allocation on the basis of wastewater cost-of-service. PAWLUG M.B. at 23-25. PAWLUG also recommended that the Commission "moderate" the impact of the proposed Act 11 allocation. PAWLUG M.B. at 23.

[106] PAWLUG St. 1S, p. 7 (originally presented as PAWLUG Surrebuttal Testimony Table 1).

2. Recommended Decision

The ALJs recommended that, in lieu of the Company's proposal, which allocates $71 million of wastewater costs to water customers under Act 11, the OCA's approach to the Act 11 subsidy should be adopted, reasoning as follows:

> The OCA's approach constitutes a reasonable balance that will afford some rate relief to PAWC's wastewater customers while still moving Wastewater SSS and CSS rates closer to their cost of service without excessively burdening PAWC's water customers. We further agree with OCA's recommendation that 75% of the Wastewater SSS revenue requirement increase and 50% of the CSS Wastewater revenue requirement increase be assigned to water customers. While this will result in more substantial rate increases for WW CSS customers like those in Scranton, we agree this is more reasonable than the Company's 0% increase.

R.D. at 227.

3. I&E Exception No. 3 and Replies

In its Exception No. 3, I&E argues that the ALJs erred in recommending that the Commission adopt the OCA's proposed Act 11 shift because "[t]he RD does not persuasively explain why the OCA approach would be more reasonable than the other Act 11 subsidy recommendations proposed in this proceeding." I&E Exc. at 8.

In their Replies, PAWC and the OCA each request that I&E's Exception No. 3 be denied, contending that the Commission should adopt the ALJs' recommendation to use the OCA's proposed methodology to allocate revenue

requirement 66 Pa.C.S. § 1311(c). PAWC R. Exc. at 18; OCA R. Exc. at 16-17.[107] The OCA explained that it was only after an extensive summary and examination of all of the Parties' positions, that the ALJs endorsed the OCA's proposal, which will help mitigate the increase to PAWC's water customers. OCA R. Exc. at 16-17. PAWC notes that, although it proposed a higher Section 1311(c) allocation, the Company does not object to the ALJs' recommendation. PAWC submits that I&E's proposal would result in unaffordable wastewater rates in clear contravention of the purpose of Section 1311(c). PAWC R. Exc. at 18.

4. Disposition

The OCA has proposed: (1) a significantly less overall revenue requirement increase to both water and wastewater customers; and (2) to shift less of the wastewater revenue requirement to water customers. Specifically, the OCA recommended a lower overall revenue requirement increase to the CSS Wastewater operations ($7.3 million or 9.3%), compared to PAWC's proposed revenue increase ($15.8 million or 20.1%). *See*, OCA Exh. LA-1. Second, the OCA recommended a shift of half of its reduced CSS revenue requirement to water customers, which would result in a 4.7% revenue increase remaining for the customers in the CSS Wastewater operations. Therefore, under the OCA's proposal, customers in the CSS Wastewater operations would be paying only 50% of the increase needed to cover their full cost-of-service. We agree with the ALJs that this is more reasonable than the Company's proposed 0% increase.

[107] The OCA notes that its proposed methodology also addresses how the Act 11 allocation is assigned to water classes, specifically that it should be based on the water COSS. OCA R. Exc. at 17 (citing R.D. at 216-19; OCA M.B. at 74-75; OCA R.B. at 50-51). None of the Parties filed an exception on that issue.

The OCA has additionally proposed that 75% of the OCA's recommended revenue deficiency for wastewater SSS operations be allocated to water operations. The OCA recommended a lower overall revenue requirement increase to the wastewater SSS operations ($20.3 million or 21.3%), compared to PAWC's proposed revenue increase ($31.9 million or 33.4%). *See*, OCA Exh. LA-1. The OCA's proposal to shift 75% of its reduced wastewater SSS revenue requirement to water customers would result in a 5.3% revenue increase remaining for the customers in the wastewater SSS operations, resulting in customers in the wastewater SSS operations paying only 25% of the increase needed to cover their full cost-of-service. *Id*.

Therefore, under the OCA's proposal, water customers, most of whom are not wastewater customers, would see an additional revenue requirement increase of $18.9 million, or 2.2%, related solely to the shift of costs that the wastewater SSS ($15.2 million) and CSS wastewater ($3.7 million) customers are not covering for their wastewater service. *See*, OCA Exh. LA-1.

Although the OCA's proposal concerning the Act 11 assignment of the wastewater revenue requirement to water customers is based on its proposed water and wastewater revenue requirement increases, we acknowledge that wastewater cost-of-service is a significant driver of PAWC's rate increase request in this proceeding, and therefore, it would be unreasonable to assign no increase to those customers, as proposed by the Company. Therefore, we agree with the ALJs that the OCA's approach constitutes a reasonable balance that will afford some rate relief to PAWC's wastewater customers while still moving wastewater SSS and CSS rates closer to their cost-of-service without

excessively burdening PAWC's water customers. Accordingly, we shall deny I&E's Exception No. 3.[108]

F. Tariff Structure – Residential Customer Charge

PAWC currently provides water utility service through its water operations in five different rate zones, as follows:

- Rate Zone 1 – General Statewide Rate;
- Rate Zone 2 – Valley;
- Rate Zone 3 – Scranton Lackawanna Industrial Building Company (SLIBCO);
- Rate Zone 4 – Turbotville; and
- Rate Zone 5 – Steelton.

The largest of these rate zones is Rate Zone 1, with over 99% of the Company's total water revenue. OCA St. 4 at 4.

[108] Although we are adopting the OCA's revenue allocation methodology, as noted in Section VI.E of this Opinion and Order, we have authorized the following individual allowed annual revenue requirement increases based upon the record in this proceeding: $92,572,399, or 11.2774%, for the Company's water operations, $6,169,555, or 6.52%, for its wastewater SSS operations, and $5,322,644, or 6.77%, for its CSS wastewater operations. As set forth in Table Act 11-Water and Wastewater Revenue Requirement Summary, which is part of the Commission Table Calculating Allowed Revenue Increase, which are attached to this Opinion and Order, we have authorized a Pre-Act 11 Allocation revenue requirement increase of $68,741,091 for the Company's water operations, $24,678,219 for its wastewater SSS operations, and $10,645,287 for its CSS wastewater operations. We have then employed the OCA's revenue allocation methodology to arrive at the final revenue requirement increase amounts above.

PAWC currently provides SSS wastewater service through its wastewater SSS operations in six different rate zones, as follows:

- Rate Zone 1 – General Statewide Rate;
- Rate Zone 2 – New Cumberland;
- Rate Zone 5 – Valley;
- Rate Zone 7 – York;
- Rate Zone 8 – Foster Township; and
- Rate Zone 9 – Royersford.

The largest of these rate zones is Rate Zone 1, with approximately 60% of the Company's total current SSS wastewater revenue. OCA St. 4 at 4-5.

Currently, PAWC also provides CSS wastewater service through its CSS wastewater operations in three different rate zones, as follows:

- Rate Zone 3 – Scranton;
- Rate Zone 4 – Kane; and
- Rate Zone 6 – McKeesport.

The largest of these rate zones is Rate Zone 3, with approximately 70% of the Company's total current CSS wastewater revenue. OCA St. 4 at 5-6.

1. Water Operations

a. Positions of the Parties

Regarding its water operations, PAWC has proposed to increase the residential 5/8, ¾, 1, and 1½, inch monthly customer charges from $17.50 to $20.00 in the FPFTY. In support, the Company provided two customer cost analyses for the

FPFTY in PAWC Exhibit 12-A Revised, Appendix A, Attachment RS1j.[109] The results of the first cost analysis, shown on page 1, include all costs being allocated to the customer cost function and results in a cost of $25.57 per month in the FPFTY. Additionally, PAWC provided a second customer cost analysis that relied on the allocation of costs more directly applicable to customers. The result of the more direct customer cost analysis is $20.26 per month per 5/8" residential customer in the FPFTY. *See*, PAWC Exh. 12-A Revised, Appendix A, Attachment RS1j at 2. PAWC submitted that its proposed $20.00 per month residential customer charge is fully supported by its witness, Ms. Heppenstall's direct cost analysis. PAWC M.B. at 51-52.

I&E agreed with PAWC's proposed increase to $20.00 for the monthly customer charges for 5/8, ¾, 1, and 1½, inch residential water customers, based on the Company's direct customer cost analysis.[110] I&E M.B. at 74.

Regarding residential customers with meter sizes over 2", commercial, and municipal customers, I&E accepted the Company's proposed customer charges for those customers noting that all of the proposed increases were in the 7% to 8% range, which it deemed to be a reasonable increase for a customer charge. I&E M.B. at 75. In addition, I&E did not make any adjustments to the Company's proposed customer charge for the Industrial and Other Water Utilities Monthly, Groups A and B, because while those classes have a larger percentage increase in their customer charge, the percent increase for an average industrial customer is reasonable. *Id.*

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[109] A customer cost analysis is a part of a COSS that is used to determine the appropriate fixed customer charges for the various classes and meter sizes. It is necessary to perform a customer cost analysis because a fixed customer charge represents the revenue that the Company is guaranteed to receive each month, regardless of the level of usage. As acknowledged in the seventh edition of the AWWA Manual, there is a tradeoff between revenue stability from a high customer charge, and affordability and conservation from a low customer charge and higher usage rates. I&E M.B. at 72.

[110] In the event that less than the full requested increase is granted, I&E proposed that these customer charges be scaled back. I&E M.B. at 74.

The OCA averred that PAWC's monthly residential water customer charges should remain at their current rates, contending that PAWC's analysis includes costs that are not direct customer costs and do not change with the addition or subtraction of a customer, including office building and furniture expenses. OCA M.B. at 78. The OCA adjusted the Company's calculated direct customer charge, at PAWC's filed-for revenue requirement increase, removing the improperly included office building and furniture costs and to reflect the OCA's recommended rate of return. These adjustments, shown on OCA Schedule JDM-4SR, reduce the calculated charge to $18.73. Based on the OCA's overall position on revenue requirement, the OCA recommended the existing $17.50 monthly charge for residential customers should be maintained. OCA M.B. at 77-78.

b. Recommended Decision

In their Recommended Decision, the ALJs agreed with I&E and found that PAWC's proposal to increase the monthly water residential customer charge from $17.50 to $20.00 in the FPFTY is justified. R.D. at 234. The ALJs recommended that the Commission reject the OCA's argument that PAWC's analysis included costs that are not direct customer costs, noting the Company's contention that the OCA sought to exclude similar costs from consideration of the residential customer charge in Aqua's most recent base rate case which the Commission rejected. R.D. at 235 (citing *Aqua 2022* at 268-69). The ALJs noted that in *Aqua 2022*, the Commission indicated that "[w]e find that the OCA proposed limitation of costs excludes customer costs that should be included in a customer charge and is unreasonably narrow." R.D. at 235 (citing *Aqua 2022* at 269). Accordingly, the ALJs recommended that the Commission adopt PAWC's proposal to increase the monthly residential customer charge from $17.50 to $20.00. R.D. at 235.

c. OCA Exception No. 15 and Replies

In its Exception No. 15, the OCA contends that the ALJs erred by recommending that the Commission adopt the Company's direct customer cost analysis for the water customer charge. In support, the OCA reiterates arguments advanced in its Main and Reply Briefs. OCA Exc. at 26-27. The OCA posits that the customer cost analysis is flawed because it includes costs that are not direct customer costs and do not change with the addition or subtraction of a customer, using office building and furniture expenses as an example. Additionally, in support of its proposal that the existing $17.50 monthly residential customer charge should be maintained, the OCA argues that a reduction in the Company's revenue requirement increase would indicate a lesser water customer charge. OCA Exc. at 27-28.

In its Replies, PAWC posits that the OCA's Exception on this matter should be rejected since the arguments presented by the OCA have already been considered by the ALJs, who recommended that the Commission reject such arguments. PAWC R. Exc. at 19.

d. Disposition

A fixed customer charge represents the revenue that the Company is guaranteed to receive each month, regardless of the level of usage. As indicated previously, the latter of the two customer cost analyses provided by the Company relied on the allocation of costs more directly applicable to customers and is used to support PAWC's proposal to increase the residential 5/8, ¾, 1, and 1½, inch monthly customer charges from $17.50 to $20.00. The result of this more direct customer cost analysis is $20.26 per month per 5/8" residential customer in the FPFTY. *See*, PAWC Exh. 12-A Revised.

With regard to the alternative proposal of the OCA, which relies on the OCA's assertion that PAWC's customer cost analysis is flawed because it includes costs that are not direct customer costs and do not change with the addition or subtraction of a customer, we find it to be without merit. Rather, we concur with the ALJs that we have previously rejected such limitations on cost recovery through the fixed customer charge, as proposed by the OCA. *See*, *UGI Electric 2018* at 168-75; *see also*, *Aqua 2022* at 268-69. Therefore, based upon our consideration of the evidence and record herein, we shall adopt the ALJs' recommendation on this issue. Accordingly, we shall deny the OCA's Exception No. 15.

2. Wastewater Operations

a. Positions of the Parties

Regarding PAWC's wastewater SSS operations, most rate zones currently have a monthly wastewater residential customer charge of $14.30. PAWC is proposing to increase that charge to $20.00 per month. In support, the Company provided one COSS for the wastewater SSS operations (Rate Zones 1, 2, 5, 7, 8, and 9). PAWC Exh. 12-B Revised. This COSS included a customer cost analysis that claimed the wastewater SSS operations wastewater customer cost is comprised of $13.43 per month of direct customer costs, and $29.20 per month of inflow and infiltration (I&I) costs for a total cost of $42.63 for a residential customer. *See*, PAWC Exh. 12-B Revised.

I&E supported a monthly wastewater residential customer charge of $15.00, noting that a $15.00 per month customer charge will recover more than the direct customer cost of $13.87[111] per month plus a small portion of the I&I costs identified by

[111] The Company's claimed direct customer costs of $13.87 per month was revised in its rebuttal testimony to $13.43 per month. *See*, PAWC Exh. 12-B Revised.

the Company. In support of limiting the amount of I&I costs to be recovered through the customer charge I&E's witness, Mr. Kubas, provided the following explanation:

> I recognize that I&I costs are a large portion of the cost of operating wastewater systems. However, I&I costs relate to flow, which does not vary with the number of customers, a typical criterion for determining if a cost should be recovered in the customer charge. Therefore, I recommend only a small part of I&I costs be recovered in the customer charge to generate revenue, but I believe it is improper to recover more than a small amount of the cost of I&I in the customer charge.

I&E St. 3 at 19.

Additionally, for wastewater SSS operations commercial customers, I&E recommended a customer charge of $36.70, or an increase of $1.70 from the current $35.00 customer charge. This is a 4.9% increase, which matches the increase I&E recommended for residential customers. I&E M.B. at 76.

The OCA argued that the current customer charges in Rate Zones 1, 2, 5, and 6 should be maintained at $14.30, the current residential customer service charges in Rate Zones 3, 4, 7, and 9 should be reduced to $14.30 for consistency,[112] and any additional revenue to be recovered from residential customers should be recovered through increases in volumetric usage charges. OCA M.B. at 78-79. These

[112] The Company proposed the Rate Zone 3 residential customer charge *increase* from $19.50 per month to $19.71 per month, or by 1.1%. The Company proposed the Rate Zone 4 residential customer charge *decrease* from $40.00 per month to $20.00 per month, or by 50%. The Company proposed the Rate Zone 7 residential customer charge *increase* from $18.00 per month to $20.00 per month, or by 11.1%. The Company proposed the Rate Zone 9 residential customer charge decrease from $48.00 per month to $20.00 per month, or by 58.3%. *See*, PAWC Exhs. 10-C at 3-4, 10-B at 6, 8. In Rate Zone 8 all customers are currently charged a flat rate charge, which PAWC has proposed to *decrease* from $106.00 to $100.00. *See*, PAWC Exh. 10-B at 7.

recommendations are supported by the testimony of the OCA's witness, Mr. Colton, with regard to the impact of higher fixed charges on customers' ability to control their bills. *Id*.

b. Recommended Decision

In their Recommended Decision, the ALJs agreed with I&E that a $15.00 per month wastewater residential customer charge will recover more than the direct customer costs of $13.87 per month but will limit the amount of I&I costs to be recovered through the customer charge. The ALJs also noted their agreement with I&E that its $0.70 increase, which constitutes a 4.9% increase, will provide the Company with sufficient revenue while limiting the increase to low-usage residential customers. R.D. at 235-36.

Although no one else addressed it, the ALJs also noted their agreement with I&E's proposal to increase the monthly wastewater customer charge from $35.00 to $36.70, or by $1.70, for wastewater SSS operations commercial customers. Similar to the residential customer charge, this constitutes an increase of 4.9%, which is a reasonable increase to the monthly wastewater customer charge for wastewater SSS commercial customers. R.D. at 236.

c. OCA Exception No. 16 and Replies

In its Exception No. 16, the OCA states, "[t]he ALJs erred by adopting I&E's $15 proposal because that proposal is not supported by substantial evidence and is the result of I&E witness [Mr.] Kubas arbitrarily assigning a small portion of certain indirect costs – Inflow and Infiltration (I&I) costs – to the customer charge…" OCA Exc. at 28.

The OCA contends that PAWC's wastewater direct customer cost calculation improperly included I&I costs, since these costs do not vary directly with the addition or subtraction of a customer. The OCA argues that I&E's $15 customer charge proposal similarly committed the same error by including a small portion of I&I costs in its calculation. The OCA asserts that, exclusive of I&I costs, the Company's calculation of customer costs would indicate a direct cost of $13.87 at the Company's proposed revenue requirement. Therefore, the OCA maintains that, regarding residential wastewater customers with 5/8, ¾, 1, and 1½, inch meters, in those rate zones with a current monthly residential customer charge of $14.30, the $14.30 customer charge should be maintained, and in those rate zones with a current monthly residential customer charge which exceeds $14.30, the charge should be reduced to $14.30 for consistency. OCA Exc. at 28-29.

In its Replies, PAWC posits that the OCA's Exception on this matter should be rejected since the arguments presented by the OCA have already been considered by the ALJs, who recommended that the Commission reject such arguments. PAWC R. Exc. at 19.

In its Replies, I&E maintains that, since it is appropriate to recover a small portion of I&I costs through the customer charge, I&E's analysis should be adopted. I&E explains that the increase will provide sufficient revenue, while limiting the increase to low-usage residential customers. I&E R. Exc. at 14.

d. Disposition

Before us are three divergent positions regarding the appropriate monthly residential customer charge for wastewater customers. Each Party's respective proposals have been summarized in Table 22, as follows:

Table 22: Comparison of Monthly Residential Customer Charge Proposals

	Current Customer Charge	PAWC Proposed Customer Charge	I&E Proposed Customer Charge	OCA Proposed Customer Charge
Wastewater SSS Operations	**(1)**	**(1)**	**(3), (4)**	**(5)**
Rate Zone 1	$14.30	$20.00	$15.00	$14.30
Rate Zone 2	$14.30	$20.00	$15.00	$14.30
Rate Zone 5	$14.30	$20.00	$15.00	$14.30
Rate Zone 7	$18.00	$20.00	$15.00	$14.30
Rate Zone 8 (Flat Rate)	$106.00	$100.00	$132.00	N/A
Rate Zone 9	$48.00	$20.00	$15.00	$14.30
CSS Wastewater Operations				
Rate Zone 3 **(2)**	$19.50	$19.71	$20.00	$14.30
Rate Zone 4	$40.00	$20.00	$20.00	$14.30
Rate Zone 6	$14.30	$20.00	$20.00	$14.30

(1) *See*, PAWC Exhs. 10-B at 6-7, 10-C at 3-4.

(2) PAWC indicated that it limited the increase in Rate Zone 3 – Scranton in accordance with its agreement with the seller that it is limited to proposing an increase of 1.9% per year. PAWC St. 4 at 40.

(3) *See*, I&E Exh. 3, Schs. 3 and 19.

(4) I&E indicated that its monthly residential flat rate proposal of $132.00 for Rate Zone 8 is based upon the average bill of a Rate Zone 1 customer that uses 3,122 gallons per month. I&E St. 3 at 22.

(5) *See*, OCA St. 4 at 47.

We agree with the ALJs that I&E's proposed 4.9% increase to the current $14.30 per month customer charge will provide the Company with sufficient revenue while limiting the increase to low-usage residential customers, as well as limiting the amount of I&I costs recovered through the customer charge. We recognize that I&I costs are a large portion of the cost of operating wastewater systems. PAWC estimated its costs related to I&I total approximately $25.7 million. *See*, PAWC Exh. 12-B Revised. PAWC included only two-thirds of this amount ($17.1 million) in its customer cost analysis, and I&E's $15 per month customer charge proposal further limits this, recovering only 3.6%[113] of all costs related to I&I in the customer charge.

[113] [586,012 ÷ ($15.00 - $13.43)] / $25,667,991.

Furthermore, under I&E's proposal, the decrease to the present Rate Zone 7 customer charge from $18.00 per month to $15.00 per month will be slightly less than under the OCA's proposal, thus generating more revenue in Rate Zone 7 than reducing the Rate Zone 7 customer charge to $14.30 per month.

In this case, we agree with the ALJs' reasoning and add that revenue stability for the utility must be balanced against the affordability and conservation concerns. I&E's proposal appears to accomplish this objective. Accordingly, we shall deny the OCA's Exception No. 16.

G. Tariff Structure – Water Rate Design

1. Positions of the Parties

PAWC noted that initially, the OSBA's witness, Mr. Higgins, recommended a $5.3 million reduction to the Commercial class offset by a $5.3 million increase to the Municipal class. PAWC M.B. at 62 (citing OSBA St. 1 at 35). Subsequently, Mr. Higgins updated his proposed revenue allocation based on the results of his rebuttal COSS. PAWC M.B. at 62 (citing OSBA St. 1-SR at 19). PAWC further noted that Cleveland-Cliffs' witness, Mr. Richard Baudino, recommended an alternative revenue allocation that results in a higher increase for the Municipal class, and a lower increase for the Residential, Commercial, Industrial, and Private Fire classes. PAWC M.B. at 62 (citing Cleveland-Cliffs St. 1 at 12). PAWC's witness, Mr. Rea, did not oppose the proposals of Mr. Higgins and Mr. Baudino for higher increases for the Municipal class with offsetting decreases to other customer classes. PAWC M.B. at 62-63 (citing PAWC St. 10-R at 43). However, PAWC submitted that the OCA's proposed alternative revenue allocation for water service should be rejected because it is based on the OCA's alternative and deficient COSS. PAWC M.B. at 63 (citing OCA St. 4 at 33-34).

PAWC also submitted that the Company's proposed meter charges are reasonable, and the Commission should reject the alternative proposals of I&E, the OCA, PAWLUG, CEO, and Cleveland-Cliffs. PAWC M.B. at 63 (citing I&E St. 4 at 30-35; OCA St. 4 at 35-36; Cleveland-Cliffs St. 1 at 13-14; PAWLUG St. 1 at 28-29). Specifically, PAWC averred that the proposals of PAWLUG and Cleveland-Cliffs would result in increased meter charges with no cost-basis. More specifically, Mr. Rea stated that PAWC's meter charges for the Industrial and Other Water Utilities classes are already more than double PAWC's proposed meter charges for residential and commercial charges with meter sizes of 4" and above. Mr. Rea continued that the proposal of PAWLUG's witness, Ms. LaConte, would result in the meter charges being more than four times the proposed charges for residential and commercial charges with no apparent basis in cost. PAWC St. 10-R at 45. PAWC also disagreed with the recommendation of I&E's witness, Mr. Ethan Cline, to adopt a Rate Zone 1 (RZ-1) residential customer charge of $19.50 because his calculation is based solely on a cost allocation study restricted to direct customer-related costs. PAWC M.B. at 63 (citing PAWC St. 10-R at 44).

PAWC also submitted that the alternative volumetric rate proposals of I&E, the OCA, PAWLUG, and Cleveland-Cliffs should all be rejected. PAWC M.B. at 63 (citing I&E St. 4 at 36-41; OCA St. 4 at 36-37; PAWLUG St. 1 at 28-29; Cleveland-Cliffs St. 1 at 13-14). PAWC contended that Mr. Cline and the OCA's witness, Mr. Mierzwa, have not demonstrated that the Company's proposed rates for Rate Zone 2 (RZ-2) – Valley and Rate Zone 4 (RZ-4) - Turbotville are unreasonable, and adoption of their recommendations would delay their full integration into RZ-1. PAWC also submitted that the recommendations of PAWLUG and Cleveland-Cliffs conflict with the intent to design industrial rates to collect total revenue allocated to that class less revenues from current industrial meter charges. PAWC M.B. at 63-64 (citing PAWC St. 10-R at 47).

I&E submitted that given its recommendation that Audubon and Farmington be removed from the instant case, I&E recommended that the rate zones for Audubon and Farmington also be removed. Therefore, I&E did not address proposed rate changes for the Audubon and Farmington rate zone customers. I&E M.B. at 76.

I&E's witness, Mr. Cline, opined that except for the proposal to merge RZ-2 – Valley usage rates into RZ-1, the Company's proposed rates, which are based on the Company's proposal to consolidate monthly metered rates for all customer classes in the following rate zones into RZ-1 for the FPFTY, are reasonable: (1) RZ-2 – Valley; (2) Rate Zone 3 (RZ-3) – SLIBCO; (3) RZ-4 – Turbotville; and (4) Rate Zone 5 (RZ-5) – Steelton. I&E M.B. at 76-77 (citing I&E St. 4-SR at 21; PAWC St. 10 at 35). Mr. Cline explained that the proposed usage rates for the RZ-1 residential class, and the usage rates for any rate zones that are being proposed to merge with RZ-1 rates, need to be increased because of the decreased customer charge revenue based on I&E's recommended customer charges compared to PAWC's proposed customer charges under the fully requested revenue increase. I&E St. 4 at 36. Further, Mr. Cline noted that given its recommendations regarding the Act 11 subsidy and the adjustments made by I&E's witnesses, Mr. DC Patel and Ms. Okum, it is more likely that the usage rate will be subject to a scale back rather than an increase. As such, Mr. Cline did not calculate what the increase would be at the fully proposed increase. *Id.*

Mr. Cline recommended adopting PAWC's proposed customer charges for the Commercial, Municipal, Industrial, and Other Water Utilities Monthly – Groups A and B rate classes. I&E M.B. at 77 (citing I&E St. 4 at 34-35).

Regarding RZ-2, I&E averred that: (1) the proposed percentage increase for residential customers is at least double that of the average residential customers in the other rate zones; and (2) for commercial customers, the disparity between the percentage increases for the other rate zones, apart from RZ-4, is more than that of the residential

customers. I&E M.B. at 77-78 (citing PAWC Exh. 10-A at 4, 11, 77, 83). As set forth in Table 23, below, Mr. Cline recommended the following usage rates for RZ-2 Residential and Commercial:

Table 23: I&E's Recommended RZ-2 Residential and Commercial Rates

Rate Zone 2 Residential and Commercial Usage Rates			
Usage Level	Present Rate Per Hundred Gal	I&E Proposed Rate Per Hundred Gal	Revenue Percent Increase
Residential			
First 3,400 Gal	$1.1000	$1.6000	45.5%
Over 3,400 Gal	$1.1000	$1.6000	45.5%
Commercial			
First 16,000 Gal	$1.1000	$1.6500	55%
Over 16,000 Gal	$1.1000	$1.2540	14%

I&E St. 4 at 37-38. Mr. Cline averred that a $1.6 per hundred-gallon usage rate for residential customers will generate a reasonable percent increase on the total residential bill. Mr. Cline continued that for commercial customers, he kept the second block usage rate at approximately 76% of the first block, which is the same ratio as the Company's proposed rates. Accordingly, Mr. Cline submitted that the resulting overall percentage increases for commercial customers is reasonable. I&E St. 4 at 38.

Mr. Cline agreed with PAWC's recommendation to set RZ-3 commercial and municipal usage rates equal to RZ-1. I&E St. 4 at 38-39.

Mr. Cline also submitted that the Company's proposal to set the RZ-4 residential and municipal rates equal to RZ-1 is reasonable. However, Mr. Cline averred that PAWC's proposal to set RZ-4 commercial usage rates equal to RZ-1 would result in a 68.56% increase to the average RZ-4 commercial customer bill. I&E St. 4 at 39-40 (citing PAWC St. 10, Exh. 10-A at 77, 83). Mr. Cline provided that because this represents an unnecessarily large increase when compared to the increase proposed for RZ-1 commercial customers, he set the RZ-4 commercial usage rates equal to those of

RZ-2, thereby allowing RZ-2 and RZ-4 to be merged after this base rate case, and likely merged with RZ-1 after the subsequent base rate case. I&E St. 4 at 40. Accordingly, Mr. Cline submitted that the percentage increases become far more reasonable based on these adjustments. As set forth in Table 24, Mr. Cline recommended the following RZ-4 Residential and Commercial usage rates:

Table 24: I&E's Recommended RZ-4 Residential and Commercial Rates

Rate Zone 4 Residential and Commercial Usage Rates			
Usage Level	Present Rate Per Hundred Gal	I&E Proposed Rate Per Hundred Gal	Revenue Percent Increase
Commercial			
First 16,000 Gal	$1.1000	$1.6500	55%
Over 16,000 Gal	$1.1000	$1.2540	14%

I&E St. 4 at 40.

Finally, Mr. Cline accepted PAWC's proposal to set RZ-5 residential, commercial, municipal, and industrial rates equal to that of RZ-1. I&E St. 4 at 41.

The OCA provided that in addition to its recommendations regarding the residential customer charges, *supra*, it disagreed with the Company's proposed residential Water usage charge for RZ-2 – Valley customers. OCA M.B. at 79 (citing OCA St. 4 at 36-37). The OCA submitted that to allow gradualism and reduce rate shock, the usage charge for RZ-2 – Valley customers should be set at 70% of the RZ-1 usage charge, which will limit the increase for a RZ-2 – Valley residential customer using 3,201 gallons per month to about 1.7x the OCA's proposed system average increase. Further, the OCA added that I&E agreed that PAWC's proposed increase for Valley customers is unnecessarily large and recommended a more moderate increase. OCA M.B. at 80 (citing I&E St. 4-SR at 28; I&E St. 4 at 37-38).

PAWLUG provided that as part of PAWC's justification for proposing the RDM and ECIC, discussed in Section XI.A, *infra*, the Company asserted an interest in reducing revenue volatility. PAWLUG averred that although it opposes approval of the RDM and ECIC, the Company can address revenue stability for industrial customers by increasing the Industrial customer charge for customers with meters that are 6" or larger. PAWLUG M.B. at 26. Specifically, PAWLUG's witness, Ms. LaConte, recommended that the Company decrease the volumetric rate and increase the customer charge for industrial customers because a higher customer charge will reduce revenue volatility and provide a stable and reliable revenue stream. PAWLUG St. 1 at 28 (citing PAWC St. 10 at 90). As such, PAWLUG submitted that adoption of the below modified rate design will ensure more stable revenue from the Industrial customer class:

Table 3
Revised Industrial Rate Design

Description	Current	PAWC	PAWLUG
Customer Charge			
6" Meter	$1,401	$1,401	$2,802
8" Meter	$2,243	$2,243	$4,486
10" Meter	$3,223	$3,223	$6,446

Table 3
Revised Industrial Rate Design

Description	Current	PAWC	PAWLUG
Volumetric Charge			
First 16,000 Gal	$1.4200	$1.9128	$2.8565
Next 584,000 Gal	$1.0804	$1.4824	$1.4083
All Over 600,000 Gal	$0.8499	$1.1477	$1.0329
Above 15,000,000*	$0.5110	$0.6852	$0.6167

*Curtailment rate
Source: Exhibit 10-A Water Operations.

PAWLUG St. 1 at 28-29. PAWLUG noted that its revised rate design would recover 17% of the Company's fixed costs through customer charges, compared to the Company's determination that approximately 95% of its costs are fixed. PAWLUG St. 1 at 29.

PAWLUG noted that while PAWC's customer charge analysis provides a cost basis for the 5/8" meter customer charge, it opposed the Company's proposed rate design because it is not cost-based. PAWLUG M.B. at 27 (citing PAWC St. 10-R at 45; PAWC St. 10, Exh. 10-A). Further, PAWLUG argued that the Company has not established the cost-basis for the existing Industrial customer charge. Moreover, PAWLUG contended that under its proposed rate design, the overall revenue requirement allocated to industrial customers would remain unchanged. As such, PAWLUG submitted that its proposal is reasonable and should be approved by the Commission. PAWLUG M.B. at 27.

Cleveland-Cliffs averred that it is "problematic" that the Company did not propose any increase to the existing industrial meter charges but is seeking to collect the entire industrial revenue increase through the volumetric charges. Cleveland-Cliffs M.B. at 6 (citing PAWC St. 10 at 86). In response to the testimony of PAWC's witness, Mr. Rea, that over 95% of the Company's costs are fixed and do not vary with water consumption, Cleveland-Cliffs' witness, Mr. Baudino, provided that volumetric rates collect these costs based on the volumes of water consumed by the water service rate classes. Mr. Baudino continued that as consumption varies by month and year, the Company's collection of fixed costs will also vary, thereby introducing more variability in its revenues and earnings than if more costs, such as meter charges, were collected from fixed charges. Accordingly, Mr. Baudino submitted that to the extent possible, fixed costs should be collected through fixed charges. Mr. Baudino added that under Mr. Rea's proposed rate design, PAWC would collect even more fixed costs through volumetric rates, which moves in the opposite direction from cost-causation. Cleveland-Cliffs St. 1 at 13-14.

Cleveland-Cliffs also addressed Ms. LaConte's proposed rate design for the Industrial class, noting that the industrial meter charges would nearly double and provide for smaller percentage increases to the volumetric charges. According to Cleveland-Cliffs, the Company's description of its variable versus fixed costs would justify an even greater increase in industrial fixed charges. However, Cleveland-Cliffs submitted that Ms. LaConte's proposal would ensure that more of PAWC's fixed costs would be collected through a meter charge. Cleveland-Cliffs M.B. at 6-7 (citing PAWLUG St. 1 at 28). As such, Cleveland-Cliffs submitted that PAWLUG's proposed rate design for the Industrial class should be approved, or alternatively, industrial customer charges should be increased by the same percentage as industrial volumetric charges. Cleveland-Cliffs M.B. at 7.

Victory Brewing agreed with Cleveland-Cliffs' recommendation of higher customer charges and lower volumetric charges for large industrial customers because it allows customers to reduce their bills through conservation when possible. Victory Brewing M.B. at 8 (citing Cleveland-Cliffs St. 1 at 13-14). Victory Brewing averred that this outcome is consistent with prior Commission rulings where, for example, the Commission has recognized that it is appropriate to set a customer charge that ensures the recovery of fixed costs that are more customer-related than usage-related while still allowing some revenue to be recovered through usage-based charges. Victory Brewing M.B. at 6 (citing *PPL 2012*).

The City of Scranton requested that the Commission deny the requested water tariff increase, noting that its residents are already struggling to make ends meet and the additional burden of an increase to water rates would exacerbate that situation. City of Scranton M.B. at 2.

2. Recommended Decision

The ALJs noted that PAWC currently offers water service in: (1) RZ-1 – the largest rate zone, with over 99% of PAWC's total water revenue; (2) RZ-2 – Valley; (3) RZ-3 – SLIBCO; (4) RZ-4 – Turbotville; and (5) RZ-5 – Steelton. The ALJs also noted that PAWC is proposing to consolidate rates for RZ-2 – Valley, RZ 3 – SLIBCO, RZ-4 – Turbotville, and RZ-5 – Steelton, with RZ-1 rates. The ALJs further noted that PAWC's only proposed changes in volumetric rate structure are changes in the steps for volumetric rates necessary to move Steelton, Valley, and SLIBCO rate zones to RZ-1 rates. R.D. at 245-46 (citing PAWC St. 10 at 31, 35).

The ALJs agreed with I&E that PAWC's proposed consolidation of the other rate zones into RZ-1 in the FPFTY is reasonable, with the exception of RZ-2 – Valley. The ALJs noted that this proposed change would cause a 63% rate increase for a residential customer using 3,201 gallons per month, making it twice the system average. As such, the ALJs agreed with I&E's alternate proposal of $1.60 per hundred-gallon usage rate for residential customers, finding that this will generate a reasonable increase on the total bill for a RZ-2 residential customer. Similarly, the ALJs agreed with I&E that its proposed adjustment to the commercial customer rate of $1.6500 for the first 16,000 gallons, and $1.2540 over 16,000 gallons, will generate a reasonable increase for the commercial class and, therefore, should be adopted. R.D. at 246.

The ALJs also agreed with I&E's concerns regarding PAWC's proposed consolidation of RZ-4 – Turbotville into RZ-1. The ALJs noted that I&E's witness, Mr. Cline, agreed with the proposal, insofar as to consolidate residential and municipal rates with RZ-1 is reasonable. However, the ALJs pointed out that Mr. Cline determined that PAWC's proposal, as it relates to commercial usage, would result in a 68.56% average bill increase for a RZ-4 –Turbotville customer, which is excessive when compared to the RZ-1 commercial customer. Accordingly, the ALJs agreed with Mr. Cline's proposal to

set the RZ-4 commercial usage rates equal to the RZ-2 commercial usage rate of $1.6500 for the first 16,000 gallons, and $1.2540 over 16,000 gallons, so that RZ-2 and RZ-4 may be merged after this base rate case, with the goal of merging RZ-4 with RZ-1 after PAWC's next base rate case. The ALJs also agreed that this proposal will result in a far more reasonable increase than proposed by PAWC. R.D. at 246.

Separately, the ALJs agreed with PAWC that PAWLUG's proposed rate design, to increase the Industrial customer charge for customers with meters that are 6" or larger, is not cost based and should be rejected. Further, the ALJs were not persuaded by PAWLUG's counter argument that: (1) PAWC's customer charge analysis only provides a cost basis for the 5/8" meter customer charge; (2) PAWC has not established the cost-basis for the existing Industrial customer charge; and (3) the overall revenue requirement allocated to Industrial customers would not change. Moreover, the ALJs agreed with PAWC's witness, Mr. Rea, that volumetric rates for industrial customers should be designed to collect the total revenue allocated to that class, less revenue from current industrial meter charges. R.D. at 247.

The ALJs also recommended that because the Company does not oppose the higher increases for the Municipal class proposed by the OSBA and Cleveland-Cliffs, the Commission adopt this proposal. R.D. at 247.

3. Exceptions, Replies, and Dispositions

a. PAWLUG Exception No. 1 and Replies

In its Exception No. 1, PAWLUG argues that the ALJs' recommendation that the Commission approve higher increases for the Municipal class proposed by the OSBA and Cleveland-Cliffs: (1) lacks clarity as to which of the proposals would be implemented; (2) conflicts with cost-of-service principles; and (3) would result in unjust

and unreasonable rates for municipal customers, including the public colleges and hospitals in the Company's service territory. PAWLUG Exc. at 2 (citing R.D. at 247; Supplement No. 48 Tariff Water-Pa. P.U.C. No. 5, Rule 26).

PAWLUG notes that the Commonwealth Court and the Commission have repeatedly held that a utility's cost of providing service must be the guiding principle – or polestar – in utility ratemaking. PAWLUG Exc. at 2 (citing *Lloyd*; *see also, i.e.*, *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-2008-2073938 (Order entered March 26, 2009) (*PGW 2008*)). Further, PAWLUG contends that the cost-of-service for the Municipal class was modified substantially due to a correction made by the Company. Specifically, PAWLUG notes that the original rate filing included an overstated allocation factor for the meters and services in the Municipal class, which resulted in the Municipal class cost-of-service considerably below cost-of-service at present revenues, with a Relative Rate of Return (RROR) at present revenues of 0.33. PAWLUG Exc. at 2-3 (citing PAWC St. 10-R at 2; PAWC St. 12, Exh. 12-A, Sch. B). PAWLUG continues that in Rebuttal, PAWC adjusted the Municipal class RROR at present revenues to 1.16. PAWLUG Exc. at 3 (citing Cleveland-Cliffs St. 1-R at 10).

Consequently, PAWLUG contends that the basis for the Parties' proposal, to assign a higher increase for the Municipal class, no longer exists. Further, PAWLUG notes that while both the OSBA and Cleveland-Cliffs acknowledged this correction, they continued to propose that the Municipal class absorb a higher share of revenues than proposed by the Company. PAWLUG notes that the OSBA, to moderate the rate increase for the Residential and Commercial classes, assigned costs to the Municipal class based on the results of its COSS. PAWLUG Exc. at 3 (citing OSBA St. 1-S at 19). PAWLUG further notes that Cleveland-Cliffs retracted its statement that the Municipal class should receive an increase above system average but recommends flat percentage increases for each customer class. PAWLUG Exc. at 3 (citing Cleveland-Cliffs St. 1-R at 10).

PAWLUG avers that the ALJs made no distinction between these two proposals and, while there may have been a basis to adjust the Company's proposed increase to Municipal based on the original 0.33 RROR, such a proposal is now unreasonable and contrary to *Lloyd*. Further, PAWLUG argues that following PAWC's Rebuttal COSS changes, PAWC's revenue allocation for the Municipal class makes reasonable progress towards cost-of-service and should be approved. Moreover, PAWLUG argues that due to the inconsistencies between the recommendations of Cleveland-Cliffs and the OSBA, unintended consequences are likely to result from efforts to incorporate the ALJs' directive to shift additional revenue to the Municipal class. PAWLUG Exc. at 3.

In its Replies, the OCA infers that PAWLUG is proposing that the Company's updated revenue allocation should be adopted without modification. OCA R. Exc. at 17-18 (citing PAWLUG Exc. at 3). The OCA disagrees with this proposal, arguing that contrary to PAWLUG's averment, the record demonstrates that based on the Company's corrected COSS, PAWC's revenue allocation would under-allocate costs to the Municipal class. OCA R. Exc. at 18 (emphasis omitted).

The OCA contends that at proposed rates, the system average increase is 24.6%, and the Company proposed a 16.2% increase for the Municipal class, which would leave that class short of the cost-of-service (cost-of-service is $27.1 million, compared to revenues of $26.2 million). However, the OCA notes that the OSBA proposed to match cost-of-service by increasing Municipal class revenues to $27.83 million, compared to the OSBA's calculated cost-of-service of $27.88 million. The OCA points out that because this is a 23.4% increase at PAWC's proposed revenue requirement, it is still under the system average increase of 24.6%. OCA R. Exc. at 18 (citing OSBA St. 1 at Sch. KCH-12; PAWC Exh. 12-A Revised).

The OCA notes that comparing the different proposals is complicated because different parties have different Water COSS results and proposed different amounts to be shifted under Act 11. OCA R. Exc. at 18 (citing PAWLUG Exc. at 3; PAWC St. 12, Exh. 12-A; OSBA St. 1-R at Sch. KCH-12). Thus, the OCA submits that generally, the ALJs' recommendation to assign additional revenue to the Municipal class, to more closely align cost-of-service and revenues, is reasonable and supported by the record because the resulting increase with the additional revenue would still be less than the system average. OCA R. Exc. at 18.

In its Replies, the OSBA counters that the ALJs properly recommended allocating a higher revenue increase to the Municipal class. OSBA R. Exc. at 4 (citing PAWLUG Exc. at 2-3). The OSBA notes that it took full account of the correction of PAWC's error in its initial cost allocation to the Municipal class and, consequently, recommended a revenue allocation to the Municipal class less than the system average on a percentage basis, but is not as far below the average as the Company initially proposed. OSBA R. Exc. at 4 (citing OSBA St. 1-R at 5-6; PAWLUG Sch. KCH-12 at 1). Further, the OSBA submits that the extent of PAWC's originally proposed, below-average increase to the Municipal class, as set forth in the Company's direct filing, remains unjustified despite the Company's correction. OSBA R. Exc. at 4.

b. Disposition

As noted by the ALJs, PAWC did not oppose higher increases for the Municipal class. R.D. at 247. Specifically, PAWC's witness, Mr. Rea, did not oppose the proposal of the OSBA's witness, Mr. Higgins, who initially recommended a $5.3 million reduction to the Commercial class offset by a $5.3 million increase to the Municipal class, and subsequently, updated his proposed revenue allocation based on the results of his rebuttal COSS. *See*, PAWC St. 10-R at 43; OSBA St. 1-S at 19 (citing OSBA St. 1-R at Sch. KCH-12); OSBA St. 1 at 35. Additionally, Mr. Rea did not oppose the alternative

revenue allocation initially proposed by Cleveland-Cliffs' witness Mr. Baudino, who recommended that at the Company's requested percentage increase of 24.6%, the Municipal (or Public) class receives an increase of 30.8%, and Residential, Commercial, Industrial, and Private Fire classes each receive an increase near the system average of 24.4%. *See*, PAWC St. 10-R at 43; Cleveland-Cliffs St. 1 at 12 (citing Cleveland Cliffs St. 1 at Exh. RAB-8). Subsequently, Mr. Baudino recommended an equal percentage increase for the Residential, Commercial, Industrial, and Municipal (or Public) classes. Cleveland-Cliffs St. 1-R at 10. Notwithstanding, the ALJs recommended that the Commission adopt the proposal of higher increases for the Municipal class, noting that PAWC did not oppose such increases. R.D. at 247.

We agree with the OCA and the OSBA that the ALJs properly recommended allocating a higher revenue increase to the Municipal class. As noted by the OCA, the record evidence supports that PAWC's revenue allocation would under-allocate to the Municipal class based on the Company's corrected COSS. *See*, OCA R. Exc. at 18. The OCA pointed out that with a system average increase of 24.6%, and PAWC proposing a 16.2% increase for the Municipal class, the cost-of-service is $27.1 million, compared to revenues of $26.2 million. However, the OSBA proposed an increase to Municipal (or Public) class revenues of $27.83 million, compared to the OSBA's calculated cost-of-service of $27.88 million, for a 23.4% increase at PAWC's proposed revenue requirement, which is still under the system average increase of 24.6%. *See*, OCA R. Exc. at 18; OSBA St. 1-R at Sch. KCH-12; PAWC St. 12, Exh. 12-A (Revised). Therefore, as noted by the OCA, assigning additional revenues to the Municipal class is reasonable because the resulting increase would be less than the system average and would move the Municipal class closer to its cost-of-service. We agree. Furthermore, we find PAWLUG's argument, that the basis for assigning a higher increase for the Municipal class no longer exists, to be meritless. Accordingly, we shall deny PAWLUG's Exception No. 1.

c. PAWLUG Exception No. 3, Cleveland-Cliffs Exception No. 1 and Replies

In its Exception No. 3, PAWLUG argues that the ALJs erred in declining to increase the industrial customer charge. PAWLUG Exc. at 4 (citing R.D. at 247). PAWLUG contends that the Company's industrial meter charges should be designed to recover the cost-of-service and, contrary to the ALJs' recommendation, the Company's proposal to not increase the industrial customer charge is not cost-based and, therefore, should be rejected. PAWLUG Exc. at 4.

PAWLUG contends that the Industrial customer charge for meters 6" and above should not be increased because such charges are higher than the customer charges applicable to the Company's residential and commercial customers.[114] Further, PAWLUG argues that the cost for the Company's Industrial customer charge is limited to a customer cost analysis of the cost-of-service for 5/8" meters, with larger RZ-1 residential and commercial meter sizes receiving proportional increases based on that analysis. PAWLUG Exc. at 4-5 (citing PAWC St. 12-R at 13; PAWC St. 10 at 35). Accordingly, PAWLUG contends that the Company has not established a cost basis for the larger Industrial meter customer charges. PAWLUG Exc. at 5.

PAWLUG also disagrees with PAWC's position that Industrial customer charges for larger meters should not be increased because those charges are higher than current Residential and Commercial customer charges. According to PAWLUG, PAWC's position lacks a cost basis because the Company has not established a cost basis for the Residential and Commercial customer charge for meters 6" and larger. PAWLUG Exc. at 5. Further, PAWLUG avers that given the absence of a customer cost analysis for the large meter industrial customers, it is more reasonable to assign an increase rather than

[114] We note that more than once in its Exceptions, PAWLUG does not refer to the appropriate abbreviation for inches. *See*, PAWLUG Exc. at 4-5.

leave the customer charge unchanged from the Company's prior rate case. PAWLUG Exc. at 5 (citing PAWLUG St. 1 at 28). Moreover, PAWLUG maintains that increasing the fixed costs would reduce revenue volatility and ensure the recovery of fixed costs. Accordingly, PAWLUG submits that its proposed rate design should be approved or, alternatively the Commission should approve Cleveland-Cliffs' proposal and increase industrial customer charges by the same percentage increase as the industrial volumetric charges. PAWLUG Exc. at 5 (citing PAWLUG M.B. at 26; Cleveland-Cliffs M.B. at 7).

In short, PAWLUG submits that the Company's proposal to preserve the current Industrial customer charge and apply all of the Industrial class revenue increase to volumetric rates should be denied because it is not cost-based and is unsupported and unreasonable. However, PAWLUG notes that if the Commission approves the Company's recommendation to preserve the existing Industrial class customer charges, then the proportional scale back supported by PAWC should be applied solely to the volumetric Industrial rates. PAWLUG Exc. at 5.

In its Exception No. 1, Cleveland-Cliffs argues that the ALJs: (1) incorrectly asserted that the Company's proposal aligns more closely with cost-of-service than the rate design proposals of PAWLUG, Victory Brewing, and Cleveland-Cliffs; (2) did not reasonably address concerns related to the industrial rate design; and (3) incorrectly asserted that PAWC's proposal to not increase the existing industrial meter charges and instead seek to collect the entirety of the industrial revenue increase through the volumetric charges is more reflective of Company's cost-of-service testimony than the proposals of the industrial parties. Cleveland-Cliffs Exc. at 1-2 (citing R.D. at 247). Cleveland-Cliffs maintains that the Company's proposed rate design would collect even more costs through volumetric rates, which moves in the opposite direction of cost-causation. Cleveland-Cliffs Exc. at 2 (citing PAWC St. 10 at 86).

Cleveland-Cliffs argues that its proposal, and the proposals of PAWLUG and Victory Brewing, would result in a modest movement toward the Company's cost-of-service. Specifically, Cleveland-Cliffs maintains that PAWLUG's proposal to approximately double the industrial meter charges and provide for smaller percentage increases to the volumetric charges is a step toward cost-of-service and would ensure that more fixed costs would be collected through a meter charge. Cleveland-Cliffs Exc. at 2-3 (citing PAWLUG St. 1 at 28). Accordingly, Cleveland-Cliffs repeats its position that the Commission should approve PAWLUG's proposed rate design for the Industrial class or increase the customer charges for the Industrial class by the same percentage as the volumetric charges. Cleveland-Cliffs Exc. at 3.

d. Disposition

Both PAWLUG and Cleveland-Cliffs disagree with the ALJs' recommendation that the Commission reject PAWLUG's proposal to increase the meter charge for Industrial customers. PAWLUG Exc. at 4; Cleveland-Cliffs Exc. at 2-3. PAWLUG's witness, Ms. LaConte, proposed to decrease the volumetric rate and increase the Industrial customer charge to reduce revenue volatility and provide a more stable and reliable revenue stream by recovering more costs through a fixed charge, which will reduce the possibility of the Industrial class paying more than its cost to serve if sales are higher than projected. PAWLUG St. 1 at 28-29. Cleveland-Cliffs' witness, Mr. Baudino, argued that fixed costs should be collected through fixed charges, and proposed that an equal percentage increase be applied to both meter charges and volumetric charges for the Industrial class. Cleveland-Cliffs St. 1 at 14. As such, Cleveland-Cliffs recommended that the Commission either increase Industrial customer charges by the same percentage as Industrial volumetric charges or approve Ms. LaConte's rate design proposal for the Industrial class. Cleveland-Cliffs M.B. at 7.

We concur with the ALJs that PAWLUG's proposal, to increase the Industrial customer charge for customers with meters that are 6" or larger, should be rejected. Contrary to the proposals of PAWLUG's witness, Ms. LaConte, and Cleveland Cliffs' witness, Mr. Baudino, PAWC's witness, Mr. Rea, supported the Company's proposal to leave the monthly meter charges for the Industrial class unchanged. As noted by the ALJs, Mr. Rea explained that volumetric rates for industrial customers should be designed to collect the total revenue allocated to the Industrial class less revenue from current Industrial meter charges. PAWC St. 10-R at 47. We agree. Further, Mr. Rea provided that Ms. LaConte's proposal has no apparent basis in cost and would result in Industrial meter charges more than four times the proposed Residential and Commercial meter charges. Mr. Rea also testified that PAWC did not propose any changes to meter charges for the Industrial and Other Water Utilities classes because those charges are already more than double the Company's proposed meter charges for residential and commercial charges for meter sizes 4" and above. PAWC St. 10-R at 45. We find Mr. Rea's testimony persuasive. Moreover, we agree with the ALJs that PAWLUG's argument in response to the Company's position – PAWC's customer charge analysis only provides a cost basis for the 5/8" meter customer charge; PAWC has not established the cost-basis for the existing Industrial customer charge; and PAWC's overall revenue requirement allocated to Industrial customers would remain unchanged – is not persuasive. *See*, R.D. at 247; *see also*, PAWLUG M.B. at 27.

On review, we find that PAWLUG and Cleveland-Cliffs have not provided sufficient analysis to support their position that PAWLUG's proposed rate design for the Industrial class should be approved or that Industrial customer charges should be increased. Thus, as the ALJs observed, PAWLUG's proposal to increase the Industrial customer charge for customers with meters that are 6" or larger should be rejected. Furthermore, to the extent that Cleveland-Cliffs argues that the ALJs did not reasonably address concerns regarding the Industrial rate design, we find this argument is meritless.

Accordingly, we shall deny PAWLUG's Exception No. 3 and Cleveland-Cliffs' Exception No. 1.

H. Tariff Structure – Wastewater Rate Design

1. Positions of the Parties

Regarding wastewater SSS Operations, PAWC submitted that the Commission should reject I&E's and the OCA's proposed increases to wastewater SSS rates, *infra*, which include their COSS recommendations and modifications to the Company's Act 11 allocation, for the reasons set forth in the Rate Structure and Rate Design Section of PAWC's Main Brief, under the Cost-of-Service Studies Section and the Revenue Allocation and Act 11 Section. PAWC M.B. at 64 (citing I&E St. 3, Sch. 3; OCA St. 4 at 39, 46-48). PAWC added that the recommendations of I&E's witness, Mr. Kubas, do not account for the affordability for wastewater SSS customers. As such, PAWC also submitted that the Commission should reject I&E's and the OCA's proposed reduction to the residential service charge, to be consistent with charges to other residential customers. Furthermore, PAWC submitted that the Commission should reject Mr. Kubas' recommended charges for unmetered service and rates for special flat rate customers, to be consistent with the overall increase for the wastewater SSS group. PAWC M.B. at 64 (citing OCA St. 10-R at 58-59).

PAWC submitted that its proposed 9.9% increase in rates over two years (resulting in an annual increase of approximately 4.45%) for seven bulk wastewater customers that are served by the York system, referred to as York Bulk Customers (YBCs), is reasonable and justified because YBCs have viable and competitive alternatives to receiving service from the Company. PAWC noted that the YBCs consist of: (1) The York Water Company, which is the owner of the former West York Borough Collection System; (2) Springettsbury Township; (3) North York Borough; (4) York

Township; (5) Manchester Township; (6) West Manchester Township; and (7) Spring Garden Township. PAWC M.B. at 64 (citing PAWC St. 6-R at 18; PAWC St. 3 at 66-69). According to PAWC, the proposed rate increases will cover the variable costs of bulk treatment service and contribute to the total fixed costs incurred to furnish wastewater service to retail customers in PAWC's wastewater SSS Operations. PAWC M.B. at 64-65 (citing PAWC St. 12 at 9). Further, PAWC averred that the Company presented substantial evidence regarding the competitive alternatives available to YBCs, including affidavits showing that the YBCs had competitive alternatives at the time of the acquisition of the York system and continue to have alternatives to bulk wastewater service. PAWC M.B. at 65 (citing PAWC St. 6-R at 19-22; PAWC Exh. ECA-1R (CONFIDENTIAL); PAWC Exh. ECA-2R). As such, PAWC submitted that the Commission should deny I&E's proposed rate increase for the YBCs. PAWC M.B. at 65.

PAWC added that the YBCs have greater bargaining power because they negotiated as a block and, if the Company had refused to enter into a uniform contract with all of the YBCs, then the Company would have lost all of the bulk customers. PAWC submitted that given these circumstances, it is inappropriate to consider whether the rate charged to one given bulk customer maximizes the amount of revenue that the Company could have received from that particular customer. PAWC M.B. at 66.

With respect to CSS wastewater and BASA operations, PAWC averred that the Commission should accept the Company's proposed rate design for BASA. PAWC M.B. at 67. PAWC further averred that the Commission should reject I&E's and the OCA's below recommendations pertaining to CSS wastewater operations, which include higher rates for City of Scranton than proposed by the Company. PAWC submitted that the Company proposed City of Scranton CSS rates consistent with the purchase agreement for that system, and any increase in rates for City of Scranton customers directed by the Commission should be just, reasonable, and consistent with the concept of gradualism to avoid rate shock. PAWC M.B. at 67-68 (citing PAWC St. 4-R at 12-13).

I&E provided that the goal of its witness, Mr. Kubas, was to reduce the revenue shortfall of $31,962,411, created by PAWC's proposal to decrease present rate revenue by $169,253, or 0.2%, from $95,470,866 to $95,301,613. PAWC M.B. at 80 (citing I&E St. 4 at 15-17). I&E averred that it is unreasonable to subsidize wastewater customers to the extent proposed by the Company because most Company water customers are not wastewater customers. *See*, OCA M.B. at 80 (citing OCA St. 1 at 7). As such, Mr. Kubas recommended a total increase in the wastewater SSS system of $32,265,198, which results in a remaining subsidy in the wastewater SSS Operations of $321,682. Further, Mr. Kubas noted that he used the Company's COSS to develop the various wastewater rates that move the relative rate of return of each class towards 1.0. I&E M.B. at 80 (citing I&E St. 4 at 17).

Regarding Wastewater SSS Operations, I&E posited that customers in the following locations should receive a higher percentage increase than proposed by PAWC: (1) Caln, West Brandywine (WB), the VA Medical Center (VA), and St. Lawrence Borough (St. Lawrence) in RZ-1; and (2) various Bulk contracts in RZ-7. I&E M.B. at 80 (citing PAWC Vol. 9, Exh. 10-B at 31). Further, I&E averred that class rates should be based on cost; however, upon applying the Company's proposed increase, the RROR for these customers is 0.87, which demonstrates they are not paying their cost to serve. I&E M.B. at 80-81 (citing I&E St. 3 at 45). As such, Mr. Kubas recommended rates to move these customers closer to the cost to serve. Specifically, Mr. Kubas recommended a monthly charge of $456.50 and a usage rate of $1.680 per hundred gallons for Caln, West Brandywine, and the VA. Mr. Kubas further recommended that in accordance with the general tariff provision requiring all customers to pay a monthly customer charge, the Company begin to charge St. Lawrence a monthly customer charge of $456.50. I&E M.B. at 81 (citing I&E St. 3 at 46).

I&E submitted that the rates for YBCs must be increased to move these customers close to their cost to serve because PAWC has not provided sufficient evidence

to demonstrate that YBCs have a competitive alternative. As such, Mr. Kubas recommended further increases of approximately 50% to the Company's proposed increases to the YBC usage rates, resulting in a subsidy of $7,999,227. I&E M.B. at 81-82 (citing I&E Exh. 3, Sch. 3 at 2; I&E St. 3 at 49, 53). Mr. Kubas added that this subsidy should continue to be decreased in future cases. I&E M.B. at 82 (citing I&E St. 3 at 53).

Regarding CSS wastewater operations, I&E submitted that the goal of Mr. Kubas was to reduce the subsidy of $16,007,052, created by PAWC's proposal to decrease present rate revenue by $226,926, or 0.3%, from $78,636,222 to $78,409,294. PAWC M.B. at 82 (citing PAWC Vol. 9, Exh. 10-C at 1, 3-38; I&E Exh. 3, Sch. 17 at 1). As such, Mr. Kubas recommended a total increase in the CSS wastewater system of $15,744,287, which reduces the CSS wastewater operations subsidy to $35,835. I&E M.B. at 82 (citing I&E St. 3 at 57-58; I&E Exh. 3, Schs. 1, 16).

I&E submitted that its proposed rates all serve to move customers closer to their cost to serve and represent reasonable increases. Therefore, I&E recommended their rates should be adopted. I&E M.B. at 83.

The OCA's witness, Mr. Mierzwa, provided that the Company's volumetric rate proposals should be proportionately adjusted to recover the cost-of-service approved by the Commission for: (1) each current wastewater SSS and CSS wastewater customer class; and (2) any revenue deficiency resulting from the adoption of his monthly residential customer charge recommendations for wastewater SSS and CSS wastewater residential customers. OCA St. 4 at 48. Further, the OCA agreed with PAWC that if the Commission approves the Company's proposal to delay the effective date for new rates for certain wastewater rate zones, then it should also adopt the Company's proposal to impute revenues by calculating the proof of revenues as if the customers were paying the new rates without any delay. OCA M.B. at 80 (citing PAWC St. 4-R at 12; OCA St. 4

at 49-50). The OCA added that this is necessary to prevent other ratepayers from paying the cost of rate commitments that the Company chose to make in its agreements to purchase those systems. OCA M.B. at 80.

The City of Scranton submitted its opposition to Mr. Kubas' recommendations because, according to the City of Scranton, Mr. Kubas' recommendations include higher rates than PAWC's proposed rates. The City of Scranton agreed with the Company that first, Scranton CSS wastewater rates remain consistent with the purchase agreement for that system. Further, the City of Scranton requested that the Commission refrain from increasing costs for the City of Scranton, particularly given the terms of the Asset Purchase Agreement. Second, if the Commission considers any increase in wastewater rates for Scranton CSS ratepayers, then that increase should be just, reasonable, and consistent with the concept of gradualism and rate shock. City of Scranton M.B. at 1.

2. Recommended Decision

The ALJs summarized that the Company provides the following rate schedules in the following rate zones: (1) SSS, which includes RZ-1 – PAWC Statewide; RZ-2 – New Cumberland; RZ-5 – Valley; RZ-7 – York; Rate Zone 8 (RZ-8) – Foster Township; and Rate Zone 9 (RZ-9) – Royersford; and (2) CSS, which includes RZ-3 – Scranton, RZ-4 – Kane, and Rate Zone 6 (RZ-6) – McKeesport. The ALJs also noted that PAWC proposed the following: (1) under the provisions of Act 11, to reallocate a portion of the wastewater revenue requirement calculated in this case to its water service customers; (2) to move all CSS wastewater customers, with the exception of the Scranton system, to a single tariff with a single set of rates; (3) to move New Cumberland and Valley to wastewater SSS RZ-1; (4) to set fixed charges to be the same for all wastewater customers, unless prohibited by prior agreement; and (5) to move rates in the wastewater SSS group for the York and Royersford system closer to RZ-1 rates.

R.D. at 254 (citing PAWC St. 10 at 36-37, 40-41). The ALJs also summarized PAWC's proposal for wastewater service rate design and tariff consolidation. R.D. at 254-55 (citing PAWC St. 10 at 41-42). Moreover, the ALJs noted that PAWC proposed to change the Company's current methodology of the volumetric component of bills for residential customers from being based on total metered usage for a month to winter averaging. R.D. at 255 (citing PAWC St. 10 at 42).

The ALJs agreed with the testimony of the OCA's witness, Mr. Mierzwa, that the Company's volumetric rate proposals should be proportionately adjusted to recover the cost-of-service approved by the Commission for each current wastewater SSS and CSS wastewater customer class. R.D. at 255-56 (citing OCA St. 4 at 48). Further, the ALJs responded to I&E's proposal to increase YBCs' rates by approximately 50% because, according to I&E, PAWC's argument that competitive alternatives for YBCs is speculative. Specifically, the ALJs found that based on the pertinent testimony of PAWC's witness, Mr. Aiton, it is "more than speculative" to conclude that YBCs do not have competitive alternatives. Accordingly, the ALJs recommended that the Commission reject I&E's proposed rate increase for the YBCs. R.D. at 256-57 (citing PAWC St. 3 at 66-67).

At the same time, however, the ALJs concurred with the recommendation of I&E's witness, Mr. Kubas, that PAWC begin to charge St. Lawrence a monthly customer charge, to ensure that St. Lawrence contributes appropriate revenues to fund the Company's direct and indirect customer costs for service. R.D. at 257 (citing I&E M.B. at 80-81). The ALJs recommended that the Company charge St. Lawrence the same service charge per month that the Commission approves for other Wastewater SSS RZ-1 bulk metered usage customers, including Caln, West Brandywine, and the VA Medical Center, that have special rates for bulk metered usage. R.D. at 257.

3. Exceptions, Replies, and Dispositions

a. I&E Exception No. 4 and Replies

In its Exception No. 4, I&E contends that the ALJs erred in recommending that the Commission reject I&E's proposal to increase the rates for YBCs by approximately 50%. I&E repeats its argument that YBCs should be paying a rate that is closer to the cost to serve because "it is at best speculative that these customers have competitive alternatives." I&E Exc. at 9.

I&E reiterates its position that rates for YBCs must be increased to move those customers close to their cost to serve because PAWC has not provided sufficient evidence to demonstrate that YBCs have a competitive alternative. As such, I&E repeats its recommendation to decrease the subsidy and, after applying Mr. Kubas' proposed rate design, the YBCs continue to receive a $7,999,227 subsidy. I&E Exc. at 9-10 (citing I&E St. 3 at 34, 49).

I&E disagrees with the ALJs claim that the testimony of PAWC's witness, Mr. Aiton, provides assurance that there is a competitive alternative. I&E Exc. at 10 (citing R.D. at 256-57). According to I&E, PAWC's claims concerning the viable competitive alternative are "unsupported" because PAWC failed to describe the alternative and failed to provide the fixed costs or variable costs these customers would incur to utilize the alternative. I&E Exc. at 10 (citing I&E St. 3-SR at 31-32; I&E St. 3 at 48). Further, I&E posits that having an alternative is not the same as having an alternative that is both viable and competitive. I&E Exc. at 10 (citing I&E R.B. at 34).

I&E repeats that PAWC has not provided evidence of the competitive alternative. Instead, I&E avers that PAWC has continued to request that the Commission rely on the customer's threat to leave the system. Further, I&E posits that if a viable

competitive alternative exists, then the Company must demonstrate what that alternative is because the cost to serve YBCs is allocated to other PAWC customers. As such, I&E contends that "something more than an unsubstantiated threat to leave the system should be necessary in order for that subsidy to be imbedded in rates." I&E Exc. at 11. Accordingly, I&E argues that the Commission should reject the ALJs' recommendation and approve the YBCs rates as proposed by Mr. Kubas. I&E Exc. at 10-11.

In its Replies, PAWC counters that I&E's argument was considered and rejected by the ALJs at the hearing because I&E's witness admitted that YBCs have competitive alternatives. PAWC R. Exc. at 19 (citing R.D. at 256-57). PAWC contends that contrary to I&E's assertion, the record fully supports the ALJs' finding that the YBCs have competitive alternatives. Further, PAWC refers to the ALJs' finding that the YBCs are in close geographic proximity, meaning that YBCs could enter, or already have entered, into intermunicipal flow agreements to transmit wastewater flow between themselves and to other surrounding municipalities with existing treatment capacity, instead of sending their flows to the York wastewater treatment plant. PAWC R. Exc. at 19 (citing R.D. at 256; PAWC St. 3 at 66-67). Moreover, PAWC points out that its witness, Mr. Abruzzo, testified that YBCs had competitive alternatives when the Company acquired the York system in 2021, and when the Company litigated its 2022 rate case. PAWC R. Exc. at 19 (citing PAWC St. 6-R at 19-22). Furthermore, PAWC reiterates that the record evidence includes affidavits from the YBCs demonstrating that they had competitive alternatives in the recent past and continue to have alternatives to bulk wastewater service from PAWC today. PAWC R. Exc. at 19-20 (citing PAWC Exh. ECA-2R).

PAWC disputes I&E's argument that the ALJs' finding is speculative because PAWC did not present any evidence on what costs the YBCs would incur to exercise their competitive alternatives. PAWC R. Exc. at 20 (citing I&E Exc. at 10-11). PAWC counters that contrary to I&E's argument otherwise, the Company is only required

to introduce evidence that competitive alternatives exist. Further, PAWC reiterates that the Company's proposed rates for the YBCs cover the variable costs of bulk treatment service and provide a meaningful contribution to the total fixed costs incurred to furnish wastewater service to retail customers. PAWC Exc. at 20 (citing PAWC R.B. at 55; PAWC M.B. at 64-67). Moreover, PAWC contends that because the YBCs contribute about 54% of the treatment flows to the system, the loss of these customers would necessitate a rate increase for retail customers and have an adverse impact on the operation of the wastewater treatment plant. Accordingly, PAWC submits that the ALJs' recommendation to increase rates consistent with the existing agreements between the Company and the YBCs is just and reasonable. PAWC R. Exc. at 20.

b. Disposition

As previously noted, the ALJs were not persuaded by I&E's position that YBC rates should be increased by approximately 50%. According to I&E, PAWC's argument that YBCs have competitive alternatives is speculative at best. R.D. at 256. The ALJs reasoned that it is more than speculative to conclude that YBCs do not have competitive alternatives. We concur with the ALJs' reasoning.

As discussed by the ALJs, PAWC's witness, Mr. Aiton, provided testimony to substantiate its claim that YBCs that have entered into wastewater treatment and conveyance agreements to treat their wastewater flows at the York wastewater treatment plant (WWTP) have competitive alternatives to PAWC service. Specifically, Mr. Aiton provided that:

> The [YBCs] are in close geographic proximity – which means that they could enter into (and have in some circumstances already entered into) intermunicipal flow agreements to transmit wastewater flow between themselves and to other surrounding municipalities with existing treatment capacity, instead of sending their flows to the York WWTP. The

> [YBCs] are sophisticated, knowledgeable, and experienced. Therefore, they could divert flows to alternative treatment providers or develop a new treatment system.
>
> In the proceeding for approval of PAWC's acquisition of the York wastewater system at Docket Nos. A-2021-3024681 et al. ("Acquisition Proceeding"), the [YBCs] opposed the transaction and testified that [they] were planning for a competitive alternative to bulk treatment service from PAWC. As witnesses for the [YBCs] explained in their testimony in the Acquisition Proceeding and discussed in detail by Company witness Bernard D. Grandusky in Statement No. 7-R submitted on August 19, 2022 in PAWC's 2022 rate case, unless PAWC entered into the Bulk Agreements on the terms and rates set forth in those contracts, each of the [YBCs] would leave the York System after PAWC's acquisition and pursue alternative treatment.

PAWC St. 3 at 66-67. Further, the Company's witness, Mr. Abruzzo, provided testimony that PAWC presented evidence demonstrating the competitive alternatives available to YBCs, including affidavits showing that the YBCs had competitive alternatives at the time of the acquisition of the York system. PAWC St. 6-R at 19; PAWC Exh. ECA-2R. Moreover, in the *PAWC 2022* proceeding, I&E proposed to increase the rates for the YBCs by 50% because of the lack of competitive alternatives. However, I&E subsequently withdrew that proposal in response to PAWC's rebuttal testimony. PAWC St. 6-R at 19-22. Thus, we find the ALJs' recommendation to reject I&E's proposed rate increase for the YBCs reasonable. Therefore, I&E's Exception No. 4 is denied.

c. I&E Exception No. 6 and Replies

In its Exception No. 6, I&E argues that the ALJs did not address whether its proposed wastewater rates are adopted in total. According to I&E, the ALJs did not address several aspects of I&E's wastewater rate design, including PAWC's proposal that the Commission reject Mr. Kubas' recommended charges for unmetered rates. I&E Exc.

at 15 (citing R.D. at 247). Accordingly, I&E requests that for clarification and in conjunction with granting I&E's Exceptions related to rate design, the Commission affirmatively adopt I&E's wastewater rate design in total. I&E Exc. at 15 (citing I&E M.B. Appendix B at 2-6). I&E adds that its proposed rates should be adopted because they serve to move customers closer to their cost to serve and represent reasonable increases. I&E Exc. at 15.

In its Replies, PAWC states that to the extent the ALJs did not explicitly approve a proposed modification to the Company's rate design, the Commission should approve the rate design proposed by the Company. PAWC R. Exc. at 17, n. 79.

d. Disposition

At the onset, we will address I&E's claim that the ALJs failed to address "various aspects of the I&E wastewater rate design." I&E Exc. at 15. We note that the ALJs were aware of the position and arguments put forth by I&E; however, it is up to the ALJs to determine whether, and to what extent, further discussion and analysis is warranted. *See, Aqua 2022* at 112-13. Here, it appears that the ALJs did not believe that further consideration of I&E's wastewater rate design proposal was necessary. Accordingly, to the extent that I&E claims that the ALJs overlooked I&E's wastewater rate design, we find that this argument is without merit.

To summarize, and for the purposes of clarity, the ALJs agreed with the OCA that the volumetric rates proposed by PAWC should be proportionately adjusted to recover the cost-of-service approved by the Commission for the wastewater SSS and CSS wastewater customer classes. R.D. at 255. Further, the ALJs recommended that the Commission reject I&E's proposed rate increase for the YBCs. R.D. at 256-57. The ALJs also agreed with I&E that PAWC should be directed to begin charging St. Lawrence a monthly customer charge, to ensure that St. Lawrence contributes appropriate revenues

to fund PAWC's direct and indirect customer costs for service. R.D. at 257. Additionally, the ALJs recommended that PAWC charge St. Lawrence the same service charge per month that the Commission approves for other wastewater SSS Rate Zone 1 bulk metered usage customers that have special rates for bulk metered usage, including Caln, West Brandywine, and the VA Medical Center. *Id.* Based on the forgoing, I&E's Exception No. 6 is denied.

I. Tariff Structure – Winter Averaging Proposal

1. Positions of the Parties

PAWC proposed to change the way that the Company determines the volumetric component of residential customer bills to a winter averaging methodology, to more closely align wastewater bills in the summertime with cost-causation design principles. PAWC explained that winter averaging is a method for determining the volumetric components of wastewater bills that attempts to separate metered water usage that is likely to go through the wastewater system from water usage that is used for outdoor purposes in the summer. PAWC further explained that under winter averaging, a customer's bill in the wintertime is determined by actual metered water usage for the month, and in the summertime the customer's bill is determined by the lesser of the actual metered water usage for the month or the average water consumption for that customer in the winter months of January, February, and March. PAWC noted that the winter averaging calculation will be customized for each individual customer, and the methodology will be the same for all customers, but the calculations will be completed on an individual basis so that each customer will be billed based on their winter average usage and not the average monthly usage for all residential customers. PAWC St. 10 at 42-45.

In response to I&E's below recommendation that winter averaging only be approved as a temporary program, PAWC countered that such an implementation would require "shadow billing," which would require the Company to develop two sets of billing determinants, two sets of rates, and two different bill calculations for each wastewater customer, in order to provide a comparative analysis of bills and revenues with and without winter averaging. PAWC R.B. at 56 (citing Tr. at 2010-11). Further, PAWC provided that although higher-income customers are more likely to benefit more from winter averaging by having greater seasonal water usage in the summertime for which they would no longer be billed for wastewater service, this is a fair result supported by cost causation and does not mean that low-income customers will not benefit from winter averaging. PAWC R.B. at 56-57 (citing PAWC St. 10-R at 54-55). As such, PAWC submitted that winter averaging will benefit all customers and is reflective of cost-causation. PAWC M.B. at 68 (citing PAWC St. 10-R at 55).

According to I&E, wastewater usage is currently based upon actual water usage, but PAWC is proposing a winter averaging plan where the wastewater usage volume for a residential customer be adjusted downward to account for water purchased but not entering the wastewater system. I&E M.B. at 83. Initially, I&E proposed two conditions related to the Company's winter averaging proposal: (1) because the program is designed to help only residential wastewater customers, none of the revenue shortfall from this proposal be recovered from other wastewater customers or water customers; and (2) the Commission determine that the proposal is approved as a temporary program, thereby allowing the resulting revenue impacts to be evaluated in the first rate case following the program's implementation. I&E M.B. at 84 (citing I&E St. 3 at 55-56). Subsequently, I&E recommended that the program not be approved because, according to I&E, the Company does not want to track multiple sets of numbers under a temporary program. I&E M.B. at 85 (citing I&E St. 3-SR at 38). I&E also referred to the arguments of the OCA and CAUSE-PA to aver that this program has the potential to have a disproportionate impact on low-income customers. I&E M.B. at 85-86 (citing OCA

St. 5 at 98, 105; CAUSE-PA St. 1 at 13). As such, I&E submitted that PAWC's proposed winter averaging program should be rejected in its entirety. I&E M.B. at 86 (citing I&E St. 3-SR at 38-39).

The OCA submitted that the Company's proposal to change the way it determines the volumetric component of bills for residential wastewater customers should be rejected because the proposal would disproportionately harm low-income customers. OCA M.B. at 80-81 (citing OCA St. 4-SR at 19-20; OCA St. 4 at 40-44; OCA St. 5-SR at 9-11; OCA St. 5 at 97-109; CAUSE-PA St. 1 at 13-14; I&E St. 3-SR at 38-39). The OCA averred that the record shows that customers who will pay the increase in charges are disproportionately likely to be low-income. Further, the OCA asserted that the Company has failed to demonstrate that its proposed methodology for recognizing outdoor usage would reasonably achieve its stated purpose. OCA M.B. at 81. Specifically, the OCA contended that the Company's data shows there is not a substantial variability in residential water bills (and thus in residential consumption) between the PAWC-defined "winter months" and the remaining nine "non-winter" months. OCA M.B. at 81-82 (citing OCA St. 5 at 97-99; OCA St. 5 at 99-101; OCA St. 4 at 43-44). As such, the OCA submitted that the Company's proposed methodology should be rejected. However, the OCA averred that if PAWC's proposal is adopted, then the volumetric charges should be made subject to the same low-income discounts to which other PAWC volumetric charges are subject. OCA M.B at 82 (citing OCA St. 5 at 109).

CAUSE-PA averred that the Company's proposed winter averaging methodology is inequitable and contrary to the public interest because it improperly favors customers: (1) that reside in larger properties and have greater levels of discretionary water usage in the non-winter months; and (2) with summer vacation homes and swimming pools, which may have low average usage in the winter months. As such, CAUSE-PA submitted that PAWC's proposal to change the way it determines the

volumetric component of bills for residential wastewater customers should be rejected because it would shift costs from higher income customers with greater discretionary usage onto lower income customers. CAUSE-PA M.B. at 25-26 (citing CAUSE-PA St. 1 at 13).

According to CAUSE-PA, the Company's winter averaging methodology is flawed because it assumes that: (1) outdoor water usage does not impact wastewater system costs, without consideration of whether a given system is combined stormwater and wastewater; (2) increased summer water usage is all attributable to outdoor water usage, without consideration of a customer's average winter usage; and (3) customers with a vacation home used primarily in the summer months, families with children returning from college for summer vacation, and other households with higher summer usage would be charged the lower winter rates over the course of 12 months. CAUSE-PA M.B. at 26 (citing CAUSE-PA St. 1 at 13). Further, CAUSE-PA noted the OCA's assertion that the Company has not presented a legitimate basis to overcome concerns related to adverse impacts on low-income customers. CAUSE-PA M.B. at 26-27 (citing OCA St. 5-SR at 11). Moreover, CAUSE-PA noted that the Act 11 equity issues are relevant to this discussion because the Company is proposing to shift wastewater costs from higher income customers to lower income customers while, concurrently, shifting costs from wastewater customers onto water customers. As such, CAUSE-PA submitted that the Company's proposed winter averaging methodology should be rejected because it is unreasonable and contrary to the public interest. CAUSE-PA M.B. at 27 (citing CAUSE-PA St. 1 at 13-14).

2. Recommended Decision

The ALJs agreed with I&E, the OCA, and CAUSE-PA that the Company's winter averaging proposal should be rejected. Specifically, the ALJs agreed with the OCA that PAWC failed to show that its proposed methodology for recognizing outdoor

wastewater usage would reasonably achieve its stated purpose. Further, the ALJs were persuaded by the legitimate concerns raised by both the OCA and CAUSE-PA that the Company's winter averaging proposal might have a disproportionate and adverse impact on low-income customers. R.D. at 264.

The ALJs noted that the Company rejected I&E's suggestion that the winter averaging program be approved on a temporary basis until the Company's next base rate case, to allow interested parties and the Commission an opportunity to evaluate whether this program achieved its stated goals. The ALJs found that PAWC's unwillingness to track the information needed for evaluation of the program during the next base rate case does not instill confidence in the proposal. Accordingly, the ALJs recommended that the Commission reject the Company's winter averaging proposal. R.D. at 264-65.

3. PAWC Exception No. 13 and Replies

In its Exception No. 13, PAWC disagrees with the ALJs' recommendation to deny the Company's winter averaging proposal for wastewater customers. PAWC Exc. at 32 (citing R.D. at 264-65). PAWC repeats that it proposed winter averaging to more closely align wastewater bills with cost-causation, adding that it will address the concern of several customers regarding charges for seasonal outdoor water usage. PAWC Exc. at 32 (citing R.D. at 49-52). Further, PAWC maintains that contrary to criticism and assertions otherwise, winter averaging will benefit customers and more closely align summer wastewater bills with cost-causation rate design principles. PAWC Exc. at 33 (citing R.D. at 259-64; PAWC St. 10 at 43-44). Moreover, PAWC submits that the ALJs failed to address the record evidence that the winter averaging proposal: (1) is statistically supported; (2) will benefit both higher- and lower-income customers; and (3) has been successfully implemented by other utilities, including Company affiliates, in other jurisdictions to the benefit of customers. PAWC Exc. at 33 (citing PAWC R.B. at 56-57; PAWC St. 10 at 43-44).

In its Replies, I&E agrees with the ALJs' recommendation to deny PAWC's winter averaging proposal for wastewater customers. I&E R. Exc. at 14 (citing R.D. at 264-65). I&E argues that PAWC has offered no explanation regarding why the ALJs' analysis is incorrect but instead maintains that winter averaging will more closely align summer wastewater bills with cost causation. Accordingly, I&E submits that the Commission must deny PAWC's winter averaging proposal. I&E R. Exc. at 14.

In its Replies, the OCA agrees with the ALJs' recommendation to reject PAWC's proposal to change the way that it determines the volumetric component of bills for residential wastewater customers because: (1) PAWC failed to demonstrate that it would reasonably achieve its stated purpose; and (2) the methodology would disproportionately and adversely impact low-income customers. OCA R. Exc. at 18-19 (citing R.D. at 264-65).

The OCA disagrees with the Company's argument that the ALJs failed to address the Company's position that the proposed methodology: (1) is statistically supported; (2) will benefit both higher- and lower-income customers; and (3) has been implemented by utilities in other states. OCA R. Exc. at 19 (citing PAWC Exc. at 33). Specifically, the OCA counters that the statistics that the Company based its claim on demonstrate that the difference between residential customers' usage during the winter average period, when compared to their usage during the remaining months, ranged from 100 to 173 gallons per month during the past few years, or approximately 2.4 gallons per day. OCA R. Exc. at 19 (citing OCA St. 4 at 43-44, Table 6). Further, the OCA notes that similarly, the Company's data shows that there is not a substantial variability on a bill basis. For example, the OCA offers that the three-month average median bill of $62.06 during the "winter months," as defined in PAWC's proposal, did not substantially differ from the average of the median bills for the remaining nine months of $63.49. The OCA continues that the median residential bill for January 2023 of $67.43 was identical to the median residential bills in both June 2023 and July 2022, and higher than the median

residential bills in each of the other seven non-winter months. OCA R. Exc. at 19 (citing OCA St. 5 at 98-99). The OCA adds that an extra shower and loads of wash fully account for the Company's historic difference between residential winter and summer water usage, given that the average shower uses 17.2 gallons of water and a standard washing machine uses 20 gallons of water per load. OCA R. Exc. at 19 (citing OCA St. 4 at 43).

The OCA points out that PAWC conceded that higher income customers are more likely to benefit from the winter averaging proposal because they are more likely to be absent from their homes during the winter. Further, the OCA notes that PAWC did not dispute that, where residential customers have higher usage in the summer months not due to outdoor usage but because they are absent from their homes in the winter, PAWC's winter averaging proposal would understate summer months usage that flows through the sewer system. Moreover, the OCA argues that contrary to the Company's averment that the purpose of its winter averaging proposal is to shift costs from higher-income customers to lower-income customers, the unrebutted evidence shows that customers who will pay the increase in charges are disproportionately likely to be low-income. OCA R. Exc. at 19-20 (citing OCA M.B. at 81-82; PAWC St. 10-R at 55).

The OCA also argues that adoption of some form of winter averaging in other jurisdictions does not warrant approval of PAWC's proposed winter averaging methodology and the various assumptions about summer usage on which the methodology is based. Accordingly, the OCA submits that the ALJs' recommendation that the Commission reject PAWC's proposal is supported by the disproportionate harm to the low-income wastewater customers who will bear the burden of foregone revenue created by winter averaging, with little opportunity to be the recipient of any reduced bills. OCA R. Exc. at 20 (citing R.D. at 264-65; OCA M.B. at 80-82; OCA R.B. at 55-56). The OCA adds that if the Company's proposed winter averaging methodology is adopted, then the volumetric charges should be made subject to the same low-income

discounts to which other PAWC volumetric charges are subject. OCA R. Exc. at 20 (citing OCA M.B. at 82; OCA St. 5 at 109).

In its Replies, CAUSE-PA argues that the Commission should affirm the ALJs' recommendation rejecting the Company's proposed winter averaging methodology. CAUSE-PA notes that the Company's proposal allegedly attempts to separate indoor water usage from outdoor water usage (such as landscaping and swimming pools) that is not necessarily passed through wastewater systems. Further, CAUSE-PA explains that under the Company's winter averaging proposal, a customer's wastewater bill in the winter averaging months of January-March, would be determined by actual metered water usage for the month. In non-winter months, a customer's wastewater bill would be based on the lesser of their actual monthly metered water usage or the average water usage for that customer for the winter months. Moreover, CAUSE-PA notes that PAWC acknowledged that the winter averaging method, if approved, would increase volumetric wastewater rates for all customers. CAUSE-PA R. Exc. at 18 (citing CAUSE-PA M.B. at 25; PAWC St. 10 at 43-44). Accordingly, CAUSE-PA reiterates that the Company's proposed winter averaging methodology: (1) is inequitable and contrary to the public interest; and (2) improperly favors customers that reside in larger properties and have greater levels of discretionary water usage in the non-winter months. CAUSE-PA R. Exc. at 18 (citing CAUSE-PA M.B. at 25-26).

CAUSE-PA maintains its position that the Company's proposed winter methodology would inequitably shift costs from higher income customers with greater discretionary usage onto lower income customers that struggle to afford basic home services. Further, CAUSE-PA notes that the Company has conceded that the beneficiaries of the proposed winter averaging methodology are likely higher income customers. Therefore, CAUSE-PA continues, the proposed methodology will disproportionately harm lower income households. CAUSE-PA R. Exc. at 19 (citing CAUSE-PA M.B. at 26-27). Moreover, CAUSE-PA repeats the OCA's assertion that the

Company has not set forth a legitimate basis to overcome concerns related to adverse impacts on low-income customers. CAUSE-PA R. Exc. at 19 (citing CAUSE-PA M.B. at 26-27; OCA St. 5-SR at 11 (PUBLIC)). Furthermore, CAUSE-PA offers that if the Company's winter averaging proposal were implemented, then some families would be able to afford and maintain swimming pools at the expense of other families' ability to maintain drinking water. CAUSE-PA R. Exc. at 19-20 (citing CAUSE-PA M.B. at 25-26). CAUSE-PA contends that this scenario is unreasonable, inequitable, and contrary to the public interest.

CAUSE-PA further maintains that the Company's proposed winter averaging methodology and assumptions for the proposal are flawed because the methodology assumes that: (1) outdoor water usage does not impact wastewater system costs, without consideration of whether a given system is combined stormwater and wastewater, or how the discharge of outdoor water usage may nevertheless impact wastewater systems; (2) increased summer water usage is entirely attributable to outdoor water usage, without any individualized determination of whether a customer's average winter usage is reflective of their average summer usage. CAUSE-PA R. Exc. at 20 (citing CAUSE-PA M.B. at 26).

In summary, CAUSE-PA repeats that the Company's proposed winter averaging methodology is unreasonable, inequitable, and contrary to the public interest. CAUSE-PA R. Exc. at 20 (citing CAUSE-PA M.B. at 25-26). Therefore, CAUSE-PA recommends that the Commission reject PAWC's Exception No. 13. CAUSE-PA R. Exc. at 20.

4. Disposition

At the onset, we will address PAWC's claim that the ALJs failed to address the record evidence pertaining to the Company's winter averaging proposal arguments

and considerations. We note that the ALJs were aware of the position and arguments put forth by PAWC; however, as previously noted, the ALJs have the discretion to determine whether, and to what extent, further discussion and analysis is warranted. Here, it appears that the ALJs did not believe that further consideration of the record evidence pertaining to the winter averaging proposal was necessary. Accordingly, we find PAWC's claim that the ALJs overlooked any of the Company's arguments and considerations is without merit.

We agree with the ALJs that PAWC failed to sufficiently demonstrate that their proposed winter averaging methodology would reasonably achieve its stated purpose for more closely aligning wastewater bills to cost causation. As detailed by the OCA's witness, Mr. Mierzwa, when the average monthly water usage of a residential customer during the months of January through March (*i.e.*, the winter months that PAWC proposes to utilize under its winter averaging methodology), is compared to the average monthly usage for the remaining months of the year, the difference is *de minimis*, with the last two years ranging from 100 to 173 gallons per month. OCA St. 4 at 43. Mr. Mierzwa continued:

> I would expect that during the summer months[,] customers are likely to take more showers and wash clothes more often. The average shower uses 17.2 gallons of water. A standard washing machine uses 20 gallons of water per load. A few extra showers and clothes washing loads per month would totally account for the historic difference between Residential winter and summer water usage. Therefore, it does not necessarily follow that PAWC's Residential customer outdoor water usage during the summer is sufficiently significant to justify adopting winter averaging and the resulting increase in volumetric rates…

Id. We agree with Mr. Mierzwa's reasoning here. Moreover, we agree with the OCA and CAUSE-PA that PAWC's winter averaging proposal might have a disproportionate adverse impact on low-income customers. Indeed, by PAWC's own admission, the

beneficiaries of the winter averaging proposal are likely to be higher income customers because they are the customers more likely to have seasonal water usage during the summer that would no longer be billed for wastewater service. PAWC St. 10-R at 54-55. Furthermore, as pointed out by the ALJs, we find it significant that PAWC did not agree with I&E's suggestion that the winter averaging program be approved on a temporary basis, thereby allowing the Company to track the information needed for evaluation of the program. *See*, R.D. at 264. Indeed, PAWC's unwillingness to undertake the necessary measures to track the winter averaging methodology on a temporary basis for further evaluation does not instill confidence in their proposal. Therefore, for all of the foregoing reasons, PAWC's winter averaging proposal must be rejected. Accordingly, we shall deny PAWC's Exception No. 13.

J. Scale Back of Rates

1. Positions of the Parties

PAWC submitted that if the Commission approves a revenue requirement that is less than that proposed by the Company, then the Company proposes to proportionally reduce the water and wastewater revenue requirements and the proposed amount of reallocation from wastewater to water under Act 11 to be proportional so that the same percentages to the total of water service revenue requirement, wastewater service revenue requirement, and Act 11 reallocation amounts be maintained at proper levels. PAWC asserted that the levels of rates for water service and wastewater service relative to each other should be maintained as proposed in the event that a lower revenue requirement is approved by the Commission. PAWC St. 10-R at 37 (citing PAWC St. 10 at 16-17).

PAWC's witness, Mr. Rea, agreed with I&E's witness, Mr. Cline, that the first step in any scale back determination is to calculate the revenue requirement for

wastewater operations and a scale back for wastewater operations, because that must be set first to determine the revenue requirement amount that must be allocated to water operations. Further, Mr. Rea did not object to Mr. Cline's proposal that if a revenue requirement for water service is approved at levels below PAWC's recommended amount, then both usage rates and fixed charges should be reduced, but usage rates for RZ-2 residential and commercial, and RZ-4 commercial should not be scaled back if they remain lower that the usage rates in RZ-1. Moreover, Mr. Rea noted that he did not object to recommendations that any reductions in water service revenue requirements be "applied ratably" across customer classes. PAWC 10-R at 40. However, Mr. Rea submitted its opposition to the alternative scale back proposals of I&E, the OCA, the OSBA, and PAWLUG, that pursuant to Act 11, any reductions in revenue requirements for wastewater service be applied to the Act 11 reallocation amount first. Mr. Rea countered that this approach would result in a revenue requirement reduction to water service, and wastewater rates would only be reduced due to a reduction in wastewater revenue if that reduction was greater than a proposed Act 11 reallocation amount. PAWC St. 10-R at 40-41.

In summary, PAWC submitted that in the event that the Commission approves a lower revenue requirement, its scale back proposal is designed to maintain, as proposed: (1) the same relative percentages to the total of water service revenue requirement, wastewater service revenue requirement, and Act 11 reallocation amounts; and (2) the levels of rates for water service and wastewater service relative to each other. Accordingly, PAWC submitted that its proposal results in a just and reasonable outcome for all customer classes. PAWC St. 10-R at 41.

Regarding water operations, I&E averred that the Company's proposed rates would be reduced, or scaled back, to produce the revenue requirement allowed by the Commission if the Commission approves a revenue requirement that is less than the Company's requested increase and adopts I&E's proposed customer charges. I&E noted

that the first step in any scale back is to determine the revenue requirements and scale backs of the wastewater operations. According to I&E, to determine the amount of revenue requirement that must be allocated to water operations under Act 11, the wastewater operations revenue requirement must be set first. I&E continued that once the wastewater to water allocation is determined, then the full water operations revenue requirement will be established, and those rates can be scaled back. As such, I&E recommended that any scale back be netted against the subsidy the Commission determines for the wastewater operations. I&E M.B. at 86-87; I&E St. 4 at 41-42.

I&E also recommended that if the Commission grants an increase less than the fully requested increase for Water operations, then the usage rates and customer charges be decreased to produce the revenue level the Commission approves. According to I&E, any reduction in any of the ratemaking inputs by the Commission would reduce the inputs used in the customer cost analysis that was used to determine the $20.00 per month customer charge, which is based upon the direct customer cost. Further, I&E noted that the Commission recently reaffirmed its commitment to including the customer charge in the scale back of rates. I&E M.B. at 87 (citing *PGW 2023* at 157, 166). Moreover, I&E recommended that the usage rates for RZ-2 residential and commercial, and RZ-4 commercial, not be scaled back as long as they remain lower than the usage rates in RZ-1. I&E St. 4-SR at 31 (citing I&E St. 4 at 44); I&E M.B. at 87.

Concerning wastewater operations, I&E also recommended that if the Commission approves less than the full increase for the wastewater SSS operations, then any subsidy from water customers should be eliminated first to prevent water customers from subsidizing any of the SSS operations. I&E provided that the scale back should start with reducing the residential usage rate for RZ-1, RZ-2, and RZ-5, to achieve the desired level of increase, together with a reduction in the non-residential usage rate proportional to the percentage increase proposed for each rate under the full increase, which will keep the total increase in the residential class and non-residential class

relatively proportional. I&E M.B. at 87-88. I&E further provided that the Special Commercial rate of $2.350 per hundred gallons for Cleveland-Cliffs and Victory Brewing should be scaled back based upon a 67.9% increase, and the Special Commercial flat monthly charges should be similarly scaled back. I&E M.B. at 88 (citing I&E Exh. 3, Sch. 3 at 1, lines 11, 13-16, 18). However, I&E averred that the following should not be scaled back: (1) the non-residential flat rate of $150.00 per month, as it is below the average bill for a non-residential customer; (2) the special customer charge of $465.50 per month, as the increase is only 10.0%; (3) the usage rates for Caln, West Brandywine, the VA, and St. Lawrence, because the rates are below the corresponding usage rate in RZ-1; and (4) the customer charge and usage rate paid by Rainbow Washhouse, where the usage rate that I&E proposed is below the present commercial usage rate. I&E M.B. at 88 (citing I&E Exh. 3, Sch. 3 at 1, lines 19-21, 35-38).

I&E also recommended that the following not be scaled back: (1) the RZ-7 and RZ-9 general usage rates, as they are below the RZ-1 usage rate; (2) the flat charge for RZ-8 residential and commercial can be made the same as the corresponding flat charge in RZ-1, but the flat rate charges for Butler Township of $40.00 per month and for RZ-9 of $75.00 should not be scaled back because they are below the $132.00 per month flat rate proposed by I&E in RZ-1; and (3) the Bulk rates for the YBCs and in Royersford, as the revenue received from these classes is far below the cost to provide service to these classes. I&E M.B. at 88-89 (citing I&E Exh. 3, Sch. 3 at 2, lines 1-21).

With respect to CSS wastewater operations, I&E recommended that the customer charges not be scaled back for CSS wastewater operations. I&E averred that in RZ-4, the charge decreased and, therefore, no further decrease is appropriate. Regarding Residential flat rate customers, I&E recommended that the residential flat rate be adjusted downward based upon the final average residential RZ-1 bill established when rates are scaled back. I&E M.B. at 89 (citing I&E Exh. 3 Sch 3 at 1, lines 4-5; I&E St. 3-SR at 27). I&E noted that the scale back should begin with RZ-3, RZ-4,

and RZ-6 residential, reducing the usage rate to achieve the desired level of increase together with a reduction in the non-residential usage rate proportional to the percentage increase that I&E proposed for each rate under the full increase, which will keep the total increase in the residential class and non-residential class relatively proportional. I&E added that the Bulk rates in RZ-6 should not be scaled back because they are not being increased. I&E M.B. at 89 (citing I&E Exh. 3, Sch. 17, lines 2, 5, 22-24).

Regarding water service, the OCA proposed revenue increases for each class at the Company's claimed revenue requirement based on the OCA's COSS, which should be scaled back proportionately to reflect the actual water revenue increase (including revenues reallocated to water service under Act 11) authorized by the Commission in this proceeding. The OCA noted that it accepted the Company's proposed COSS for the direct cost of wastewater service and recommended that any scale back to the revenue increases for each class should be made consistent with the Company's allocation proposal. OCA M.B. at 82 (citing OCA St. 4-SR at 16-17, Table 4-SR).

The OCA submitted that the amount reallocated under Act 11 should be substantially reduced from what the Company proposed. However, the OCA pointed out that it does not recommend that any reduction in the wastewater requirement be applied first to the Act 11 reallocation, as that may not provide an adequate level of relief to wastewater customers. Accordingly, the OCA recommended that although the specific amount of revenues shifted under Act 11 should be determined by the Commission based on the authorized wastewater revenue requirement, an Act 11 reallocation that results in comparable percentage increases for water and wastewater customers would be in the public interest. OCA M.B. at 82-83 (citing OCA St. 4-SR at 17-18, 35; OCA St. 4 at 25-27).

The OSBA recommended that if the Commission approves a lower increase than that requested by the Company, the decrease be applied primarily to water rates. The OSBA also recommended that if the Commission approves a lower revenue requirement increase associated with the Company's wastewater systems than proposed by the Company, then the incremental revenue requirement reduction should not reduce the Company's proposed wastewater rates, so long as the cost-based wastewater revenue requirement is greater than the Company's proposed wastewater rates. The OSBA noted that this means that generally, a lower revenue requirement will reduce Act 11 revenues and the Company's proposed water rates. OSBA M.B. at 21-22 (citing OSBA St. 1 at 36-37).

Regarding water rates at a lower revenue requirement, the OSBA recommended scaling back the revenue allocation to each customer class in proportion to each class's share of the total non-Act 11 revenues. OSBA M.B. at 22 (citing OSBA Sch. KCH-12 at 1). The OSBA also recommended that each water class recover its allocated share of any approved Act 11 subsidy, averring that it: (1) fixes the admitted errors in the Company's originally-filed Water COSS; (2) employs more reasonable and accurate maximum day and hour allocators; and (3) will recover the Act 11 subsidy allocated to each water class. OSBA M.B. at 22.

PAWLUG submitted that with the exception of modifying PAWC's proposed maximum hour demand ratio for the residential customer class, the Commission should accept the Company's revised COSS. PAWLUG averred that the Company's proposal to allocate $71.1 million of the wastewater revenue requirement to water customers pursuant to Act 11 should be modified to adopt PAWLUG's revised allocation method and apply any approved scale back of the wastewater revenue requirement to offset the total $71.1 million allocation. PAWLUG submitted that its proposal to increase the industrial customer charge is consistent with the recommendation of its witness, Ms. LaConte, and should be approved.

PAWLUG also averred that to the extent the Commission approves a lower water revenue requirement than that proposed by the Company, a proportional scale back should be implemented. PAWLUG added that the Commission should scale back only the volumetric rates for the Company's industrial and municipal customer classes for the portion attributable to industrial and municipal customers due to the high proportion of total class revenues recovered through the respective volumetric rates. PAWLUG M.B. at 28 (citing PAWLUG St. 1 at 29-30). PAWLUG noted that although applying any scale back to volumetric rates for both the industrial and municipal classes remains appropriate in conjunction with the Company's proposed increase to the industrial customer charge, it becomes particularly necessary in the event the Commission denies PAWLUG's proposal to increase the industrial customer charge. PAWLUG M.B. at 28.

Victory Brewing submitted that it accepts the Company's scale back proposal. Victory Brewing M.B. at 8 (citing PAWC St. 10 at 45-46).

2. Recommended Decision

The ALJs recommended that the Commission adopt the Company's position on the scale back of rates. R.D. at 271. The ALJs found that the Company's witness, Mr. Rea, explained PAWC's position on the scale back of rates as follows:

> [I]n the event that the Commission approves a revenue requirement that is less than that proposed by the Company, the Company proposes to reduce the revenue requirements for water service and wastewater service, and the proposed amount of reallocation from wastewater to water under Act 11 to be proportional so that the same relative percentages to the total of water service revenue requirement, wastewater service revenue requirement, and Act 11 reallocation amounts be maintained at proposed levels. [PAWC] believes that the levels of rates for water service and wastewater service relative to each other should be maintained as proposed in the

> event that a lower revenue requirement is approved by the Commission in this case.

R.D. at 271 (citing PAWC St. 10-R at 37). The ALJs noted that adopting PAWC's proposal, to proportionately reduce the water and wastewater revenue requirements and the proposed amount of reallocation from wastewater to water under Act 11, would be an equitable scale back while still allowing some rate relief for wastewater customers pursuant to Act 11. R.D. at 272.

3. Exceptions and Replies

a. I&E Exception No. 5 and Replies

In its Exception No. 5, I&E argues that the ALJs failed to explain why PAWC's approach should be adopted and ignores the precedent set in *Aqua 2022*, where the Commission explained that a scale back of water rates should first reduce the Act 11 subsidy. I&E Exc. at 11 (citing *Aqua 2022* at 226). I&E contends that its customer cost analysis, customer charge, and scale back proposals should be adopted because they are based on sound Commission ratemaking policies and precedent. I&E Exc. at 11.

I&E reiterates that the first step in any scale back is to determine the revenue requirements and scale backs of the wastewater operations. I&E continues that to determine the amount of revenue requirement that must be allocated to Water operations under Act 11, the wastewater operations revenue requirement must be set first. I&E Exc. at 11-12. However, I&E disagrees with the revenue requirements recommended by the ALJs for both water and wastewater operations. I&E repeats that once the wastewater to water allocation is determined, the full water operations revenue requirement will be established, at which time those rates can be scaled back. Therefore,

I&E maintains that any scale back be netted against the subsidy the Commission determines for the wastewater operations. I&E Exc. at 12.

I&E also repeats that for water operations, the usage rates and customer charges should be decreased to produce the revenue level the Commission approves. I&E maintains that any reduction in any of the ratemaking inputs by the Commission would reduce the inputs used in the customer cost analysis that was used to determine the $20.00 per month customer charge, which is based on the direct customer cost. Further, I&E again notes that the Commission recently reaffirmed its commitment to including the customer charge in the scale back of rates. I&E Exc. at 12 (citing *PGW 2023* at 157, 166).

Regarding wastewater SSS operations, I&E repeats that any subsidy from water customers should be eliminated first to prevent water customers from subsidizing any of the SSS operations. I&E asserts that the scale back should start with reducing the residential usage rate for RZ-1, RZ-2, and RZ-5, to achieve the desired level of increase and a reduction in the non-residential usage rate proportional to the percentage increase proposed for each rate under the full increase. I&E Exc. at 12. I&E illustrates that if the general residential usage rate is scaled back 50%, the residential usage rate would increase 15.05% (30.1% x 50.0%). Further, I&E states that an increase in the general non-residential usage rate of approximately 24.9% (49.8% x 50.0%) will maintain a proportionate total increase in the residential class and non-residential class. Further, I&E again provides that the Special Commercial rate of $2.350 per hundred gallons for Cleveland-Cliffs and Victory Brewing should be scaled back based upon a 67.9% increase, and the Special Commercial flat monthly charges should be similarly scaled back. I&E Exc. at 12-13 (citing I&E Exh. 3, Sch. 3 at 1, lines 11, 13-16, 18). Moreover, I&E again avers that the following should not be scaled back: (1) the non-residential flat rate of $150.00 per month, because it is below the average bill for a non-residential customer; (2) the special customer charge of $465.50 per month, because the increase is

only 10.0%; (3) the usage rates for Caln, West Brandywine, the VA, and St. Lawrence, as the rates are below the corresponding usage rate in RZ-1; and (4) the customer charge and usage rate paid by Rainbow Washhouse, where the usage rate that I&E proposed is below the present commercial usage rate. I&E Exc. at 13 (citing I&E Exh. 3, Sch. 3 at 1, lines 19-21, 35-38).

I&E also repeats that the following should not be scaled back: (1) the general usage rates in RZ-7 and RZ-9, because they are below the RZ-1 usage rate; (2) the flat charge for RZ-8 residential and commercial can be made the same as the corresponding flat charge in RZ-1, but the flat rate charges for Butler Township of $40.00 per month and for RZ-9 of $75.00 should not be scaled back because they are below the $132.00 per month flat rate proposed by I&E In RZ-1; and (3) the Bulk rates for the YBCs and in Royersford, because the revenue received from these classes is far below the cost to provide service to these classes. I&E Exc. at 13 (citing I&E Exh. 3, Sch. 3 at 2, lines 1-21).

Regarding CSS wastewater operations, I&E reiterates its recommendation that the customer charges should not be scaled back, noting that in RZ-4, the charge decreased and, therefore, no further decrease is appropriate. I&E Exc. at 14. Further, I&E repeats its recommendation that for residential flat rate customers in CSS operations, the residential flat rate be adjusted downward based upon the final average residential RZ-1 bill established when rates are scaled back. I&E maintains that the scale back should begin with RZ-3, RZ-4, and RZ-6 residential, reducing the usage rate to achieve the desired level of increase together with a reduction in the non-residential usage rate proportional to the percentage increase that I&E proposed for each rate under the full increase. I&E illustrates that if the general residential usage rate is scaled back 50%, which would result in the general residential usage rate increasing by 11.7% (23.4% X 50%), the increase in the general non-residential usage rate should be approximately 24.7% (49.4% X 50.32), which will keep the total increase in the

residential class and non-residential class relatively proportional. Moreover, I&E again avers that the Bulk rates in RZ-6 should not be scaled back because they are not being increased. I&E Exc. at 14 (citing I&E Exh. 3, Sch. 17, lines 2, 5, 22-24).

I&E repeats that its scale back recommendation is based on sound rate making principles and Commission precedent that a scale back should first be applied to the Act 11 subsidy. Therefore, I&E asks that the Commission grant this exception and approve the I&E recommended scale back in determining the rate design for PAWC water and wastewater rates. I&E Exc. at 14.

In its Replies, PAWC counters that the scale back of rates should be considered in the broader context of revenue allocation, which in turn, must consider ratemaking policy and gradualism. As such, PAWC submits that the Commission should adopt the ALJs' determination that the Company's proposed scale back of rates is reasonable. Further, PAWC notes that the ALJs considered and rejected I&E's scale back proposals. Moreover, PAWC notes that the Company's system, rates, and proposed rates differ from the circumstances in *Aqua 2022* and, therefore, the Commission should not reach the same result here. Furthermore, PAWC points out that the ALJs recognized that the Company's proposal will still allow for some rate relief for wastewater customers under Act 11, which is consistent with Commission policy and the principle of gradualism. PAWC R. Exc. at 18 (citing R.D. at 271-72).

In its Replies, the OCA maintains that the Commission should adopt an Act 11 reallocation that results in comparable percentage increases for water and wastewater customers. OCA R. Exc. at 20 (citing R.D. at 271-72; OCA R.B. at 56; OCA M.B. at 82-83). The OCA disagrees with I&E's recommendation that "essentially zero relief should be provided to wastewater customers through an Act 11 assignment." OCA R. Exc. at 20 (citing OCA M.B. at 73-74). Therefore, the OCA disagrees with I&E's position on scale back (*i.e.*, that any reduction in the wastewater requirement should be

applied first to the Act 11 reallocation), arguing that this approach may not provide a sufficient level of relief to wastewater customers. OCA R. Exc. at 20 (citing OCA M.B. at 74; I&E Exc. at 11). Further, the OCA avers that the ALJs properly adopted the OCA's proposal for allocation of the Act 11 subsidy, which is to provide some rate relief for the Company's wastewater customers while still moving wastewater SSS and CSS wastewater rates closer to their cost-of-service while not burdening the water customers. OCA R. Exc. at 20-21 (citing R.D. at 227). Moreover, the OCA maintains that although the specific amount of revenues shifted under Act 11 should be determined by the Commission based on the authorized wastewater revenue requirement, an Act 11 reallocation (after scale back) that results in comparable percentage increases for water and wastewater customers would be in the public interest. OCA R. Exc. at 21 (citing OCA R.B. at 47-51; OCA M.B. at 71-74).

b. OCA Exception No. 17 and Replies

In its Exception No. 17, the OCA disagrees with the ALJs' recommendation to the extent that it is construed to mean that the ALJs' recommended adoption of the $20 water customer charge and the $15 wastewater customer charge will not be scaled back or reduced based on the overall revenue requirement authorized by the Commission. OCA Exc. at 29-30 (citing R.D. at 271-72). The OCA notes that the Company's direct customer charge analyses for both water and wastewater were calculated at the Company's filed-for revenue requirement increase and pre-tax rate of return. OCA Exc. at 30 (citing PAWC Exh. 12-B, Sch. RS1 j., Responses at 2). The OCA continues that Commission adjustments to the allowed revenue requirement, including pre-tax rate of return, impact those calculations and should be flowed through to reduce the indicated customer charges. OCA Exc. at 30 (citing; OCA St. 4-SR at 14; OCA St. 4 at 36). Similarly, the OCA notes that I&E's recommendation for the $15 wastewater customer charge was made at PAWC's requested revenue requirement and they should be flowed

through where adjustments to that revenue requirement impact I&E's analysis and calculation. OCA Exc. at 30 (citing OCA St. 4-R at 6).

In its Replies, the PAWC argues that the Commission should approve the ALJs' recommendation regarding the Company's customer charges and proposed scale back for the reasons set forth in their Recommended Decision. PAWC R. Exc. at 19 (citing R.D. at 227-36; 265-75).

4. Disposition

As previously noted, the ALJs found that adopting PAWC's proposal to proportionately reduce the water and wastewater revenue requirements, including the proposed amount of reallocation from wastewater to water under Act 11, would be an equitable scale back while still allowing for some rate relief for wastewater customers under Act 11. R.D. at 271. As discussed above, we agree with the OCA that an Act 11 reallocation that results in comparable percentage increases for water and wastewater customers would be in the public interest. Indeed, as noted by the OCA, the ALJs recommended that the Commission adopt the OCA's proposal to allocate the Act 11 subsidy, which is to provide some rate relief for the Company's wastewater customers while still moving wastewater SSS and CSS rates closer to their cost-of-service without placing a burden on the water customers. OCA R. Exc. at 20-21 (citing R.D. at 227). We concur with the ALJs on this reasoning. However, regarding the issue of how any scale back should be implemented, we disagree with the ALJs' endorsement of the Company's proposal that the Act 11 allocation should be maintained on a proportional basis to the amount of the scale back granted. Rather, we agree with I&E to the extent that a scale back should reduce the Act 11 subsidy first, consistent with the Commission's decision in *Aqua 2022*. I&E Exc. at 11 (citing *Aqua 2022* at 226).

We shall also address I&E's and the OCA's arguments regarding the scale back of the customer charge. Upon review, the Recommended Decision did not address the scale back of the water customer charge and the wastewater customer charge. Notwithstanding, we agree with I&E that customer charges are based upon direct customer costs, meaning any reduction in any of the ratemaking inputs would reduce the inputs used in the customer cost analysis that was used to determine the monthly customer charge. Indeed, as noted by I&E, the Commission included the customer charge in the scale back of rates in *PGW 2023*. I&E Exc. at 12 (citing *PGW 2023* at 157, 166); *see also*, I&E St. 4 at 43-44. Therefore, we agree with I&E's reasoning that any scale back be netted against the subsidy that the Commission determines for the wastewater operations. We are in further agreement with I&E that, regarding water operations, both usage rates and customer charges shall be scaled back proportional to the increase granted.[115] Accordingly, we shall grant I&E's Exception No. 5. In addition, we shall grant the OCA's Exception No. 17, to the extent that a clarification is warranted regarding the scale back applicability to PAWC's residential customer charges.

XI. Alternative Ratemaking Requests

PAWC provided that Section 1330 of the Code, 66 Pa.C.S. § 1330 authorizes public utilities to propose alternative rate mechanisms. PAWC St. 8-R at 8.

[115] Regarding Wastewater operations, the residential customer charge should be excluded from any scale back, given the minimal increase of $0.70 per month and rate decreases for certain wastewater rate zones (RZ-4, RZ-7, and RZ-9). As discussed, *supra*, I&E stated that the following should not be scaled back: (1) the non-residential flat rate of $150.00 per month; (2) the special customer charge of $465.50 per month; (3) the usage rates for Caln, West Brandywine, the VA, and St. Lawrence; (4) the customer charge and usage rate paid by Rainbow Washhouse; (5) the general usage rates in RZ-7 and RZ-9; (6) the flat rate charges for Butler Township of $40.00 per month and for RZ-9 of $75.00; and (7) the Bulk rates for the YBCs and in Royersford. I&E Exc. at 13-14.

Accordingly, in this proceeding, PAWC proposed the RDM and the ECIC, as discussed below.

A. Revenue Decoupling Mechanism

1. Positions of the Parties

PAWC stated that decoupling mechanisms like the RDM are authorized by 66 Pa.C.S. § 1330(b)(2), and that the recovery of fixed costs is a concern for PAWC because 81% of its water and wastewater revenues are collected under volumetric rates and over 95% of its costs are fixed, diminishing PAWC's ability to recover approved costs if water sales are less than anticipated. PAWC cited declining use among certain customers, seasonal weather conditions, and unexpected external events as factors that could result in reduced sales. PAWC M.B. at 69. Furthermore, PAWC argued that its continued non-revenue producing investments for the benefit of customers, along with variability in usage, causes revenues to remain outside of the Company's control. *Id*. at 70.

In requesting approval of the RDM, PAWC stated that the mechanism will compare revenues collected under Commission-approved rates with revenues that would have been collected through Straight Fixed Variable (SFV) pricing. PAWC described that if actual revenues are higher than would have been collected under the RDM formula, the difference is credited to customers in the following year. Conversely, if actual revenues are lower than would have been collected under the RDM formula, the difference will be collected from customers in the following year. PAWC contended that the RDM does not shift risk to or away from customers, as both PAWC and customers continue to share revenue risk because the RDM can result in either a credit or surcharge to customers depending on PAWC's actual results compared to the SFV price components. Also,

PAWC submitted that the RDM does not guarantee recovery of PAWC's authorized return. PAWC M.B. at 70.

PAWC argued that the RDM should not be subject to an earnings test and cap because it would decrease the utility of the RDM and undermine the revenue requirement authorized by the Commission in this proceeding. In addition, PAWC averred that while mechanisms such as declining use adjustment, the use of the FPFTY, and the DSIC are available, they do not address the issue that the RDM is intended to solve, which is revenue volatility resulting from declining consumption and other events that impact forecasted usage. PAWC further stated that the RDM will not discourage conservation or compromise affordability. Further, PAWC argued that the RDM should not be limited to residential customers because revenue volatility is not constrained to the residential class. Finally, PAWC contended that the RDM would not cause rate instability or confusion, but, rather, it would smooth out revenues over a longer term for the benefit of customers and PAWC. PAWC disagreed with the position of the OCA, *infra*, that the RDM does not satisfy the fourteen factors of the Commission's Policy Statement regarding alternative ratemaking at 52 Pa. Code § 69.3302. PAWC M.B. at 71-73.

I&E, the OCA, the OSBA, CAUSE-PA, PAWLUG, Cleveland Cliffs, and Victory Brewing opposed the RDM.

I&E argued that PAWC did not establish a need for revenue stabilization, especially given that it has simultaneously proposed a declining usage adjustment. I&E stated that between the frequent base rate cases filed by PAWC, the FPFTY, and the DSIC, PAWC has not demonstrated a need for further revenue stabilization measures. Also, I&E averred that it does not appear likely that the RDM will lessen the frequency that PAWC files base rate cases. Moreover, I&E argued that PAWC has no history of an inability to attract capital. I&E M.B. at 90-95.

In addition, I&E submitted that in order for the RDM to be approved it should have some benefit to customers; however, the proposed RDM may harm customers. In this regard, I&E contended that the RDM would devalue conservation efforts of customers that can afford efficiency measures and harm customers who cannot afford such measures by assessing an additional charge on all customers. Specifically, I&E submitted that customers who take measures to reduce their water consumption will be forced to share some of their bill savings with PAWC. I&E averred that the RDM would likely cause rate confusion because another surcharge will be added to PAWC's customer bills, and based on how the credit or surcharge is calculated, a customer will be unable to predict whether they will receive a credit or a surcharge. I&E M.B. at 96-98.

The OCA argued that PAWC did not demonstrate a need for the RPM, or that it is just and reasonable. The OCA stated that by proposing the RDM, PAWC improperly seeks to shift risk of under-recovery from the Company to consumers. The OCA averred that the RDM fails to meet the requirements under 66 Pa.C.S. § 1330, violates sound ratemaking principles, and poses a risk to the consumers in the form of unknown rate increases outside of the rate case process. OCA M.B. at 83.

The OCA stated that it is unclear how the RDM will enhance the safety, security, reliability, and availability of infrastructure since PAWC is already meeting its responsibilities under 66 Pa.C.S. § 1501. Accordingly, the OCA insisted that the RDM is not needed. OCA M.B. at 84-85. Also, the OCA averred that the RDM is inconsistent with "efficient consumption of utility service." *Id*. at 84 (citing 66 Pa.C.S. § 1330(a)(2)). The OCA submitted that, in order to benefit from the RDM, PAWC's customers would have to reduce their consumption by more than the reduction in usage by all other customers. Furthermore, the OCA argued that the RDM will not provide for rate stability. *Id*. at 84-85.

In addition, the OCA argued that the RDM will harm customers unless PAWC's ROE is adjusted downward to reflect the shifting of risk from the Company to consumers. The OCA stated that the RDM would produce guaranteed revenue recovery for PAWC where no guarantee has existed in the past, wholly shifting the risk onto consumers without any benefit. To that end, the OCA averred that PAWC's FPFTY consumption projections in this proceeding already reflect declining per-customer water usage, resulting in investors benefitting from the reduction in regulatory lag associated with use of the FPFTY. Moreover, the OCA contended that the RDM will harm low-income customers by transferring costs from higher income customers to lower-income customers. The OCA further claimed that the RDM does not meet the fourteen factors of the Commission's Policy Statement at 52 Pa. Code § 69.3302(a)(1)-(14). OCA M.B. at 86-88.

The OSBA raised a concern that if a large business went out of business or moved, the remaining small businesses would have to pick up the revenue shortfall calculated by the RDM. OSBA M.B. at 23.

CAUSE-PA opposed PAWC's RDM proposal because it would prejudice and disadvantage residential customers who practice conservation to lower their bills and disproportionately impact low-income customers. Namely, CAUSE-PA contended that the RDM would detract from savings that may be achieved through customers' conservation efforts, and customers would be disincentivized from practicing conservation. Furthermore, CAUSE-PA argued that the RDM does not contain adequate consumer protections, specifically because PAWC's low-income customers would have to bear additional costs from the RDM without any mitigation, which would exacerbate increases in unaffordability. CAUSE-PA also averred that the RDM may be difficult for customers to understand. CAUSE-PA also argued that there is no evidence to suggest that implementation of the RDM will lessen the severity or frequency of future rate increases. To the extent the Commission would approve the RDM, CAUSE-PA

submitted that the Company's BDP customers should be exempt from RDM charges. CAUSE-PA M.B. at 30-33.

PAWLUG argued that PAWC's proposed RDM disadvantages customers by creating additional administrative burdens by creating a new annual regulatory filing subject to comments and potential hearings, eroding conservation incentives, and exposing customers to interclass subsidization and conflicting with cost causation by applying a uniform surcharge to all non-residential customers. To the extent the Commission approved the RDM, PAWLUG proposed that Industrial and Municipal customers should be exempt from it. Also, PAWLUG recommended that, at a minimum, the Commission should condition any approval of the RDM on heightened protections, including the implementation of an earnings test and an asymmetrical 3% cap on a surcharge. PAWLUG M.B. at 28-30.

Cleveland Cliffs argued that the implementation of another revenue recovery tracker is unnecessary since PAWC already utilizes a Commission-approved DSIC and has the opportunity to include forecasted costs and investments through the use of an FPFTY, both of which serve to reduce regulatory lag. Furthermore, Cleveland Cliffs averred that a RDM should not include the Industrial Class in the tracker because PAWC failed in its burden to support the implementation of an RDM for industrial water users. Cleveland Cliffs submits that industrial customers have a natural incentive to implement cost-effective investments in efficient use and are unsuitable customers for an RDM tracker. Additionally, Cleveland Cliffs stated that the proposed RDM presents significant problems with interclass allocations of lost revenues because any revenue shortfall would be collected from all customers, even if one customer class was responsible for the decline, which is unreasonable. Also, Cleveland Cliffs noted that if a single industrial customer left PAWC's system, the loss in revenues from that customer would be confined to the rest of the Industrial customers and would have to be picked up by those customers. In Cleveland Cliffs' view, industrial customers should not be placed

in such a risky and potentially damaging position by the operation of an RDM. Cleveland Cliffs M.B. at 7-9.

Victory Brewing agreed that the RDM should be rejected. However, if the proposal is accepted by the Commission, Victory Brewing agreed with the recommendation of Cleveland Cliffs to exclude the Industrial class from the RDM. Victory Brewing M.B. at 9-10.

2. Recommended Decision

The ALJs concluded that approval of PAWC's proposed RDM is not in the public interest. The ALJs found that the RDM will negate consumer conservation efforts, and customers who take measures to conserve water usage will end up giving some of their monetary savings back to PAWC. In addition, the ALJs determined that PAWC has not demonstrated a need for a further revenue stabilization measure since it is already compensated for revenue shortfalls through Act 11, the FPFTY, its DSIC, and frequent rate case filings. Furthermore, the ALJs found that the RDM is not a just and reasonable alternative distribution ratemaking mechanism because it would not provide rate stability to customer bills because the design of the RDM uses adjustments to customers' bills to maintain revenue levels. The ALJs also concluded that the RDM's impact on the frequency of rate case filings is unknown. Finally, the ALJs determined that the RDM would be difficult for customers to understand. Therefore, the ALJs recommended that the RDM be rejected. R.D. at 292-93.

3. PAWC Exception No. 6.2 and Replies

In its Exception No. 6.2, PAWC argues that the ALJs erred by recommending that the Commission reject the proposed RDM. PAWC requests approval to establish a RDM to reduce revenue volatility resulting from declining consumption and

other unanticipated events that can impact forecasted usage. PAWC summarizes the ALJs' recommendation on this matter and states that it addressed each of the concerns raised by the ALJs, as well as the fourteen factors set forth in the Commission's Policy Statement on distribution rate considerations at 52 Pa. Code § 69.3302, in its Main Brief, Reply Brief, and the testimony of its witness, Mr. Rea. PAWC Exc. at 23-24.

Furthermore, PAWC contends that the ALJs did "not meaningfully address the substantial record evidence provided by the Company, which demonstrates that the RDM will not negatively impact conservation efforts since the RDM will not remove any incentive (financial or otherwise) to reduce water consumption; ratemaking tools such as Section 1311(c), the FPFTY, and DSIC do not adequately address revenue volatility; and low-income customers will not be negatively impacted by the RDM." PAWC also argues that the ALJs did not reach findings of fact in support of almost all of their bases for rejecting the RDM. PAWC states that the Commission should find that the RDM is a just and reasonable ratemaking mechanism that will mutually benefit the Company and customers and should be approved. PAWC Exc. at 25.

In reply, I&E argues that the ALJs did not err in recommending denial of the RDM. I&E notes that the way for a water customer to reduce their bill is through conservation efforts; however, the RDM will force customers who take measures to reduce their water consumption to share some of their bill savings with PAWC. Also, I&E avers that revenue stabilization removes the risk of not recovering the full amount of revenue requirement allowed by the Commission due to changes in usage, and PAWC does not need further revenue stabilization measures due to the frequent base rate cases filed by the Company, the FPFTY, and the DSIC. I&E states that PAWC's exception does not demonstrate that the ALJs were incorrect in their reasons for recommending denial of the RDM. I&E R. Exc. at 12-13.

The OCA, in its reply to PAWC's Exception No. 6.2, also argues that the ALJs properly considered and rejected the RDM. In addition to agreeing with the reasoning of the ALJs in rejecting the RDM, the OCA contends that the RDM would resemble a natural unregulated monopoly by shifting risks of declining consumption entirely away from PAWC, which is compensated for risk, to captive ratepayers who would receive no compensation and lose a means to reduce their bill. Further, the OCA avers that the RDM would cause costs to be transferred from higher-income customers to lower-income customers because water usage reduction actions are disproportionately taken by higher-income households. OCA R. Exc. at 21-22.

CAUSE-PA also contends, in its reply, that the Commission should uphold the Recommended Decision's conclusion that the RDM is not just and reasonable and should be rejected. CAUSE-PA remains of the opinion that the proposed RDM should be rejected because it unreasonably prejudices and disadvantages residential customers who practice conservation to lower their monthly bills and will disproportionately impact low-income customers. CAUSE-PA states that the RDM would detract from savings that may be achieved through customers' conservation efforts and would hamper the ability of low-income customers to practice conservation and achieve bill savings. CAUSE-PA also argues that the RDM lacks adequate consumer protections, since PAWC's low-income customers would bear additional costs from the RDM making additional increases unaffordable. Furthermore, CAUSE-PA states that the RDM will not be understandable to consumers due to its highly complex design. Finally, CAUSE-PA notes that there is no indication that implementation of the RDM would impact the frequency of PAWC rate filings. CAUSE-PA R. Exc. at 7-9.

In reply to PAWC's Exception No. 6.2, PAWLUG agrees with the ALJs recommendation that the Commission deny the proposed RDM. PAWLUG contends that PAWC's characterization of the RDM as "commonplace" is misleading; rather, PAWLUG submits that the RDM is extraordinary and broad in scope. PAWLUG argues

that the costs to be recovered through the RDM are not extraordinary, unanticipated, or nonrecurring. Also, PAWLUG states that the RDM would conflict with cost causation principles by applying a uniform surcharge to all non-residential customers, which would impact interclass cost shifting between the various non-residential customer classes. Finally, PAWLUG restates its request that if the Commission approves the RDM, it should exempt Industrial and Municipal customers from the charge, implement certain customer protections, including an earnings test and an asymmetrical cap on any surcharge, and apply a downward adjustment to PAWC's ROE to recognize the operational risk mitigation resulting from approval of the RDM. PAWLUG R. Exc. 4-5.

4. Disposition

Upon review, we agree with the ALJs that approval of PAWC's proposed RDM is not in the public interest. First, PAWC did not establish a need for the RDM as an additional revenue stabilization mechanism. Revenue stabilization mechanisms are implemented to remove the risk of non-recovery of the full amount of any permitted revenue requirement. However, PAWC already utilizes frequent base rate cases, the FPFTY, and the DSIC to address revenue shortfalls. Specifically, the impact of the RDM on the frequency of base rate case filings is unknown and may not lessen the need and frequency of base rate cases. Therefore, PAWC has not proven that the RDM is needed.

In addition, we find that the RDM does not benefit customers. In fact, it appears that the RDM will hinder customer conservation efforts and could cause customers who take measures to reduce their water consumption to share some of their bill savings with PAWC. We agree that charging customers an additional charge through the RDM may act as a disincentive from conservation practices by customers because it will diminish the value of any savings achieved from such conservation efforts.

Furthermore, the RDM is not a just and reasonable alternative distribution ratemaking mechanism. As proposed, the RDM would produce guaranteed rate recovery where no guarantee existed in the past and shift the risk of recovery entirely onto customers without any benefit. Without adequate consumer protections, low-income customers will be placed at risk of bearing additional costs from the RDM, and this potential increase in unaffordability would expose these customers to a greater risk of arrears and termination of service. Moreover, the RDM will likely be confusing and difficult to understand for consumers due to its complex design in determining whether the RDM is a credit or charge. This additional surcharge on customer bills, along with the quarterly rate changes that occur under PAWC's DSIC, would only add to that complexity and confusion.

Therefore, we conclude that it is not in the public interest to approve the proposed RDM, which would provide an additional type of revenue stabilization to PAWC at the risk of eroding customers' conservation savings, which is the only way for water customers to affect a reduction to their water bill. With the PAWC's frequency of filing base rate cases, along with its use of the FPFTY and the DSIC, we further find that PAWC has not demonstrated a need for the proposed RDM. For these reasons, as well as the RDM's negative impact on consumer conservation efforts and its resulting confusion, as discussed above, we shall reject PAWC's proposed RDM. Accordingly, we will deny PAWC Exception No. 6.2.

B. Environmental Compliance Investment Charge

1. Positions of the Parties

PAWC has also proposed a rate adjustment clause to recover, between rate cases, the costs to comply with environmental regulations. PAWC St. 8 at 21. The costs in the ECIC must be consistent with the projects and activities set forth in an annual

environmental compliance plan (ECP) that is subject to Commission review. PAWC St. 8 at 22. PAWC proposes a review process for the ECP similar to the process followed by the Commission when reviewing the electric distribution companies' (EDC) energy efficiency and conservation (EE&C) plans. PAWC St. 8 at 26 (additional citations omitted).

The ECIC will include the fixed costs of the ECP capital investments placed in service after the end of the FPFTY in this case. The fixed costs will be captured quarterly. The ECIC will be updated quarterly, with supporting data filed with the Commission and served upon I&E, Audits, the OCA and the OSBA at least ten days prior to the effective date. The ECIC will be applied to the total amount billed to each customer for service, excluding amounts billed for public fire protection service, the State Tax Adjustment Surcharge (STAS), and the DSIC. The ECIC will be applied equally to all customer classes. PAWC St. 8 at 29.

PAWC provided that its environmental compliance requirements are continuously evolving and the need for and timing of measures to comply with these evolving regulatory requirements are outside the Company's control. According to PAWC, the proposed ECIC will provide a reasonable mechanism to support full and timely rate recognition of PAWC's costs to comply with new and updated environmental mandates. Additionally, the ECIC will mitigate customer exposure to less frequent but more significant rate increases in a base rate case. PAWC R.B. at 62. PAWC explains that costs that are recoverable through the ECIC must be consistent with the set of projects and activities set forth in an annual ECP that will be subject to Commission review and approval. PAWC M.B. at 73 (citing PAWC St. 8 at 25-26).

PAWC cites to the state and federal regulations concerning per- and polyfluoroalkyl substances (PFAS) as an example of rapidly changing environmental mandates. As PAWC witness, Mr. Aiton, explained, on March 14, 2023, the United

States Environmental Protection Agency (USEPA) issued proposed drinking water regulations for six PFAS that will establish maximum contaminant levels (MCLs), maximum contaminant level goals (MCLGs), and monitoring, public notice and treatment requirements. PAWC M.B. at 74 (citing PAWC St. 3 at 5-9). The USEPA is expected to finalize those PFAS standards before the end of 2024 and public water systems will then have three years to comply. PAWC M.B. at 74 (citing PAWC St. 3 at 6-7). The PADEP has promulgated state drinking water standards establishing strict MCLs and MCLGs for two PFAS with compliance monitoring requirements effective January 1, 2024. PAWC estimated compliance costs for the federal and state PFAS requirements in the range of $200 million before the end of 2027. *Id.*

I&E opposed the ECIC for several reasons: (1) the ECIC will be filed outside the parameters of a base rate case; (2) the ECIC will affect efficiency incentives; (3) the Company has not projected any data related to the ECIC; and (4) the ECIC would be premature, as the final regulations have not been formulated, the Commission has not had the opportunity to react to the PFAS issue on a utility-wide basis, and federal and state funding opportunities may become available in the future. I&E M.B. at 98-101 (citing PAWC St. 8, Exh. JCS-1 at 1; I&E St. 1 at 35). I&E reasoned that while it does not dispute that a utility should generally be able to recover costs associated with environmental compliance, an open-ended surcharge such as the ECIC is not the proper way to do so while so many unknowns regarding the ECIC remain. I&E R.B. at 41.

The OCA argued that PAWC has failed to demonstrate by a preponderance of evidence that the ECIC will "enhance the safety, security, reliability or availability of utility infrastructure." OCA M.B. at 88 (citing 66 Pa.C.S. § 1330(a)(2)). While PAWC sought to model the ECIC on the DSIC/LTIIP, the OCA contended that the similarities are superficial. The OCA maintains that the DSIC/LTIIP is "aimed at *accelerating* the replacement of aging underground infrastructure *above and beyond what is required under the law*," while the ECIC is aimed at shifting the risk of recovery of sizable and

wide-ranging environmental capital investments from the Company to its customers. The OCA argued that these environmental capital costs have traditionally been part of the Company's normal business risk of complying with environmental laws. OCA M.B. at 88-89 (citing OCA St. 1 at 49-50) (emphasis in original). According to the OCA, the Company has shown that it can meet its requirements in Section 1501 of providing adequate, safe and reasonable service and facilities without any additional incentive or inducement and has therefore failed to show that the ECIC would "*enhance* the safety, security, or availability of utility infrastructure." OCA M.B. at 89 (emphasis in original).

The OCA argued that the Company has the responsibility and expertise to make decisions regarding environmental compliance infrastructure needs and the ECIC is unnecessary. The OCA provided that the Company needs to remain agile in making decisions on infrastructure capital spending between rate cases and should not endeavor to make the Commission a super board of directors by initiating the ECIC review process between rate cases. OCA R.B. at 58-59. Finally, the OCA averred that if the Commission approved the ECIC, the Company's risk profile would be lowered, and this lower risk would need to be reflected in the approved cost of equity for the Company. OCA R.B. at 59 (citing OCA St. 3 at 19).

The OSBA alleged that the ECIC is the "textbook example of single-issue ratemaking." The OSBA argued that "PAWC has shown a predilection for entering into costly expenditures – the acquisition of [BASA] being a prime example." OSBA M.B. at 23. The OSBA maintained that single-issue ratemaking is not sound regulatory practice. While a traditional rate case allows all parties to balance the expenses of an issue such as the ECIC with possible savings created by a Company's environmental compliance projects, considering the ECIC in isolation would not. OSBA St. 1 at 46.

CAUSE-PA noted that it is impossible to determine the reasonableness of the ECIC, if the ECIC will operate equitably, or if it is in the public interest because of

the lack of details in PAWC's proposal. CAUSE-PA M.B. at 34-35 (citing CAUSE-PA St. 1 at 1-19). CAUSE-PA provided that the ECIC would negatively affect low-income customers – contrary to Section 69.3302(a)(7) and Section 69.3302(a)(8). Additionally, CAUSE-PA contended that the proposed ECIC fails to include appropriate consumer protections for financially vulnerable low-income customers pursuant to Section 69.3302(a)(12). Finally, CAUSE-PA averred that BDP participants will inequitably face heightened bills due to the ECIC and non-BDP low-income customers will face the full impact of ECIC charges. CAUSE-PA M.B. at 38.

PAWLUG contended that while PAWC claims that mechanisms like the ECIC are common, this claim inappropriately conflates the ECIC with a DSIC. PAWLUG M.B. at 30 (citing PAWLUG St. 1 at 16). PAWLUG noted that PAWC has failed to identify any pending environmental costs that would apply to the ECIC. According to PAWLUG, the ECIC is speculative single-issue ratemaking and should not be approved. PAWLUG M.B. at 30. PAWLUG opposed the ECIC, but if it is approved, recommended a 3% cap on total annual revenue recovered through the ECIC. PAWLUG M.B. at 31 (citing PAWLUG St. 1 at 17).

Victory Brewing affirmed the OCA statement regarding the ECIC which noted that PAWC proposes to shift the risk of recovery for a wide range of capital investments and other costs fully onto customers. Victory Brewing also agreed with the OCA statement that PAWC does not need the ECIC as compliance with environmental laws is part of the Company's obligation to provide adequate, safe and reasonable service and facilities under Section 1501. Victory Brewing M.B. at 10-11 (citing OCA St. 1 at 48-51). Victory Brewing agreed with I&E's witness, Ms. Okum, who testified that the Commission would not have the ability to review the ECIC in the context of total impact to ratepayers and with respect to other expenses if the ECIC is modified between rate cases. Victory Brewing M.B. at 11 (citing I&E St. 1 at 34-35). Victory Brewing also noted that PAWLUG, witness Ms. LaConte, provided that PAWC claimed that the

proposed ECIC has become commonplace in utility regulation, but none of the water utilities in its proxy group have such a mechanism. Victory Brewing M.B. at 11 (citing PAWLUG St. 1 at 16).

2. Recommended Decision

The ALJs recommended that the Commission reject the Company's proposed ECIC. The ALJs noted that PAWC advised that its proposed ECIC will provide a mechanism for adjusting PAWC's rates between base rate cases to allow for changes to costs to comply with new and updated environmental regulations as they occur. The ALJs provided that since PAWC would file the proposed environmental compliance plan between rate cases, the Commission will not be able to assess the impact that the ECIC, along with other expenses, will have on PAWC's ratepayers. The ALJs reasoned that the only way to have a full opportunity to review the plan is within the confines of a rate case. The ALJs concluded that PAWC's ECIC proposal is single-issue ratemaking. The ALJs provided that the Commonwealth Court has held that single-issue ratemaking is prohibited if it addresses a matter normally considered in a base rate case. R.D. at 307 (citing *Pa. Industrial Energy Coalition v. Pa. PUC*, 653 A.2d 1336 (Pa. Cmwlth. 1995)).

Additionally, the ALJs determined that it is impossible to evaluate the impact of this proposed charge due to the limited data available. As such, it is impossible to determine the impact of this charge on low-income customers as suggested by the Commission's policy statement on distribution rate considerations. R.D. at 307 (citing 52 Pa. Code § 69.3302(a)(7)). The ALJs concluded that it would be premature to implement a rider recovery mechanism for just one company before any universal Commission action can occur and before any potential government funding has been established to address the problem. R.D. at 307.

3. PAWC Exception No. 6.1 and Replies

In its Exception No. 6.1, PAWC contends that the ALJs erred by recommending that the Commission reject the proposed ECIC. PAWC argues that it faces "environmental compliance costs to the tune of $200 million by 2027..." PAWC Exc. at 21 (citing PAWC St. 3 at 5-7) (additional citations omitted). PAWC maintains that the ECIC is consistent with the policy declaration incorporated into Section 1330, and the ECIC will "provide PAWC a reasonable opportunity to recover the capital costs and expenses incurred after June 30, 2025 to meet the challenges of providing high-quality water and wastewater service." PAWC Exc. at 21.

PAWC contends that the ECIC is not single-issue ratemaking, rather it is an automatic adjustment clause authorized by Section 1330(b)(2). Additionally, PAWC's proposed ECP process provides a reasonable procedure to examine the prudence and reasonableness of the ECIC charges outside of a base rate case. PAWC Exc. at 22.

According to PAWC, if the ECIC is approved, the Commission and interested parties will have ample opportunity to evaluate and challenge PAWC's proposed investments to comply with environmental mandates before they occur. PAWC avers that this constitutes full and fair ratemaking review. PAWC Exc. at 22 (citing PAWC St. 8-R at 11).

PAWC provides that the Code requires utilities to propose alternative rate mechanisms as part of a base rate case, thus the ECIC proposal is not premature as the ALJs stated. In addition, PAWC notes that PAWC Exhibit JCS-1 provides PAWC's analysis of the fourteen factors in the Commission's alternative ratemaking policy statement which means that the Commission has all the information necessary to evaluate the ECIC. PAWC Exc. at 23 (citing 52 Pa. Code § 69.3302).

PAWC contends that BDP participants will receive a discount on ECIC costs so that the impact of PAWC's environmental compliance costs on low-income customers will be the same regardless of whether those costs are recovered through base rates or an alternative ratemaking mechanism. PAWC Exc. at 23.

In Replies to PAWC Exc. No. 6.1, I&E avers that the proposed environmental compliance plan would be filed outside the parameters of a base rate case, disrupting the Commission's ability to review the potential expenses of the plan in context with the other expenses that may be increasing or decreasing between rate cases, which constitutes single-issue ratemaking. I&E R. Exc. at 10.

Further, I&E disagrees with PAWC's argument that the ECIC will not impact efficiency incentives. I&E R. Exc. at 10 (citing PAWC St. 8, Exh. JCS-1 at 1). I&E maintains that changing environmental regulations requiring the Company to make investments or increase spending does not mean the Company should be guaranteed recovery of all environmental compliance projects it undertakes. I&E contends that the ECIC would take away the incentive for the Company to investigate possible alternative options for environmental compliance if cost recovery was guaranteed. Additionally, the Company has not provided cost information for the ECIC, which makes evaluation of the ECIC impossible. I&E R. Exc. at 10-11.

I&E reasons that environmental compliance has always been a normal part of PAWC's expenditures and will continue to be so with or without approval of the ECIC. The new and impending regulations will be faced by water and wastewater utilities nationwide and therefore I&E asserts that a surcharge for one company at this time before potential funding could be identified would be premature. I&E does not dispute that a utility should be able to recover costs associated with environmental compliance, but an open-ended surcharge like the ECIC is not the proper vehicle. I&E R. Exc. at 11-12.

The OCA provides that the ALJs properly found that the ECIC would not allow the Commission to assess the impacts of the ECIC along with other expenses on PAWC ratepayers. OCA R. Exc. at 21 (citing R.D. at 307). The OCA states that the ALJs properly concluded that the ECIC would represent single-issue ratemaking which is prohibited if it addresses a matter normally considered in a base rate case. OCA R. Exc. at 21 (citing R.D. at 307; OCA M.B. at 84-85). According to the OCA, the ECIC attempts to inappropriately shift the risk of recovery of wide-ranging environmental capital investments from the company, who is compensated for risk, to captive ratepayers who under the proposal would be forced to bear the business risk for no compensation. OCA R. Exc. at 22 (OCA M.B. at 89).

The OCA disagrees with PAWC's assertion that the ECIC would allow for "ample opportunity to proactively evaluate and challenge PAWC's proposed investments and measures to comply." OCA R. Exc. at 22 (citing PAWC Exc. at 22). The OCA responds to PAWC's argument by noting that the only way to have a full opportunity to review the plan is within the confines of a rate case. The OCA avers that under PAWC's proposal, quarterly updates would take effect on only ten days' notice. The OCA provides that statutory advocates and consumers have limited resources and cannot realistically be expected to review recurring ECIC plan filings with the same degree of scrutiny as in a base rate case. OCA R. Exc. at 23 (citing OCA St. 4-SR at 28; OCA M.B. at 91).

CAUSE-PA contends that the proposed ECIC fails on several of the factors in 52 Pa. Code § 69.3302 including: the effect on low-income customers and customer assistance programs, impact on energy efficiency programming, alignment with cost causation principals, and the prevention of improper cost shifting. CAUSE-PA R. Exc. at 3-4 (citing 52 Pa. Code § 69.3302(a); CAUSE-PA M.B. at 34).

Based on the information available, CAUSE-PA argues, it is impossible to determine what costs will be included in the ECIC or how those costs will be calculated and allocated across PAWC's customer base. Without this key information, CAUSE-PA asserts, it is impossible to assess the reasonableness and justness of the ECIC, whether the ECIC will operate equitably and consistent with cost causation principles, or whether the ECIC will reduce the need for more frequent or severe base rate filings as PAWC contends. CAUSE-PA R. Exc. at 4.

Next, CAUSE-PA expresses its concerns regarding the filing process for PAWC's proposed environmental compliance plan. While the proposed process would include the filing of answers and comments, CAUSE-PA notes that there is no ability to conduct discovery or otherwise assess the prudency of the plan, the reasonableness of and justness of the expenditures necessitated by the plan, or the reasonableness and justness of the resulting charge on consumers. CAUSE-PA R. Exc. at 4 (citing CAUSE-PA M.B. at 34; PAWC St. 8 at 25-26). Additionally, CAUSE-PA notes that it is unclear what kind of public notice would be provided to permit impacted customers to meaningfully participate in the truncated ECP review process proposed by PAWC. CAUSE-PA R. Exc. at 4-5.

According to CAUSE-PA, the proposed ECIC would improperly and unjustly shift the burden of mitigating PFAS and meeting environmental standards to low-income customers, their households, and their communities. CAUSE-PA R. Exc. at 5 (citing CAUSE-PA M.B. at 35-36). CAUSE-PA provides that the vast majority of PAWC's low-income customers are not enrolled in the BDP and would face the full financial impacts of ECIC charges. CAUSE-PA R. Exc. at 5 (citing CAUSE-PA M.B. at 37-38).

PAWLUG avers that the ALJs correctly denied PAWC's proposed ECIC. PAWLUG argues that PAWC's attempts to characterize its proposed alternative

ratemaking mechanisms including the RDM and ECIC as "commonplace" is misleading. PAWLUG R. Exc. at 4 (citing PAWC Exc. at 20). PAWLUG provides that the mechanisms are quite extraordinary and broad in scope. PAWLUG R. Exc. at 4 (citing PAWLUG M.B. at 10-12, 29-30). According to PAWLUG, PAWC misconstrues Section 1330 of the Code, 66 Pa.C.S. § 1330 as authorizing the implementation of these mechanisms, when the statute merely authorizes the Commission to consider approval of such mechanisms. PAWLUG R. Exc. at 4.

4. Disposition

Regarding the ECIC, we find the ALJs' recommendation reasonable to reject PAWC's proposal to institute an ECIC as an alternative rate mechanism. We agree with the ALJs, the only way to assess the impact of the ECIC, along with other expenses, is to review the costs within a rate case. The proposed review process outside of a base rate case for the ECIC would make the ECIC single-issue ratemaking.

There is insufficient information to evaluate the proposed ECIC. PAWC has provided only a rough estimate "to the tune of $200 million dollars" of potential costs. PAWC Exc. at 21. The record does not show whether PAWC facilities are currently compliant or non-compliant with the PFAS MCLGs or MCLs. Infrastructure costs for treatment of waters with potential compliance needs cannot be determined until PAWC has evaluated current PFAS levels and monitored PFAS levels over time in its treated waters and wastewaters.

The impact on low-income customers cannot be determined, which is contrary to the Commission's policy statement. 52 Pa. Code § 69.3302(a)(7). At this time, we cannot determine what financial assistance will be available from the state and federal government to assist water and wastewater utilities in complying with the new

PFAs regulations. Without detailed cost estimates and evaluation of potential funding sources, we agree with I&E that the ECIC proposal is premature. I&E M.B. at 98-101.

We agree with the OCA's concerns regarding the proposed ECP review process. The ten-day review time for ECP quarterly updates is not sufficient for a meaningful review of the potential impact on consumers.

We disagree with PAWC's likening of the ECIC to the DSIC. The ECIC is not the same as a DSIC. The DSIC recovers costs to accelerate infrastructure replacement that otherwise would take years to complete. The ECIC is to recover the cost of environmental compliance, which is part of the cost of doing business for PAWC. We agree with the OCA that PAWC does not need a mechanism like a DSIC to achieve its environmental compliance goals. It is unreasonable to shift the risk for environmental compliance to consumers. PAWC is being compensated for that risk while customers are not. *See*, OCA R. Exc. at 22.

PAWC avers that mechanisms like the proposed ECIC are commonplace in utility regulation, but we note that none of the water utilities in the proxy group have an environmental cost recovery mechanism. PAWLUG St. 1 at 16 (citing PAWC St. 13 at 51).

We note CAUSE-PA's concerns of the potential impacts of the ECIC on low-income customers and their communities. The discount on ECIC costs for BDP customers that PAWC cites is not adequate to protect low-income customers, especially those not participating in BDP. Low-income customers should not have to pay proportionally higher for environmental compliance costs impacting their communities disproportionately. CAUSE-PA M.B. at 38. For all the reasons above, we shall deny PAWC's Exception No. 6.1.

XII. Low-Income Customer Assistance

A. Affordability Analysis

1. Positions of the Parties

PAWC argued that its witness, Mr. Rea, prepared: (1) an Enterprise-Level Analysis of affordability that considered the affordability of service at a high-level over a multi-year period; and (2) a Community-Level Analysis that focused on affordability of service at the individual customer level under current and proposed rates and current economic conditions. PAWC M.B. at 76 (citing PAWC St. 10 at 5; PAWC St. 10-R at 3-4). Mr. Rea concluded that the Company's water and wastewater service has been and is expected to continue to be affordable for most of its residential customers while also noting the presence of groups of customers for whom affordability of service may be challenging. PAWC M.B. at 76-77 (citing PAWC St. 10 at 22). Specifically, Mr. Rea noted that PAWC's proposed rates are affordable not only because the bill-to-income (BTI) ratio at median household income (MHI) falls below the 2% level, but also because the Company's proposed rate design (including the BDP) provides almost every residential customer the opportunity to obtain "Basic Water Service" and wastewater service at affordable levels. PAWC M.B. at 77 (citing PAWC St. 10-R at 9).

In response to the argument of the OCA's witness, Mr. Colton, that PAWC's witness, Mr. Rea, should not have relied upon MHI data from homeowners (MHI-HO) in his Enterprise-Level Analysis due to the increasing limitation of home ownership to households with higher incomes, the Company argued that MHI is a widely recognized, readily available, and appropriate measure of household income since most PAWC customers are homeowners. PAWC M.B. at 77-78 (citing OCA St. 5 at 10-11; PAWC St. 10-R at 10-12). Further, the Company contended that the multi-year focus of the Enterprise-Level analysis is proper as it focused on customer bills over time, which

account for rates and usage, rather than rates alone. PAWC M.B. at 78-79 (citing PAWC St. 10-R at 13-14).

In response to the critique of the OCA's witness, Mr. Colton, that PAWC's Community-Level analysis does not consider each individual customer to determine affordability for that particular customer, PAWC's witness, Mr. Rea, explained that his analysis looks at data at the customer level, but the Company cannot assess the affordability of each individual customer. PAWC M.B. at 79-80 (citing PAWC St. 10-R at 18-19). Additionally, the Company maintained that its estimate of 40 gallons of water per household member is representative of PAWC customer actual water usage. PAWC M.B. at 80 (citing PAWC St. 10-R at 19-20, 24). Lastly, PAWC asserted that the unavoidable truth is that there will always be customers for whom affordability of service may be challenging, but for the large majority of residential customers, water and wastewater service is affordable and will continue to be affordable under the Company's proposed rates. PAWC M.B. at 80. According to PAWC, it addressed the issue of affordability for lower income customers in a reasonable manner by proposing an expansion to its BDP in this case and noted that it does not oppose the OCA's and CAUSE-PA's proposals to further increase discount levels for existing income tiers. *Id.*; PAWC R.B. at 66-67 (citing PAWC St. 10-R at 31).

I&E contended that PAWC's affordability analysis is flawed and should not be used to establish wastewater rates. I&E M.B. at 102 (citing I&E Statement No. 3 at 13-14). In support of its position, I&E argued that the primary objective should not be making the average bills of water and wastewater customers comparable due to the significant difference in operating costs between water and wastewater systems. According to I&E, cost causation should be the primary factor in determining rates. I&E M.B. at 101. Second, I&E argued that PAWC's analysis disregards the fact that water customers that do not receive wastewater service from PAWC will incur their own wastewater costs that may not be comparable to their PAWC water rates while

subsidizing PAWC wastewater customers to provide them comparable rates. Lastly, I&E asserted that PAWC's analysis further disregards the benefits that the Company claims could or have accrued to customers in acquired systems. *Id*. at 102.

The OCA argued that the Commission has previously considered rate affordability when setting rates. OCA M.B. at 95 (citing *Columbia 2021* at 46-47). The OCA expressed general agreement with PAWC that in determining whether rates are affordable for PAWC's customers, a consumer's water/wastewater burden, or the proportion of income dedicated to paying the consumer's bill for water and wastewater service, or the BTI ratio should not exceed 2%. OCA M.B. at 95 (citing PAWC St. 10 at 4-23; OCA St. 5 at 7-39). The OCA disagreed with the Company on the affordability analysis used to determine those customers that have a water burden exceeding the affordable 2% BTI Ratio. OCA M.B. at 95. According to the OCA, this disagreement is important because the affordability analysis used to identify and determine the number of customers that have water burdens exceeding 2% BTI supports the development and design of low-income customer assistance programs. The OCA argued that PAWC did not meet its burden of proof in showing, with substantial evidence, that its affordability analysis will lead to affordable and just and reasonable rates. *Id*. at 95-96.

In turn, the OCA recommended, at a high level, the following affordability analysis:

> <u>*Enterprise level*</u>: First, reject Mr. Rea's recommendations to measure affordability using Median Household Income (MHI) and the Median Household Income of Homeowners (MHI-HO). Second, examine BTI Ratios at the average income in the First Quintile and Second Quintile given a constant usage over the years. Third, determine what income would be needed in order to achieve a BTI Ratio of 2.0% each year and examine the number of zip codes within the PAWC service territory that have those incomes at the average Q1 and average Q2 income levels. OCA St. 5 at 7-22.

> *Community level*: First, reject the limitation of any "affordability analysis" to use of a minimal "Basic Water Service." Second, do not examine affordability only for the PAWC population as whole. Third, measure affordability at different income levels. Finally, do not consider only the *breadth* of affordability (*i.e*., the number of customers with BTI Ratios exceeding 2% of income), but also consider the *depth* of affordability (*i.e*., recognizing that a substantial number of the customers with unaffordable bills, do not merely have a BTI Ratio "over 2%," but have a BTI Ratio of over 20%). OCA St. 22-39; OCA St. 5SR at 8-9.

OCA M.B. at 96 (emphasis in original).

CAUSE-PA asserted that its witness, Mr. Harry Geller's, analyses of the affordability of PAWC's rates determined that low-income customers face excessive and unaffordable water/wastewater burdens, which depending on household size and usage, often exceeds 20% of household income. CAUSE-PA M.B. at 40 (citing CAUSE-PA St. 1 at 27-28; CAUSE-PA St. 1, Exh. 1). Further, CAUSE-PA argued that based on the computations presented in CAUSE-PA Exhibit 1, attached to the direct testimony of its witness, Mr. Geller, low-income customers devote significant portions of their incomes each month to basic water/wastewater services. CAUSE-PA M.B. at 40 (citing CAUSE-PA St. 1 at 27-28). CAUSE-PA explained that CAUSE-PA Exhibit 1 offers insight into the water and wastewater burdens faced by low-income customers at current and proposed rates. CAUSE-PA further explained that a utility bill burden is a recognized metric used to determine the affordability of utility service and includes the percentage of income required to cover the cost of the bill. CAUSE-PA M.B. at 40 (citing CAUSE-PA St. 1 at 27). Therefore, CAUSE-PA concluded that PAWC's low-income customers are already struggling to afford and stay connected to water/wastewater services and the Company's proposed rate increases would worsen existing levels of unaffordability for such customers. CAUSE-PA M.B. at 43

In response to PAWC's affordability analyses, Mr. Geller expressed concerns that such analyses obscured critical affordability challenges experienced by PAWC's low-income customers, which, he contended, is neither just, reasonable, nor in the public interest. CAUSE-PA M.B. at 47 (citing CAUSE-PA St. 1 at 38). CAUSE-PA proffered that its Exhibit 1 demonstrates that the breadth and depth of unaffordability for PAWC's low-income customers are excessive at current and proposed rates, particularly when varied usage levels are considered. CAUSE-PA M.B. at 46-47 (citing CAUSE-PA St. 1 at 38). Moreover, CAUSE-PA argued that it is not in the public interest "to shunt the significant numbers of low-income customers aside by concluding that unaffordability for these customers is unavoidable and therefore acceptable." CAUSE-PA R.B. at 16. According to CAUSE-PA, PAWC failed to meet its burden of showing that its rates, both as existing and as proposed, are just, reasonable, and in the public interest. As such, CAUSE-PA requested that the Commission reject PAWC's present rate increase request and require the Company to modify its programs, policies, and procedures to guarantee that PAWC's low-income customers can afford and maintain PAWC's services. *Id*. at 16-17.

2. Recommended Decision

In the Recommended Decision, the ALJs found PAWC's Enterprise-Level Analysis and Community-Level Analysis to be reasonable methods to determine customer affordability. Regarding the Company's Enterprise-Level Analysis, the ALJs agreed that the multi-year focus on customer bills over time is proper because it accounts for rates and usage, which are connected. The ALJs further noted PAWC's consideration of a substantial level of income information and BTI ratios for customers at different levels of household income by increment of the federal poverty level (FPL). As for the Community-Level Analysis, the ALJs expressed agreement with PAWC that the Company cannot assess the affordability of every customer and found the 40-gallon-per-household member metric to be reasonable. R.D. at 315.

Lastly, the ALJs acknowledged the extent of which the public input hearing testimony largely concerned unaffordability of service. The ALJs reasoned that irrespective of any adopted affordability analysis, there will always be customers who will struggle with their bills. The ALJs concluded that such customers will have to utilize PAWC's low-income assistance programs. R.D. at 316.

3. OCA Exception No. 18 and Replies

In its Exception No. 18, the OCA argues that the ALJs erred by not recommending that the Commission adopt the OCA's adjustments to PAWC's affordability analysis. OCA Exc. at 30 (citing R.D. at 315-16; OCA M.B. at 95-96; OCA R.B. at 60). In support, the OCA reiterates the same arguments and recommendation made in its Main Brief, *supra*. OCA Exc. at 30-31; *see*, OCA M.B. at 95-96.

In reply, PAWC agrees with the ALJs that the OCA's proposed modifications to the Company's affordability analysis should be rejected, and with the ALJs' conclusion that PAWC's analysis represents a reasonable way to measure customer affordability. PAWC R. Exc. at 21 (citing R.D. at 315). PAWC argues that the OCA, in its Exception No. 18, simply reiterates the same arguments considered and rejected by the ALJs. PAWC R. Exc. at 22 (citing OCA Exc. at 30-31). In response to the OCA's argument that PAWC's witness, Mr. Rea, did not credibly respond to the recommended affordability analysis of the OCA's witness, Mr. Colton, PAWC asserts that the OCA disregarded the voluminous testimony and data of its own witness, Mr. Rea. PAWC R. Exc. at 22.

4. Disposition

As a preliminary matter, we note, as argued by the OCA, that we have previously considered rate affordability when setting just and reasonable rates. *See*, OCA M.B. at 95 (citing *Columbia 2021* at 48). Most recently, in *Columbia Water 2024*, we considered the principles of cost causation in tandem with second considerations of gradualism and affordability. Here again, we acknowledge that there are several important factors or principles that must be considered and weighed when designing a rate recovery proposal, including the concept of affordability. However, while affordability is permitted to be considered, it is but one of several factors to be considered and weighed by the Commission in determining a utility's rates. The rate increase reflects the business challenges the Company currently faces, including required investments in the repair/replacement or improvement of its distribution systems, including acquired troubled water utilities' distribution system; and the high costs associated with maintaining a distribution system necessary to provide safe and reliable water and wastewater service within the Commonwealth.

Based on our review of the OCA's Exceptions on this issue, we are not persuaded by its arguments that the ALJs erred in their conclusion that PAWC's analyses are reasonable methods to determine customer affordability. Regarding PAWC's Enterprise-Level Analysis, we agree with the Company that focusing on customer bills over time is appropriate as those bills account for rates and usage, which are connected. Furthermore, PAWC considered a large degree of income information and BTI ratios for customers at varying household income levels by increment of the FPL. With respect to the Company's Community-Level Analysis, PAWC's witness, Mr. Rea, testified that the Company cannot assess the affordability of each individual customer in its service territory. We find this testimony persuasive and agree with PAWC that the issue of affordability should be viewed from the perspective of the broader customer base. Additionally, we note the Company's argument that, as a means of addressing the issue of

affordability for lower income customers, it proposed to add a fourth tier of eligibility to expand the offerings of its BDP to customers whose household incomes are between 151% and 200% of the FPL.

Finally, it is important to note that we share the concern regarding the affordability of utility rates expressed by the witnesses that testified at the public input hearings held in this proceeding. We are aware of the difficulties experienced by those living on fixed or low-incomes in paying their bills for all types of utility service. The 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. Through the testimony of PAWC's witness, Ms. Everette, the Company described its low-income customer assistance programs, including its H2O program, which offers bill discounts for water and wastewater service, hardship grants, and water conservation assistance, an AMP to assist low-income customers with arrearages, a budget billing plan, and installment agreements. *See*, PAWC St. 1 at 12-16. The Company also noted that it has used funding from the LIHWAP program[116] to provide bill assistance for qualifying,

[116] Separately, we note that the Commission has proactively taken steps to help ameliorate the impact of water rate increases on the most vulnerable. In December of 2023, we wrote to the members of the Pennsylvania Congressional Delegation urging the members to continue funding LIHWAP for FY 2024 (FY24) and to create a mechanism to *permanently* fund a low-income program like LIHWAP for water customers. Highlighting the essentialness of water utility service and the program's success, we encouraged those members of the General Assembly to support continued funding for LIHWAP in FY24, including appropriations requests, to assure continued critical federal water assistance to help low-income customers pay for water service.

low-income customers. *See*, PAWC St. 1 at 13-14. Additionally, we note that our BCS is available to assist any customer who is having medical problems or difficulty in arranging reasonable payment agreements which consider a customer's inability to pay.

Moreover, we strongly encourage PAWC to collaborate with BCS to consider the feasibility of implementing other measures which would promote the affordability of water service. The Company and BCS are further encouraged to consider, *inter alia*, combination programs that provide water audits, conservation treatments, education, and payment assistance in exchange for regular payments. We emphasize that this approach is in the best interest of both the shareholders and ratepayers as affordable bills will maximize revenues for the Company and will enable ratepayers to continue to receive an essential service.

Accordingly, the OCA's Exception No. 18 on the issue of PAWC's affordability analysis is denied, and the ALJs' recommendation regarding this issue is adopted.

B. H2O Bill Discount Program Design

1. Positions of the Parties

The Company submitted that its existing BDP provides substantial billing discounts to PAWC customers with annual household incomes falling between 0% and 150% of the FPL. PAWC M.B. at 81 (citing PAWC St. 10 at 23; PAWC St. 10-R at 28). According to PAWC, the current BDP has three-tiers, with the lowest-income customers receiving the highest percentage discounts. This is shown in Table 25, as follows:

Table 25: PAWC'S Current BDP Program Design

BDP Discount Levels	**Water Service Charge Discount**	**Water Service Volumetric Discount**	**Wastewater Total Bill Discount**
0% - 50% FPL	80%	80%	80%
51% - 100% FPL	65%	50%	55%
101% - 150% FPL	40%	25%	30%

PAWC M.B. at 81.

PAWC proposed to keep, without modification, the three existing BDP tiers and to add a fourth tier expanding the program to include customers whose annual household income falls between 151% and 200% of the FPL. This proposed fourth tier of eligibility offered a discount of 30% on the 5/8" meter charge and 15% on the volumetric rate for water service, with wastewater customers receiving a 20% discount on the total wastewater bill. PAWC M.B. at 81. The expanded BDP is an attempt by PAWC to address affordability issues for customers with annual household income between 151% and 200% of the FPL, with PAWC's analysis finding a majority of customers in this income range would have water and/or wastewater service bills greater than 2% of household income. *Id*. at 81-82 (citing PAWC St. 10 at 23-26; PAWC St. 10-R at 28-29).

Responding to suggestions from the OCA and CAUSE-PA, PAWC noted it does not oppose higher discount percentages for the existing three tiers and the proposed fourth tier. PAWC noted the proposed changes and higher discount percentages would provide greater affordability for PAWC customers at the lowest end of the income scale. PAWC M.B. at 82. PAWC stated it would defer to the Commission as to the appropriate level of customer assistance discounts. *Id*. (citing PAWC St. 10-R at 31).

The OCA supported PAWC's proposal to add a fourth BDP eligibility tier for customers whose annual household incomes fall between 151% and 200% of the FPL. OCA M.B. at 97 (citing OCA St. 5 at 49-50). The OCA argued for increased percentage discounts in each eligibility tier and noted the evidence from the OCA and CAUSE-PA showed the need for such increases. OCA M.B. at 98. As a basis for its proposed modifications, the OCA noted the existing BDP did not adequately address customer affordability, averring that: (1) fewer than 10% of customers with an affordable bill have income less than 200% of [the FPL]; (2) 84% of customers with income less than 50% of [the FPL] exceed the 2% burden level; and (3) 80% of customers with income between 50% and 100% of [the FPL], and 82% of customers with income between 100% and 150% of [the FPL], exceed the 2% burden level. Similar impacts arise for PAWC wastewater customers as well. OCA R.B. at 61 (citing OCA St. 5 at 40-41, 45).

As shown in Table 26 below, the OCA proposed the following BDP tiers and percentage discounts:

Table 26: The OCA's proposed BDP Program Design

	Water Service Charge Discount	Water Service Volumetric Discount	Wastewater Total Bill Discount
Tier 1 (0-50% FPL)	90%	80%	85%
Tier 2 (51-100% FPL)	75%	65%	73%
Tier 3 (101-150% FPL)	60%	40%	55%
Tier 4 (151-200% FPL)	30%	20%	37%

OCA M.B. at 97. The OCA suggested these changes to the BDP program would generate more reasonably affordable bill-to-income ratios for PAWC customers and would result in more affordable rates than existing levels. *Id*. at 97-98 (citing PAWC St. 10-R at 29; OCA St. 5 at 46-48; CAUSE-PA St. 1 at 45-46).

CAUSE-PA made two recommendations regarding PAWC's BDP: (1) increased discounts within existing BDP tiers to increase affordability; and (2) a

requirement that PAWC transition the BDP to a percentage of income program (PIP). CAUSE-PA M.B. at 49-51. As summarized in Table 27 below, CAUSE-PA made the following recommendations regarding BDP discount levels:

Table 27: CAUSE-PA's Recommended BDP Discount Levels

	Water		Wastewater	
	Fixed Charge	**Volumetric Charge**	**Fixed Charge**	**Volumetric Charge**
Tier 1 (0-50% FPL)	90%	80%	85%	85%
Tier 2 (51-100% FPL)	75%	65%	73%	73%
Tier 3 (101-150% FPL)	60%	40%	55%	55%

CAUSE-PA M.B. at 49. CAUSE-PA argued its proposed amendments to the BDP would result in "marked improvements to affordability and reductions in water/wastewater burdens, ensuring a greater number of participants will receive a consistently affordable rate." *Id*.

Next, CAUSE-PA outlined its request that PAWC be required to transition the BDP to a PIP. CAUSE-PA's proposal would require PAWC to file a Petition within six (6) months of a Final Order in this proceeding to pursue a PIP designed to achieve a combined water/wastewater billing burden not exceeding 4% of a BDP participating customer's annual household income. CAUSE-PA averred that a PIP structure is "the optimal way to achieve consistent, equitable, and targeted levels of affordability" by calculating rates based on a customer's verified income level. CAUSE-PA M.B. at 50.

2. Recommended Decision

The ALJs recommended that the Commission approve multiple proposed changes to PAWC's BDP, but ultimately recommended that the Commission reject CAUSE-PA's request that the BDP be converted to a PIP. R.D. at 320.

As to PAWC's proposal to add a fourth eligibility tier to the BDP, the ALJs noted "we are in favor of additional measures to assist PAWC's customers afford their bills." The Recommended Decision also reflected the fact that no Party opposed the proposed expansion of the BDP; therefore, finding the proposal reasonable, the ALJs recommended that the Commission approve PAWC's proposal. R.D. at 320.

The ALJs also found the increases in discount percentages proposed by the OCA and CAUSE-PA to be reasonable, particularly considering the lack of opposition by PAWC. The ALJs recommended approving the proposed increases, with the increases taking effect no later than the effective date of rates resulting from PAWC's next general rate case filed with the Commission, with this time providing the Commission an opportunity to evaluate the financial impacts of customer assistance program changes. R.D. at 320-21.

Finally, the ALJs considered CAUSE-PA's recommendation that PAWC transition its BDP to a PIP structure. The ALJs considered PAWC's opposition to such a change, alongside the facts that the Company's billing system is not configured to allow for a PIP structure and that PAWC does not currently have verified income data for most BDP participants. Based on the lack of feasibility for this proposal and approved alterations to the BDP, the ALJs recommended the Commission reject CAUSE-PA's proposal that PAWC transition the BDP to a PIP structure. R.D. at 321.

3. OCA Exception No. 19[117]

In its Exception No. 19, the OCA states that it agrees with the ALJs' recommendation regarding the increased tiered discount percentages of the BDP.

[117] None of the Parties filed Reply Exceptions to the OCA's Exception No. 19 regarding this issue.

However, the OCA objects to the effective date recommended by the ALJs for PAWC to implement the changes. OCA Exc. at 32.

The OCA argues that "[n]o party advocated for the timeline that the ALJs selected for implementation." Additionally, the OCA believes the timeline established by the ALJs is uncertain because it places the implementation schedule in PAWC's control as PAWC can decide when to file its next rate case. OCA Exc. at 32.

The OCA requests the Commission reject the "uncertain timeline" of the Recommended Decision and require the increased tiered discount percentages of the BDP be implemented at the same time as the addition of the fourth tier, or, in the alternative, within one-year after the effective date of the rates set in this case. OCA Exc. at 32.

4. Disposition

During this proceeding, the OCA and CAUSE-PA made proposals related to PAWC's BDP/H2O programs. Many of these proposals were made to address the affordability concerns summarized above. PAWC did not contest many of the proposed changes and the ALJs recommended that the Commission grant many of the proposed changes.

Given the concerns regarding affordability of rates and the lack of objection from PAWC, we find it appropriate to adopt the recommendations proposed by the OCA and CAUSE-PA regarding the addition of a fourth tier for customers at 151% to 200% of the FPL and increased discount percentages in already existing tiers. In our view, these changes will help PAWC's low-income customers who may struggle with affordability given the increase in rates.

We likewise shall adopt the ALJs' recommendation to reject CAUSE-PA's proposal that PAWC convert its BDP to a PIP program. In doing so, we note the evidence provided by PAWC that such a change would not be reasonable given the Company's current billing software is not configured for a PIP, and PAWC does not currently have verified income information for most BDP participants.

Turning to the OCA's Exception No. 19, we are persuaded by the OCA's arguments. Namely, we shall impose a deadline of one year from the effective date of rates set in this case for the Company to implement these changes. We are of the opinion that the timeline recommended by the ALJs is uncertain and, given the importance of these changes to PAWC's customers and affordability, we find the one-year deadline to be more appropriate. We also note the lack of objection to this proposed timeline by PAWC in either its Exceptions or Reply Exceptions. Accordingly, we shall modify the ALJs' recommendation and shall grant the OCA's Exception No. 19.

C. Hardship Fund

1. Positions of the Parties

PAWC explained, by way of background, that its H2O program provides hardship grants for qualifying customers with annual household incomes at or below 200% of the FPL and that have made a payment of at least $50 over the last 90 days. The Company further explained that a customer may receive a hardship grant equal to their total account balance at the time of issuance of the grant, up to the maximum annual grant amount of $500 for water and wastewater service, respectively. PAWC M.B. at 83. PAWC noted that its hardship grants are funded through an annual shareholder donation as well as employee and customer donations. *Id*. (citing PAWC St. 9 at 13-14; PAWC St. 14-R at 15-16). PAWC stated that upon closing the Commission-approved BASA acquisition, it will expand eligibility to customers with household incomes at or below

250% of the FPL and contribute $3.5 million to the Hardship Fund in addition to its annual contribution of $750,000. PAWC M.B. at 83 (citing PAWC St. 9 at 17-18). The Company clarified that its Hardship Fund administrator, DEF, is working on a software enhancement that is expected to deploy at the beginning of the 2024-2025 program year. PAWC noted that once the enhancement is effective, customers will be able to apply for multiple hardship grants during a program year. PAWC R.B. at 69.

Lastly, PAWC contended that aside from the proposal regarding multiple customer grants per year, which the Company is already working to implement, the proposed operational modifications should be rejected. In support, PAWC contended that its existing statewide funds for water and wastewater are properly designed to ensure that the Hardship Fund dollars reach as many low-income customers across the Company's service territory as possible. Second, PAWC argued that a good-faith payment requirement is necessary to ensure that eligible customers are making a genuine effort to pay their bills. Further, PAWC stated that it is premature to raise the annual Hardship Funds grant amount to $600 for water and wastewater due to the Company's AMP implementation and proposed expansion of BDP. PAWC M.B. at 84. Moreover, the Company asserted that while it does not support expanding eligibility of the Hardship Fund to customers with incomes above 200% of the FPL, when the BASA acquisition closes, the Company has already agreed as part of the settlement in *BASA* to increase the Hardship Fund eligibility threshold to 250% of the FPL. *Id*. (citing PAWC St. 14-R at 15-16).

I&E noted at the outset that its recommendations regarding the Company's low-income customer programs generally relate to how such programs are funded. Specifically, I&E maintained that should funding for the Hardship Fund be increased, as recommended by CAUSE-PA's witness, Mr. Geller, then PAWC shareholders, and not its ratepayers, should be responsible for funding these programs. I&E M.B. at 101-03.

The OCA recommended that the maximum income eligibility for PAWC's hardship grants be increased to 250% of the FPL and that the rules of the Company's program be amended to provide for multiple distributions to a customer in a year up to the existing maximum of $500 per year. OCA M.B. at 98 (citing OCA St. 5 at 64-66). Additionally, the OCA argued that although the Company agreed to "work with its [Customer Assistance Advisory Group (CAAG)] members to develop a solution to allow an eligible customer to receive multiple Hardship Fund grant awards each year, up to the maximum grant amount of $500 for water and $500 for wastewater," as a condition to the rate case settlement in *PAWC 2022*, a solution has not been achieved. OCA M.B. at 98-99 (citing OCA St. 5 at 64). Therefore, the OCA contended that PAWC should be required to develop a method for allowing multiple Hardship Grants up to the maximum allowed amount. OCA M.B. at 99 (citing OCA St. 5 at 64).

Similarly, CAUSE-PA argued that PAWC's Hardship Fund is undersubscribed compared to need among low-income customers. CAUSE-PA M.B. at 52. CAUSE-PA expressed its concerns that the average arrearage level of recipients of hardship funding exceeds the maximum Hardship Fund grant limit of $500 and that the Hardship Fund requires an upfront payment of $50. *Id*. at 53 (citing CAUSE-PA St. 1 at 50-51). CAUSE-PA acknowledged that the settlement in *BASA* comprises certain increases to the Hardship Fund but argued that these commitments predate the instant proceeding and do not contemplate the additional need resulting from any increase in rates. CAUSE-PA M.B. at 54. CAUSE-PA's witness, Mr. Geller, stated that income-eligible customers face burdens affording water and wastewater service, and he testified that PAWC's water and wastewater burden levels for income-eligible customers leave economically vulnerable Pennsylvania families with insufficient funds to pay for housing, energy, food, medicine, childcare, and other basic needs. CAUSE-PA St. 1 at 27-28; CAUSE-PA Exh. 1.

Therefore, CAUSE-PA recommended that PAWC increase annual hardship funding by an additional $1 million over existing funding levels. CAUSE-PA M.B. at 54 (citing CAUSE-PA St. 1 at 52). CAUSE-PA further recommended elimination of the good faith payment arguing that it poses a significant barrier to obtaining Hardship Fund assistance. CAUSE-PA M.B. at 54-55 (citing CAUSE-PA St. 1 at 53). Lastly, CAUSE-PA recommended that the Company increase the maximum amount of its Hardship Fund grant from $500 to $600 for water and wastewater, respectively. CAUSE-PA M.B. at 55.

CEO recommended that PAWC increase its funding for the hardship grant program and distribute its hardship funds based upon the percentage of low-income customers within the service region or county. Specifically, CEO proposed that, should a rate increase be granted in this proceeding, the Company increase its contribution to the Hardship Fund by $300,000. CEO St. 1 at 6-7.

2. Recommended Decision

In the Recommended Decision, the ALJs noted PAWC's indication that the Company was already working to implement multiple customer grants per year, as proposed by the OCA and CAUSE-PA, and that the Company did not reject this proposal. Therefore, the ALJs recommended the adoption of the proposal for the allowance of multiple customer grants per year to take effect no later than the effective date of rates resulting from PAWC's next general rase increase filed with the Commission. The Recommended Decision further recommended that the multiple grants be up to the existing $500 maximum and declined the $600 maximum that CAUSE-PA proposed. R.D. at 327.

Regarding the proposed modifications to the eligibility requirements for the Hardship Fund, the ALJs recommended the Commission adopt the OCA's proposal to

raise the income threshold from 200% to 250% of the FPL and CAUSE-PA's proposal to remove the $50 good faith payment required to receive a Hardship Fund grant. The ALJs reasoned that such changes would open up Hardship Fund assistance to financially stressed customers with somewhat higher household income or with less favorable payment history. The ALJs concluded that both proposals should take effect "no later than the effective date of rates resulting from PAWC's next general rate increase filed with the Commission." R.D. at 327-28.

3. Exceptions and Replies

a. PAWC Exception No. 10 and Replies

In its Exception No. 10, PAWC contends that the Commission should reject the proposed modifications to Hardship Fund eligibility to preserve the Fund's focus on supporting customers with lower incomes and good faith payment behavior. The Company explains that the funds for hardship grants are not unlimited as they are drawn from an annual shareholder donation and employee and customer donations and could be depleted before the end of the program year if the proposed modifications are adopted. PAWC Exc. at 29. According to PAWC, it is reasonable and proper to dedicate funds to lower-income customers and customers that are making a genuine effort to pay their bills. *Id*. (citing PAWC St. 14-R at 15-16). Furthermore, the Company notes that although it separately agreed to raise the FPL threshold to 250% of the FPL as part of the settlement in *BASA*, this adjustment was coupled with increased shareholder funding. PAWC Exc. at 29 (citing Tr. at 2024).

In Reply to PAWC's Exception No. 10, the OCA agrees with the ALJs' recommendation to increase the hardship grant eligibility to include incomes up to 250% of the FPL and eliminate the $50 upfront payment requirement. In response to PAWC's argument that the recommended modifications could deplete the hardship grant before

the end of the program year, the OCA contends that such argument is not supported by the record which reflects that the hardship grant program has been undersubscribed. Accordingly, the OCA argues that the Commission should adopt the ALJs' recommended modifications pertaining to the Hardship Fund. OCA R. Exc. at 23-24.

Similarly, in its Reply, CAUSE-PA argues that the Commission should reject PAWC's Exception No. 10 and adopt the ALJs' recommendation to modify the Company's Hardship Fund so that low-income customers will be eligible for a Hardship Fund grant, regardless of whether they are able to make an upfront payment. In support, CAUSE-PA argues that the Company's Hardship Fund is significantly undersubscribed and that upfront payment requirements do not test a customer's good faith but rather pose significant barriers to receiving Hardship Fund assistance. Lastly, CAUSE-PA urges the Commission to require the Company to make efforts to identify additional sources of funding to support grant assistance. CAUSE-PA R. Exc. at 10-11, 13.

b. OCA Exception No. 20[118]

In its Exception No. 20, the OCA argues that the timeline set forth by the Recommended Decision, for implementation of the proposals, is uncertain as it places the entire schedule within the Company's discretion in terms of determining when to file for its next rate case. OCA Exc. at 33. In the alternative, the OCA proposes a timeline of one year after the effective date of the rates set in this case in light of DEF's work to develop software allowing for multiple hardship grants. *Id*. (citing R.D. at 322, n.1124). According to the OCA, this software is expected to deploy at the beginning of the 2024-2025 grant year, which is within one year of the effective date of the rates set in this case. OCA Exc. at 33.

[118] None of the Parties filed Reply Exceptions to the OCA's Exception No. 20 regarding this issue.

4. Disposition

We have previously noted the issue of affordability raised in the public input testimony in this proceeding and thereby emphasized the importance of low-income customer assistance programs, including hardship funds, encouraging low-income customers to avail themselves of such programs. As a preliminary matter, we find compelling the arguments of the OCA and CAUSE-PA that the Company's Hardship Fund is undersubscribed. We specifically note CAUSE-PA's argument that from January through November 2023, 9,658 confirmed low-income customers were terminated for nonpayment, yet only 3,443 customers received a Hardship Fund grant. CAUSE-PA M.B. at 53 (citing CAUSE-PA St. 1 at 50, Table 14). We agree with CAUSE-PA that the significant number of confirmed low-income customers terminated for nonpayment compared to the number of issued Hardship Fund grants marks a need for increased access to Hardship Fund grants for struggling, low-income customers.

With this in mind, we find that PAWC's upfront $50 payment requirement to receive a Hardship Fund grant contravenes the purpose of a hardship fund, which is to provide financial assistance to low-income, payment-troubled customers to help them pay their utility bills. We agree with CAUSE-PA that this upfront, payment requirement could pose a barrier to obtaining needed grant funding to low-income customers that are already payment-troubled. As such, we concur with the Recommended Decision that such requirement should be eliminated.

Regarding the OCA's proposal to expand Hardship Fund eligibility to 250% of the FPL, we agree with the ALJs that increased eligibility may help those whom the OCA identifies as having a fragile income, especially when facing an unforeseen circumstance. Further, we note that, with respect to PAWC's BDP, the Company has proposed to expand that program's offerings to customers whose household incomes are between 151% and 200% of the FPL. Therefore, while customers whose household

incomes that are between 201% and 250% of the FPL will be ineligible for the Company's BDP, adoption of the proposed expansion of eligibility to the Hardship Fund will provide those customers, as identified by the OCA as having a fragile income, with an alternative means of assistance of which to avail themselves. Accordingly, we will adopt the ALJs' recommendation of expanding Hardship Fund eligibility to 250% of the FPL.

Next, the OCA opposes the Recommended Decision's timeline for implementation of the modifications to PAWC's Hardship Fund, which is no later than the effective date of rates resulting from PAWC's next general rate increase. We agree with the OCA that its proposal of one (1) year after the effective date of the rates set in this proceeding is a more suitable timeline as it provides more certainty regarding the date of implementation of the modifications to the Hardship Fund and coincides with DEF's software deployment to allow for multiple hardship grants. Additionally, the OCA's proposed timeline will logically result in the faster implementation of the necessary modifications to this program which we have previously exhorted eligible, low-income customers to utilize. Moreover, we note that none of the other Parties opposed the OCA's proposed timeline.

Lastly, as PAWC has raised a concern that the proposed modifications to its Hardship Fund could deplete its resources, we encourage the Company to take steps to identify additional funding sources to support grant assistance, as suggested by CAUSE-PA. On the other hand, in light of the issue of undersubscription to this program and the supporting statistics, as presented by the OCA and CAUSE-PA, we believe that the Company should conduct outreach efforts to ensure as many eligible, low-income customers as possible receive this funding. To that end, we find it appropriate to strongly encourage the Company to set a target donation of an additional $1 million into its Hardship Fund. This voluntary payment would be in addition to the Company's annual Hardship Fund contribution of $750,000. These additional dollars, if donated, will serve

to make water and wastewater service more affordable for income-eligible customers in most need of assistance.

Accordingly, PAWC's Exception No. 10 is denied and the ALJs' recommended modifications to the Company's Hardship Fund are adopted with the exception of the recommended timeline for implementation of such modifications. In that regard, we will grant the OCA's Exception No. 20 with respect to the timeline of implementation of the approved modifications and require PAWC to implement the adopted modifications to its Hardship Fund within one (1) year after the effective date of the rates set in this case. In addition to encouraging the Company to set a target donation of an additional $1 million into its Hardship Fund, we direct PAWC to explain, in its next base rate proceeding, the efforts it has taken to provide Hardship Fund assistance to as many eligible, low-income customers as possible.

D. Conservation Assistance

1. Positions of the Parties

PAWC argued that CAUSE-PA's Conservation Assistance proposal, *infra,* attempts to impose a low-income usage reduction program (LIURP) construct on the Company, similar to LIURPs established only for EDCs and natural gas distribution companies NGDCs. PAWC noted that imposition of a LIURP-type program in this proceeding would require the Company to "hire additional staff and manage costs associated with repairing and replacing the leaking lines and infrastructure of low-income customers." These costs, considered alongside the lack of a legal requirement for PAWC to have a LIURP, form the basis for the Company's request that the Commission reject CAUSE-PA's Conservation Assistance proposal. PAWC M.B. at 85-86.

I&E noted two issues with the Conservation Assistance proposal made by CAUSE-PA: (1) the proposal does not specify a funding source; and (2) no cap or budget for the program is included in the proposal. I&E argued that since the program "will focus on water conservation inside individual customers homes and assistance with repairing and replacing service lines on individual customers property" it would be inappropriate to require all ratepayers to fund this program. Therefore, I&E requested that, should the Commission approve CAUSE-PA's Conservation Assistance proposal, the program be funded by PAWC's shareholders rather than ratepayers. I&E M.B. at 103 (citing I&E St. 1-R at 4).

The OCA requested that the Commission order PAWC to "develop a plan to utilize U.S. Department of Energy's Weatherization Assistance Program and the natural gas and/or electric [LIURP] agencies as partners to develop and deliver water conservation investments" to its customers. In support of this request, the OCA averred that PAWC's "failure" to address water conservation needs of low-income customers has the effect of forcing these customers to fund water conservation investments themselves, often in addition to water bill burdens of 6% to nearly 80% of the BTI ratio. OCA M.B. at 99.

CAUSE-PA recommended that the Commission require PAWC to "develop and implement a comprehensive low-income water conservation and leak repair program" no later than six (6) months after a Final Order in this proceeding. CAUSE-PA M.B. at 60. CAUSE-PA argued that PAWC currently offers limited water conservation assistance to low-income customers participating in the H2O programs. This assistance includes water conservation kits containing self-installed basic water-saving devices, a leak detection kit, conservation tips and materials, and a water use calculator. CAUSE-PA submitted this limited assistance was insufficient, hampering the ability of low-income customers to reduce high usage and address repairs and leaks and exacerbating unnecessarily high universal service program (USP) costs. *Id*. at 58.

CAUSE-PA's proposal called for conservation assistance to include comprehensive conservation measures, *i.e*., basic plumbing and service line repair and replacement, with no out-of-pocket or up-front costs for the measures or installation. CAUSE-PA M.B. at 60. The proposal also recommended "annual reporting parameters of water savings and reductions to costs of low-income assistance programs resulting from this program. *Id*. (citing CAUSE-PA St. 1 at 63-64). CAUSE-PA proposed the conservation assistance program set a maximum eligibility cap at 200% of FPL, with a specific target on high usage, low-income customers enrolled in PAWC's BDP. CAUSE-PA M.B. at 60-61.

CAUSE-PA echoed and built upon the suggestions made by the OCA, *supra*, recommending that PAWC "coordinate the delivery of services" with similar programs provided by electric and natural gas utilities in PAWC's service area, and argued that such partnerships "will help to coordinate conservation and repair efforts." CAUSE-PA M.B. at 61.

In response to PAWC's objections to the proposal, CAUSE-PA stated, "[t]he lack of an explicit statutory *requirement* to operate a conservation program does not preclude the Commission from ordering PAWC to implement this important program." CAUSE-PA M.B. at 62 (emphasis in original). CAUSE-PA argued the critical assistance the program offers to low-income customers would also have positive impacts on all ratepayers by reducing uncollectible costs associated with terminations. CAUSE-PA also averred the Commission "has long recognized" that conservation is an essential component of universal service plans, as conservation programs are part of "holistic services" to address unaffordability through bill assistance, debt management, and conservation. CAUSE-PA M.B. at 62-63.

Finally, CAUSE-PA addressed I&E's proposal that costs for such a program, if approved, should be funded by shareholders rather than ratepayers.

CAUSE-PA is not opposed to I&E's proposal but argued that costs for the program could be properly recovered via rates. CAUSE-PA also demurred, stating it is not necessary for the Commission to determine the proper method of cost-recovery in this proceeding. CAUSE-PA M.B. at 63.

2. Recommended Decision

The ALJs recommended that the Commission reject CAUSE-PA's proposal that PAWC be required to design and implement a comprehensive conservation and line repair and replacement plan. R.D. at 334.

While finding that "such a program would certainly be beneficial to PAWC's ratepayers," the ALJs agreed with PAWC that LIURPs (and similar programs) are currently only required under Pennsylvania law for EDCs and NGDCs. R.D. at 334, *see also*, 52 Pa. Code § 58.1. Without statutory authority mandating LIURPs for water companies, the ALJs concluded that it "would be inappropriate to impose such a requirement on PAWC alone." R.D. at 334.

3. CAUSE-PA Exception No. 1 and Replies

CAUSE-PA argues, in its Exception No. 1, that the ALJs erred "as a matter of law and sound public policy" in their conclusion that PAWC should not be ordered by the Commission to establish a comprehensive water conservation program for low-income customers. CAUSE-PA Exc. at 5. CAUSE-PA repeats the arguments outlined in its briefs and submitted testimony, stating the proposal would provide "critical assistance to low-income customers with usage beyond their control, would help to control USP costs, and would reduce uncollectible costs as a result of terminations which affect all ratepayers." CAUSE-PA Exc. at 10 (citing CAUSE-PA St. 1 at 62-63). While CAUSE-PA acknowledges "that there is currently no statutory or regulatory requirement

directing jurisdictional water and wastewater utilities to maintain LIURPS," it also insists that this does not preclude the Commission from ordering PAWC to implement the program. CAUSE-PA compares its proposal to LIURP programs for EDCs and NGDCs, which CAUSE-PA avers were developed and implemented "years before promulgation of the Commission's LIURP regulations." CAUSE-PA Exc. at 9-10.

CAUSE-PA also restates its request that PAWC be ordered by the Commission to work with its CAAG to develop a comprehensive assistance program no later than six (6) months after the final order in this proceeding. CAUSE-PA Exc. at 11-12.

In reply, PAWC requests that the Commission adopt the reasoning of the ALJs in the Recommended Decision, averring "[t]he ALJs properly found that statutory and regulatory obligations related to … low-income conservation assistance apply to electric and natural gas distribution utilities only." PAWC echoes the reasoning of the ALJs, arguing that absent statutory or regulatory obligations, "it would not be appropriate to single out PAWC and mandate the implementation of a Comprehensive Conservation Program…" PAWC R. Exc. at 24-25.

4. Disposition

We agree with the reasoning of the ALJs in the Recommended Decision and shall reject the positions of the OCA and CAUSE-PA that the Company be directed to develop the conservation programs proposed above. In the absence of a regulation that mandates a LIURP for water companies, similar to the regulation that exists for EDCs and NGDCs, we find it inappropriate for the Commission to impose such an obligation on PAWC alone. Therefore, we shall deny Exception No. 1 filed by CAUSE-PA.

E. Low-Income Customer Outreach, Screening, and Intake

1. Positions of the Parties

PAWC contended that it utilizes a robust, multi-prong approach to apprise customers of the benefits of its H2O Programs, which include direct customer communication (*i.e.*, bill inserts, social media), participation in PUC consumer education events, and DEF outreach (*i.e.*, public service announcements). PAWC M.B. at 86 (citing PAWC St. 9 at 14-16; PAWC St. 14-R at 7). The Company explained that when accessing its customer portal, customers are presented with information on bill assistance self-service options and a link to information on the Company's H2O Programs, along with instructions on how to apply. PAWC M.B. at 86 (citing PAWC St. 9-R at 11). According to the Company, from December 2020 to November 2023, PAWC increased participation in its BDP by over 30%. PAWC M.B. at 86 (citing PAWC St. 14-R at 8).

In response to the recommendations of the OCA and CAUSE-PA, PAWC agreed that low-income customers should be enrolled in its H2O program as early as possible and explained that when a customer calls seeking payment assistance, the Company's customer care agents (CCAs) are trained to direct customers to call DEF to enroll. PAWC M.B. at 87 (citing PAWC St. 9-R at 11). According to the Company, it complies with the requirements of Chapter 14 of the Code and Chapter 56 of the Commission's Regulations regarding payment arrangements and service terminations, and also places a 30-day collections and termination lock on the account of any customer that mentions they are working with an agency for payment assistance. PAWC M.B. at 87-88 (citing PAWC St. 14-R at 11). On the other hand, PAWC argued that it should not decide on behalf of the customer whether to apply for the H2O program or enter a separate payment arrangement as proposed by the OCA and CAUSE-PA. PAWC M.B. at 88.

The OCA argued that PAWC's low-income customer outreach and intake for its BDP and AMP programs are inadequate. OCA M.B. at 99 (citing OCA St. 5 at 54-63). In support, the OCA asserted that from November 2021 to October 2023, PAWC enrolled 17.7% of the 60,660 confirmed low-income customers and that from January 2021 to October 2023, the Company's disconnection count of confirmed low-income customers was 35,488. OCA M.B. at 99-100 (citing OCA St. 5 at 57). Therefore, the OCA made the following recommendations for PAWC to implement to provide adequate service:

1. The company should be required to make personal contact with any confirmed low-income customer facing termination of service for nonpayment and these customers should be informed of and given the right to enroll in the BDP and the AMP as an alternative to disconnection. Termination of these customers should be frozen until this contact takes place.

2. Moving forward, customers enrolled in the BDP should also be informed of the AMP and enrolled in it as well if they choose.

3. Customers should be informed of AMP and BDP and directed to enroll, where doing so would be more favorable to a customer and only offer a payment arrangement if the customer rejects the BDP and AMP after being informed of the programs' benefits.

4. The company should be required to make regular reports to Low Income Advocacy Groups (LIAG) regarding its steps towards utilizing speech patterns and linguistic analysis to review call center calls.

OCA M.B. at 100 (citing OCA St. 5 at 54-63). The OCA asserted that these recommendations should be implemented by the Company as a part of any authorized rate increase to ensure adequate service is being provided to customers. OCA M.B. at 100 (citing 66 Pa.C.S. §§ 523, 1501, 1505; *Pa. PUC v. Pa. Gas & Water Co.*,

74 PUR4th 238, 244-45 (Pa. PUC 1986) (*PG&W 1986*); *Pa. PUC v. Philadelphia Gas Works*, 2000 Pa. PUC LEXIS 876, *41-44 (Opinion and Order entered November 22, 2000) (*PGW 2000*).

Similarly, CAUSE-PA argued that PAWC's USPs, including reduced rates available through the Company's BDP, are not reasonably accessible to the Company's low-income customers. CAUSE-PA M.B. at 63 (citing CAUSE-PA St. 1 at 54). In support, CAUSE-PA contended that as of November 2023, only 25% of PAWC's estimated low-income customers and 40% of its confirmed low-income customers were enrolled in BDP. Moreover, CAUSE-PA asserted that while 9,658 confirmed low-income customers were terminated for nonpayment in 2023, only 3,443 Hardship Fund grants were issued during that time. *Id*. According to CAUSE-PA, the Company does not have adequate systems in place to ensure that customers are being timely referred and assisted to enroll in BDP and the Hardship Fund assistance, consistent with Sections 1303 and 1410.1 of the Code and undersubscription of PAWC's low-income assistance programs contravenes those Sections of the Code. CAUSE-PA M.B. at 64-65.

Therefore, CAUSE-PA recommended several modifications so that low-income customers can enroll in available USPs more easily and before such customers accrue unmanageable debts. CAUSE-PA M.B. at 65 (citing CAUSE-PA St. 1 at 56). First, CAUSE-PA proposed that PAWC begin screening all new and moving customers for income level and eligibility at the time their service is established and periodically thereafter during non-emergency calls. CAUSE-PA M.B. at 65 (citing CAUSE-PA St. 1 at 57). Next, CAUSE-PA recommended that the Company develop call scripting and checklists for its Customer Service Representatives (CSRs) to assist in screening customers for eligibility and refer low-income customers to available assistance programs, including BDP and the Hardship Fund, before being placed on a payment arrangement. Further, CAUSE-PA recommended that the Company should be required to refer low-income customers to available assistance programs, including the

Company's BDP and Hardship Fund, before placing such customers on a payment arrangement. CAUSE-PA M.B. at 66.

2. Recommended Decision

In the Recommended Decision, the ALJs noted a public utility's responsibility, when contacted by a customer to make a payment agreement, to provide information about its USPs and to refer the customer to the USP administrator to determine eligibility for enrollment in the program. R.D. at 340-41 (citing 66 Pa.C.S. § 1410.1). The ALJs found that PAWC is following these guidelines since PAWC CCAs are trained to direct customers to call DEF to enroll. The ALJs held that PAWC is meeting its obligations by informing callers about the availability of the Company's customer assistance programs. Accordingly, the ALJs recommended that the proposals of the OCA and CAUSE-PA regarding low-income customer outreach be rejected. R.D. at 341.

3. OCA Exception No. 21, CAUSE-PA Exception No. 3, and Replies

In its Exception No. 21, the OCA argues that while PAWC may be adhering to statutory standards, the OCA's witness, Mr. Colton, presented concerning statistics regarding a low level of low-income customer level enrollment in the Company's BDP. OCA Exc. at 34. In support, the OCA reiterates the same arguments and recommendation made in its Main Brief. *Id*.; *see*, OCA M.B. at 99-100. As such, the OCA asserts that the Commission should consider this evidence of low enrollment and adopt the OCA's recommendations. OCA Exc. at 34 (citing R.D. at 341; OCA M.B. at 99-100; OCA R.B. at 63).

CAUSE-PA argues in its Exception No. 3 that the ALJs made factual and legal errors in its determination that PAWC's existing screening and intake processes are

adequate and consistent with statutory standards. According to CAUSE-PA, the undersubscription in PAWC's low-income assistance programs limits the ability of the Company's low-income customers to access affordable services prior to accruing unmanageable arrears and facing termination. CAUSE-PA Exc. at 20. In support, CAUSE-PA contends that Section 1303 of the Code requires that PAWC ensure customers are enrolled in the most advantageous rate, including rates available through the Company's BDP. *Id.* (citing CAUSE-PA M.B. at 63-64). Similarly, CAUSE-PA contends that under Section 1410.1 of the Code, the Company is required to refer customers to available USPs, including its BDP and Hardship Fund, before placing customers on a payment arrangement. CAUSE-PA maintains its position that the undersubscription in PAWC's low-income assistance programs contravenes Sections 1303 and 1410.1 of the Code. CAUSE-PA Exc. at 20-21.[119]

In further support, CAUSE-PA reiterates the same arguments and recommendation made in its Main Brief. CAUSE-PA Exc. at 21-23; *see*, CAUSE-PA M.B. at 63-69. Additionally, CAUSE-PA disagrees with PAWC's argument that its recommendation regarding screening and intake would deprive customers of the choice of whether to enroll in USPs and expresses its concern that low-income customers are not being adequately referred to assistance programs. CAUSE-PA Exc. at 24.

In its Reply, PAWC agrees with the ALJs that the Company's low-income customer outreach, intake, and screening are appropriate and consistent with statutory

[119] We further note that in its reply to the Company's Exception No. 11, discussed in Section VII.F, *infra*, CAUSE-PA argues that the ALJs' recommendation that the Commission reject CAUSE-PA's proposed modifications to PAWC's screening and intake procedures should not preclude implementation of CAUSE-PA' recommendations to the Company's data collection and reporting. CAUSE-PA R. Exc. at 17. CAUSE-PA notes that while its recommendations regarding screening and intake are aimed at addressing the methods by which PAWC increase enrollment in its USPs, the data collection and reporting recommendations are intended to improve Commission oversight of the Company's USPs. *Id.*

standards. PAWC R. Exc. at 22. The Company reiterates that it offered evidence of its robust, multi-prong approach to inform customers about the benefits of its H2O program. *Id*. at 22-23 (citing PAWC St. 9 at 14-16; PAWC St. 9-R at 11; PAWC St. 14-R at 7). By way of its Reply, PAWC states its desire to address CAUSE-PA's "mischaracterization" of Section 1410.1 of the Code, and CAUSE-PA's allegation that the Company is in violation of Sections 1303 and 1410.1 of the Code. PAWC R. Exc. at 23. According to the Company, CAUSE-PA has misinterpreted Section 1410.1 to prohibit the establishment of a payment arrangement until the customer has completed the referral process and in response, the Company argues that the plain language of Section 1410.1 provides no such prohibition. *Id*. (citing CAUSE-PA Exc. at 20). In response to CAUSE-PA's argument that PAWC's H2O program offerings are undersubscribed and thus, in violation of Sections 1303 and 1410.1 of the Code, the Company argues that neither statute refers to customer enrollment or participation in assistance programs or requires a subscription level. PAWC R. Exc. at 23-24 (citing 66 Pa.C.S. § 1303; CAUSE-PA Exc. at 20). Accordingly, PAWC argues that the ALJs properly examined these processes in making their determination that the Company is following 66 Pa.C.S. §§ 1303 and 1410.1 and requests that the Commission reject the Exceptions of the OCA and CAUSE-PA with respect to this issue. PAWC R. Exc. at 24 (citing R.D. at 340-41).

4. Disposition

As a preliminary matter, we note, again, the concerns expressed by the OCA and CAUSE-PA that PAWC's customer assistance programs are undersubscribed. The OCA and CAUSE-PA each made proposals to address this issue. The focus of the OCA's recommendations is to ensure that customers are receiving adequate service consistent with 66 Pa.C.S. §§ 523, 1501, and 1505 by increasing customer outreach and intake for the Company's BDP and AMP programs. *See*, OCA M.B. at 99-100. CAUSE-PA asserted that its proposals are targeted at ensuring that PAWC's customers are properly referred and assisted to enroll in the Company's USPs, consistent with

Sections 1303 and 1410.1 of the Code, 66 Pa.C.S. §§ 1303, 1410.1. *See*, CAUSE-PA M.B. at 65; CAUSE-PA Exc. at 18-24. As of November 2023, 25% of PAWC's estimated low-income customers and 40% of its confirmed low-income customers were enrolled in BDP. *See,* CAUSE-PA M.B. at 63 (citing CAUSE-PA St. 1 at 54). Such statistics highlight that additional outreach efforts are appropriate.

Accordingly, we agree with a number of the recommendations made by the OCA and CAUSE-PA to address low-income customer outreach. First, we believe PAWC should develop call scripting and checklists for its CSRs to assist in screening customers for eligibility and refer low-income customers to available assistance programs, including BDP and the Hardship Fund, before placing customers on a payment arrangement. *See,* CAUSE-PA St. 1 at 58.

Second, PAWC should make personal contact with any confirmed low-income customer facing termination of service for nonpayment, and these customers should be informed of and given the opportunity to enroll in the BDP and the AMP as an alternative to disconnection. *See* OCA St. 5 at 59. Further, moving forward, customers enrolled in the BDP should also be informed of the AMP and enrolled in it as well if they are eligible and so choose. OCA M.B. at 100.

We shall direct PAWC to implement the above recommendations no later than one year after the effective dates of rates in this proceeding. Lastly, while PAWC noted that its outreach efforts increased participation in its BDP by over 30%, we strongly encourage PAWC to continue taking steps to increase its outreach efforts for all low-income customer assistance programs.

Based on the above discussion, we shall modify the ALJs' recommendation and grant the OCA's Exception No. 21 and CAUSE-PA's Exception No. 3.

F. Data Collection, Reporting, and Monitoring of Low-Income Programs

1. Positions of the Parties

PAWC requested that the Commission reject the below proposals of CAUSE-PA's witness, Mr. Geller, regarding data collection and reporting recommendations. In support of its request, PAWC noted "significant strides in reaching out to customers without formalizing outreach/enrollment benchmarks or quantitative goals." PAWC stated its outreach strategy had resulted in a 30% increase in BDP participation between December 2020 and November 2023. PAWC M.B. at 88.

PAWC also pointed to the proposed changes to its low-income programs. PAWC believed it would be unreasonable to establish benchmarks when enrollment levels may fluctuate based upon new income verification requirements for low-income programs and increased bill discounts. PAWC M.B. at 88-89.

PAWC averred that it already has processes in place to regularly share information with the CAAG via quarterly meetings to discuss methods for enhancing low-income customer outreach. These communications include obtaining feedback on outreach materials. PAWC M.B. at 89.

Finally, PAWC objected to the OCA's below recommendation that it utilize customer satisfaction surveys targeting low-income and at-risk customers. PAWC characterized such recommendations as redundant given PAWC's ongoing transaction surveys and trend tracking. PAWC R.B. at 71-72.

The OCA requested that PAWC be required by the Commission to introduce customer satisfaction surveys targeting the following: (1) customers seeking to enroll in low-income customer billing assistance programs; (2) customers seeking to

enroll in deferred payment arrangements; (3) customers experiencing difficulties or an inability to pay bills timely and fully; and (4) customers responding to disconnection of service for non-payment. OCA M.B. at 101. The OCA stated the compilation of information from these surveys can be used to improve customer satisfaction and collections outcomes, with the knock-on outcome of allowing PAWC to "improve its management control of costs and revenues, improve the stability of its earnings, and thus control the need for future rate relief." *Id*. (citing OCA St. 5 at 123-24).

CAUSE-PA asked the Commission to order improvements to PAWC's low-income program data collection and reporting to ensure access and enrollment in such programs by eligible customers. CAUSE-PA M.B. at 69. According to CAUSE-PA, PAWC's low-income assistance programs are undersubscribed, with approximately "75% of PAWC's estimated low-income customers, and roughly 60% of households *known* to be eligible" not enrolled. CAUSE-PA M.B. at 69 (citing CAUSE-PA St. 1 at 47) (emphasis in original). CAUSE-PA made three assertions and recommendations to address the undersubscription in PAWC's low-income assistance programs.

First, CAUSE-PA argued that the Company should be required to update its estimated low-income customer count on an annual basis, working with the Commission's BCS to ensure any method used is appropriate and accurate. CAUSE-PA M.B. at 69 (citing CAUSE-PA St. 1 at 47-48). Second, CAUSE-PA submitted that the Commission should require PAWC to establish target enrollment benchmarks, with CAUSE-PA recommending enrollment targets of "20% per year of PAWC's estimated low-income customer counts, until the Company reaches at least 75% enrollment of this estimated group." CAUSE-PA M.B. at 69 (citing CAUSE-PA St. 1 at 48). Finally, CAUSE-PA recommended the Commission require PAWC to "establish quantitative and qualitative goals related to affirmative customer outreach," including contacts via phone, mail, and electronic communications via text or email (with customer consent). In tracking implementation of these recommendations, CAUSE-PA also claimed that PAWC

should expand membership of its CAAG to include more diverse community voices. CAUSE-PA M.B. at 70.

2. Recommended Decision

As to the OCA's proposed customer service satisfaction surveys, the ALJs agreed with PAWC that such surveys would be unnecessary and redundant given the Company's existing transaction surveys. Accordingly, the ALJs recommended the Commission reject OCA's proposal. R.D. at 345.

Conversely, the ALJs found that CAUSE-PA's recommendations are made "to better ensure that low-income customers can enroll in the BDP and other available universal service programs." Citing to testimony provided at public input hearings regarding billing affordability, the ALJs stated "ensuring that low-income customers can enroll in these programs is of great importance." Therefore, the ALJs recommended that the Commission adopt CAUSE-PA's data collection and reporting proposals. R.D. at 345-46.

3. Exceptions and Replies

a. PAWC Exception No. 11 and Replies

In its Exception No. 11, PAWC contends that the ALJs "improperly [recommended that the Commission adopt] unreasonable and unnecessary low-income data collection and reporting requirements" as proposed by CAUSE-PA. PAWC argues that the ALJs failed to "explain why enrollment benchmarks or outreach goals are necessary or appropriate" in light of their recommendation that the Commission reject other proposals to modify customer outreach strategies. PAWC also points to upcoming changes in how low-income assistance programs will be operated and possible

fluctuations in enrollment, as well as the meetings and consultation already occurring between PAWC and the CAAG. For these reasons, the Company requests the Commission reject the ALJs' recommendations concerning low-income data collection and reporting. PAWC Exc. at 29-31.

In reply to PAWC's Exception No. 11, CAUSE-PA requests that the Commission reject this exception. CAUSE-PA R. Exc. at 13. CAUSE-PA further asks the Commission to affirm the improvements to PAWC's USP data collection and reporting ordered in the Recommended Decision. CAUSE-PA provides four reasons in support of its reply: (1) the proposed improvements will provide important metrics for measuring success; (2) the recommended improvements will enhance the upcoming changes PAWC plans to implement to its USPs; (3) the changes CAUSE-PA proposed to PAWC's engagement with its CAAG are designed to build upon the existing relationship, not as a critique; and (4) rejection of additional screening and intake proposals made by CAUSE-PA does not preclude implementation of the improved data collection and reporting proposals. *Id*. at 15-17.

b. OCA Exception No. 22 and Replies

In its Exception No. 22, the OCA takes issue with the ALJs' recommendation that the Commission reject the OCA's proposal that PAWC conduct targeted customer satisfaction survey of low-income customers. The OCA notes that it recommended the surveys "with the objective of improving customer satisfaction and collections outcomes" to benefit PAWC's control of costs and revenues. The OCA requests the Commission grant its Exception and approve its customer satisfaction survey proposal. OCA Exc. at 35.

In response to the OCA's Exception No. 22, PAWC reiterates it currently utilizes transaction surveys "immediately after all phone and customer portal

interactions" and works to identify trends from the customer feedback received. PAWC therefore asks the Commission to reject the OCA's Exception No. 22 and adopt the ALJs' reasoning as to the redundancy of the customer satisfaction surveys proposed by the OCA. PAWC R. Exc. at 22.

4. Disposition

At the outset, we note that we shall deny the OCA's Exception No. 22 regarding customer satisfaction surveys. As the record evidence shows, PAWC conducts transaction surveys of its customers that accomplish the goals extolled by the OCA. We find these transaction surveys, coupled with PAWC's tracking of trends in the surveys, to be sufficient; therefore, we reject the OCA's proposal.

With respect to PAWC's Exception No. 11, CAUSE-PA has made several suggested recommendations with the stated goal of improving PAWC's low-income programs and gathering information to track efficacy of the programs. As the ALJs noted in the Recommended Decision, much of the public input testimony referenced concerns over affordability of rates. Based on this testimony, we agree with the ALJs that ensuring that low-income customers can enroll in these programs is of great importance. We find the recommendations from CAUSE-PA to be important in increasing affordability, enhancing the changes PAWC plans to make to low-income assistance programs, and providing metrics for program success. Therefore, we shall reject PAWC's Exception No. 11, and adopt the reasoning of the ALJs granting CAUSE-PA's proposed modifications. Although no Party suggested, nor did the Recommended Decision prescribe, a deadline for the implementation of these changes, we shall order PAWC to file a plan outlining how it proposes to implement CAUSE-PA's recommendations on this matter no later than one year after the effective dates of rates in this proceeding.

G. Comprehensive Written Universal Service Plan

1. Positions of the Parties

PAWC objected to the recommendations from the OCA and CAUSE-PA, *infra,* that it develop a written universal service plan and file the plan with the Commission's BCS. Specifically, PAWC argued the universal service plan policy recommendations advanced by the OCA and CAUSE-PA are attempts to impose a universal service framework on PAWC, similar to such requirements imposed on EDCs and NGDCs. PAWC M.B. at 89-90.

PAWC emphasized arguments in its Main Brief regarding universal service programming, including the lack of required universal service requirements and no cost mechanism for recovery of costs associated with universal service. PAWC also noted the costs, resources, and time associated with developing and maintaining a universal service plan. PAWC M.B. at 89-90. Furthermore, PAWC stated the Commission "should not mandate the development and implementation of a universal service plan in the absence of any universal service requirement (and corresponding full and timely cost recovery) for water and wastewater utilities under Pennsylvania law." *Id*. at 90 (citing PAWC St. 14-R at 12-13).

I&E stated that "only electric and natural gas utilities are required to develop universal service plans." I&E M.B. at 104 (citing 52 Pa. Code § 69.261). Based on this, I&E recommended that rather than imposing the requirement for a universal service plan on PAWC alone, if the Commission believes universal service plans are appropriate for water and wastewater utilities, it should provide "statewide guidance for all water and wastewater utilities as it has done in the gas and electric industries." I&E M.B. at 104-05. In addition, I&E argued that low-income benefits of a universal service plan "flow through base rates," and even if periodic reports were filed by PAWC

regarding its universal service plan, there would be no ability to make changes to base rates. *Id.* (citing I&E St. 1-R at 5-6).

The OCA recommended PAWC be required to develop a comprehensive written universal plan. OCA M.B. at 101. In support, the OCA argued such a plan should be "an element of fundamental prudent and adequate program planning and management of its low-income customer assistance programs." *Id*. (citing OCA St. 5 at 67-72; OCA St. 5-SR at 30-31).

Similarly, CAUSE-PA requested the Commission require PAWC file a "comprehensive Universal Service Plan for periodic Commission review and approval." CAUSE-PA argued that the lack of a written, comprehensive plan "leaves a substantial gap for customers and utility advocates and makes it difficult for the Commission to properly oversee PAWC's administration of Commission-approved universal service programming." In addition to the requirement that PAWC file a comprehensive Universal Service Plan, CAUSE-PA advanced an argument that the Company be required to include a detailed customer education and outreach plan, with measurable goals and metrics, within the plan. CAUSE-PA M.B. at 72-73.

CAUSE-PA countered PAWC's argument regarding the lack of a statutory or regulatory obligation to file a universal service plan and opined that the plan is necessary "to assess whether PAWC's low-income assistance programs are being administered in accordance with PAWC's and the Commission's requirements." CAUSE-PA believed this to be especially true given PAWC's explanation regarding increased staffing needs to implement a universal service plan. CAUSE-PA M.B. at 74.

2. Recommended Decision

In the Recommended Decision, the ALJs referred back to their previous discussion regarding comprehensive conservation and line repair programs and LIURPs for water companies, which was presented in Section XII.D, *supra*. Conducting a similar analysis, the ALJs recommended that the Commission reject the proposals of the OCA and CAUSE-PA that PAWC be required to file a comprehensive universal service plan with the Commission. Specifically, the ALJs noted there is no requirement that water and wastewater utilities develop universal service plans. The ALJs found that imposing such an obligation on PAWC alone would be inappropriate and that if the Commission found a universal service plan to be appropriate for water and wastewater utilities, it should implement such a change on a statewide basis. R.D. at 350.

3. OCA Exception No. 23, CAUSE-PA Exception No. 2 and Replies

The OCA, in its Exception No. 23, argues that "the need to prepare and file such a plan is based on the need for efficient and adequate service to low-income customers and planning of expenditures for related programs." The OCA notes the merit of requiring PAWC to file a comprehensive plan in this proceeding, while also encouraging the Commission to consider statewide action requiring the filing of universal service plans for water and wastewater utilities. OCA Exc. at 36.

CAUSE-PA, in Exception No. 2, takes issue with the ALJs' recommendation that the Commission reject its proposal requiring PAWC to file a comprehensive written universal service plan. CAUSE-PA restates many of the arguments outlined in its briefs and testimony. In addition, PAWC stresses its position that a "[l]ack of statutory or regulatory mandate does not preclude the Commission from making important enhancements in the context of this proceeding which will improve access and affordability of services…" Moreover, in refuting PAWC's assertion that

designing and implementing a universal service plan would require additional time and resources, CAUSE-PA counters that such a plan is "essential" for providing access and determining whether low-income assistance programs are administered in accordance with requirements. CAUSE-PA Exc. at 12-18.

CAUSE-PA also disputes I&E's assertion that it would be inappropriate to require PAWC to submit a universal service plan given that the benefits for low-income assistance programs flow through base rates. CAUSE-PA argues that "the existence of a unified universal service plan would not divorce universal service issues from a rate case" and would instead allow for a "more detailed periodic policy review" of USP issues. CAUSE-PA further requests that the Commission order PAWC to file a universal service plan with a Petition for Commission Review within one year of the final order in this case and include a customer education and outreach plan as part of the filing. CAUSE-PA Exc. at 17-18.

In reply to the OCA's Exception No. 23 and CAUSE-PA's Exception No. 2 regarding the proposed filing of a comprehensive written universal service plan, PAWC states that the ALJs properly found "that statutory and regulatory obligations related to [universal service plans] … apply to electric and natural gas distribution utilities only." Absent statutory or regulatory mandates to the contrary, PAWC echoes the ALJs in arguing that mandating a universal service plan filing on PAWC would not be appropriate. PAWC R. Exc. at 24-25.

4. Disposition

We agree with the reasoning of the ALJs in the Recommended Decision and shall reject the requests for a written universal service plan as proposed by CAUSE-PA and the OCA. Universal Service Plans are required, pursuant to Commission Regulations, for EDCs and NGDCs. *See*, 52 Pa. Code § 54.71-54.78 and 62.1-62.8. To

the contrary, there is no similar statutory or regulatory authority that requires water companies to file such a universal service plan. Therefore, we will not impose such an obligation on PAWC in this proceeding. We also note the Commission has approved enhanced low-income assistance programs and increased collection of data associated with those programs in this proceeding. These steps are expected to address many of the concerns raised by the OCA and CAUSE-PA. Accordingly, we shall deny the OCA's Exception No. 23 and CAUSE-PA's Exception No. 2.

H. Administration of PAWC's Low-Income Assistance Programs

1. Positions of the Parties

PAWC contended that the recommendations, *infra,* of CAUSE-PA's witness, Mr. Geller, regarding PAWC exercising greater oversight of its low-income program administrator, DEF, are unnecessary due to the Company's current processes and would result in substantial new administrative costs. PAWC M.B. at 90 (citing CAUSE-PA St. 1 at 64-67). PAWC explained that it meets regularly with DEF regarding administration, has access to all necessary information, and that DEF provides the Company with standard periodic reports on application and grant activities. PAWC M.B. at 91. Further, the Company contended that the third-party auditing proposed by CAUSE-PA is required for EDCs and NGDCs under Pennsylvania law, not water and wastewater utilities. *Id*. (citing 52 Pa. Code §§ 54.76 and 62.6). Therefore, PAWC contended that the Commission should reject the OCA's proposals with respect to this issue. PAWC M.B. at 91.

The OCA expressed that it is generally supportive of Mr. Geller's testimony regarding his recommendations for the administration of PAWC's low-income assistance programs. OCA M.B. at 101.

CAUSE-PA expressed concern that PAWC does not appear to have systems in place to regularly monitor DEF's administration of its programs to ensure that standards are being met so that eligible customers can easily enroll in available assistance programs. CAUSE-PA M.B. at 75 (citing CAUSE-PA St. 1 at 65). Similarly, CAUSE-PA asserted that the Company does not have formal policies, assessments, or audits of DEF's administration of its low-income assistance programs. CAUSE-PA M.B. at 75. Thus, CAUSE-PA proposed that PAWC be required to implement systematic and regular processes for monitoring, screening, and oversight related to its low-income assistance programs with clear metrics for auditing DEF's administration of its programs to be implemented within six months of the entry date of the final order entered in this proceeding. *Id*. at 77.

Additionally, CAUSE-PA proposed that the Company be required to conduct and submit periodic third-party evaluations to the Commission on its low-income assistance programs, consistent with the six-year program evaluation period required of EDCs and NGDCs, with the first evaluation due a year from the entry date of the final order entered in this proceeding. CAUSE-PA M.B. at 78 (citing 52 Pa. Code §§ 54.76 and 62.6). Lastly, CAUSE-PA disagreed with PAWC that any increased costs resulting from enhanced oversight would require a rider recovery mechanism. CAUSE-PA M.B. at 79 (citing CAUSE-PA St. 1-SR at 21). According to CAUSE-PA, DEF's administration of the Company's USPs is already recovered through rates and any costs related to appropriate oversight should be recovered in the same manner as other program costs. CAUSE-PA M.B. at 79-80.

2. Recommended Decision

In the Recommended Decision, the ALJs agreed with PAWC that the recommendations advanced by CAUSE-PA's witness, Mr. Geller, are unnecessary. The ALJs noted the Company's assertion that it meets regularly with DEF regarding

administration and that DEF provides the Company with standard periodic reports. The Recommended Decision further noted PAWC's argument that while such third-party auditing is required by law for EDCs and NGDCs as part of their universal service obligations, it is not required for water and wastewater utilities. Therefore, the ALJs recommended that the Commission reject CAUSE-PA's recommendations for the administration of PAWC's low-income assistance programs. R.D. at 354.

3. Disposition

No Exceptions have been filed to this determination. Finding the ALJs' recommendation to be reasonable, appropriate, and in accordance with the record evidence, it is adopted.

XIII. Service Quality and Customer Service Issues

A. Customer Service Performance

1. Positions of the Parties

PAWC explained that its CSO supports the customer service needs of PAWC and the other AWK utility subsidiaries and provides customers with convenient access to information and responsive, personal service to drive high satisfaction ratings. PAWC M.B. at 92 (citing to PAWC St. 9 at 7-8). Noting the opinion of the OCA's witness, Ms. Alexander, that CSO performance has been poor since 2019, the Company argued that Ms. Alexander's evaluation is narrowly and erroneously centered on wait times and call abandonment rather than the overall customer experience. PAWC M.B. at 93 (citing OCA St. 6 at 19-25; OCA Exh. BA-3). The Company emphasized the testimony of its own witness, Ms. Deborah Degillio, that first contact resolution is the highest driver of customer service that impacts overall satisfaction. PAWC M.B. at 93

(citing PAWC St. 9 at 7-8). Further, the Company argued that Ms. Alexander compared the CSO's performance with data reported to BCS by electric and gas utilities that do not use the same metrics for call center performance as PAWC. PAWC M.B. at 94. According to PAWC, Ms. Alexander's recommendations of additional management oversight of CSO call handling are unfounded, as the performance levels of the CSO and third-party call handling agencies are already monitored daily. *Id*. (citing PAWC St. 9-R at 6-8).

Regarding the OCA's witness, Ms. Alexander's, recommendation requiring, *inter alia*, a "professionally conducted root-cause analysis of complaint trends," PAWC's witness, Ms. Tawana Dean, explained that Ms. Alexander's concerns were without merit due to the Company's robust complaint analysis process. PAWC M.B. at 96 (citing OCA St. 5 at 11-18, 44). In response to the public input hearing testimony that a few PAWC customers either did not receive paper bills for December 2023 or received mailed bills late, the Company asserted that it agreed to credit a late fee charge to any Scranton area customer who did not have any late fees in the last quarter of 2023. PAWC M.B. at 96-97 (citing Tr. at 1976). PAWC further contended that it determined that this issue was caused by postal service delays and not due to the action or in-action of PAWC. PAWC M.B. at 96 (citing PAWC St. 9-R at 18). In response to Ms. Alexander's recommendation that PAWC document, *inter alia*, the frequency of inconsistent billing periods, PAWC argued that there is no basis for the Commission to require additional reporting and documentation because the Company's billing periods are consistent with Commission regulations. PAWC M.B. at 97 (citing OCA St. 6 Supp at 2; OCA St. 6-SR at 26).

The OCA argued that PAWC's call center performance is inadequate due to high call-answer times, high call abandonment rate, and high complaint rates. OCA M.B. at 102 (citing OCA St. 6 at 11-12, 19-24). The OCA asserted that as a result, the Commission should disallow certain call center expenses and reject the Company's

managerial performance adder. OCA M.B. at 102. According to the OCA, the Company's inadequate call center performance was a subject of the Commission's *2023 Management Audit* that documented poor call center performance and found that the Company experienced a sustained decline in call handling performance since 2019. *Id*. at 103 (citing *2023 Management Audit*). The OCA contended that in response, PAWC stated that it would "strive" to achieve a performance of answering 80% of the calls within 60 seconds by the end of 2024. OCA M.B. at 103.

Therefore, OCA's witness, Ms. Alexander, recommended that the Company be required to, *inter alia*, adopt specific performance standards, have a professionally conducted root cause analysis of all customer complaint data, and provide managerial oversight to the Service Company's CSO's call center performance. OCA M.B. at 104. The OCA further referenced the Commission's Order releasing the *2023 Management Audit* where the Commission directed that PAWC file a new or amended affiliated interest agreement (AIA) that reflects the current company structure and the intercompany transactions taking place between PAWC and the Service Company. *Id*. (citing OCA St. 6 at 17). In addition, the OCA recommended that any new or amended AIA should contain arms-length contractual language granting PAWC contractual protection to perform audits of the Service Company's CSO performance based on defined metrics. OCA M.B. at 104. Lastly, the OCA contended that the Commission should require these recommendations be carried out by PAWC as a part of any authorized rate increase to ensure that consumers are receiving adequate service. *Id*. at 102, 105 (citing 66 Pa.C.S. §§ 523, 1501, 1505; *PG&W 1986* at 244-45; *PGW 2000* at *41-44).

CAUSE-PA noted that aside from the issues concerning DEF's administration of PAWC's low-income assistance programs and, in turn, the services provided to low-income customers, it did not take a position with respect to other

customer service performance issues in the context of this proceeding. CAUSE-PA M.B. at 80.

2. Recommended Decision

In the Recommended Decision, the ALJs highlighted that out of the 217 witnesses that offered testimony at the public input hearings in this proceeding, only a handful of witnesses raised customer service issues and that the majority of testimony concerned affordability and water quality. R.D. at 363. The ALJs recognized that PAWC is required by Section 1501 of the Code to provide its customers with adequate and reasonable service but is not required to provide perfect service. *Id*. at 364 (citing 66 Pa.C.S. § 1501). Further, the ALJs found that the testimony of the several customers regarding the issues they experienced when contacting PAWC to report issues did not warrant requiring the Company to modify its call handling procedures. Additionally, the Recommended Decision found that the Company's daily monitoring of the CSO and third-party call handling agencies constitutes sufficient oversight. Therefore, the ALJs recommended that the OCA's proposal be rejected. Regarding the customers that did not receive paper bills for December 2023 and were assessed late fees by PAWC, the ALJs found PAWC's response in crediting the late fees to the customers' accounts to be reasonable, while also noting that this issue arose due to a postal service delay and not due to any action or in-action of PAWC. R.D. at 364.

3. OCA Exception No. 24 and Replies

In its Exception No. 24, the OCA argues that the ALJs erred in recommending that the Commission reject the OCA's proposed measures to improve customer service performance. According to the OCA, the ALJs did not afford enough weight to the OCA's witness, Ms. Alexander's, opinion on customer call handling and focused too much on the lack of public input testimony on customer service issues. In

support, the OCA argues that when consumers are faced with yet another rate increase that threatens affordability, they are unlikely to utilize their limited time permitted for testimony to discuss customer service when they are concerned about affordability and service quality. OCA Exc. at 37-38. Further, the OCA contends that the lack of public input testimony on customer service issues is not determinative where the OCA, as the statutory advocate representing the interest of consumers in this proceeding, provided extensive evidence of the customer service issues by way of its witness, Ms. Alexander. *Id*. (citing OCA St. 6 at 21-23).

In its Reply, PAWC agrees with the ALJs' recommendation that the Commission reject the OCA's proposed service-related conditions and conclusion that the Company provides adequate and reasonable service. According to the Company, the OCA's evaluation of PAWC's customer service narrowly focuses on and misapplies two (2) call handling metrics presented in BCS' annual customer service reports for electric and gas utilities. PAWC R. Exc. at 14-15. PAWC further agrees with the Recommended Decision's finding that the additional managerial oversight proposed by the OCA is unnecessary because the performance levels of the CSO and third-party call handling agencies are already monitored daily. *Id*. at 15 (citing to R.D. at 364).

4. Disposition

Upon consideration of the record, and the arguments of the Parties, we find that there is no basis to condition PAWC's rate increase upon the imposition of the customer service performance standards proposed by the OCA. Importantly, we conclude the present rate case is not akin to the above PG&W case cited by the OCA in support of its position. In that case, the utility's service deficiencies were demonstrated to be so serious as to constitute the failure to provide safe and adequate service in violation of Section 1501 of the Code. To the contrary, in the present case there is no such finding.

Nevertheless, because we have encouraged those struggling to pay their utility bills to avail themselves of PAWC's customer assistance programs, we must stress the importance of call center performance as this is the primary contact point for customer inquiry into these programs and we believe it is best practice to ensure that call centers maintain baseline performance.

As referenced by the OCA, the *2023 Management Audit* noted a sustained decline in PAWC's call handling performance since 2019. Audits explained that the decline in call handling performance was measured against the metrics used for NGDCs and EDCs, including percentage of calls answered within thirty (30) seconds and call abandonment rate. Audits noted that while regulated water and wastewater utilities, like PAWC, are not subjected to the quality of service reporting requirements required of NGDCs and EDCs, these metrics are just as relevant to water and wastewater utilities. *2023 Management Audit* at 81. In addition, it is important to note Audits' finding that the Company did start to make improvements in its call handling performance after 2021. However, these performance levels were still worse than historical performance levels. *Id*. at 83. Accordingly, the *2023 Management Audit* called upon PAWC to "[i]mprove customer service performance at minimum to pre-pandemic levels." *Id*. at 84.

In response to the *2023 Management Audit*, PAWC stated that its customer service performance improved significantly in 2023 and that it would strive to achieve a performance of answering 80% of the calls within 60 seconds or less by December 31, 2024. *PAWC Implementation Plan in Response to the 2022-23 Focused Management and Operations Audit*, Docket No. D-2022-3035217 (*Implementation Plan*) at 38. The Company did not explain in its *Implementation Plan* how it intends to address its call abandonment rate.

We believe it is critical that PAWC not be stagnant in attempts to improve and maintain customer call center performance. For these reasons, we will require

PAWC to prepare and submit plans, within six (6) months of the entry date of the Final Order entered in this matter, demonstrating how it intends to continue to improve its percentage of calls answered in sixty (60) seconds or less and its call abandonment rate. We find this requirement to be a minimal burden on PAWC, especially considering the fact that customer call center performance has improved, albeit not to pre-pandemic levels.

Accordingly, the OCA's Exception No. 24, regarding the imposition of customer service performance standards, is denied and the recommendation of the ALJs on this issue is adopted, as modified, consistent with our above discussion. In addition, PAWC is directed to file a report detailing its plans on improving its percentage of calls answered and call abandonment rate within six (6) months of the entry date of the Final Order entered in this proceeding.

B. Tenant Issues and Protections

1. Positions of the Parties

PAWC asked the Commission to reject the tracking and reporting proposals advanced by CAUSE-PA, outlined below. The Company opined that it already fully complies with the Discontinuance of Services to Lease Premises Act (DSLPA) and its procedures are not incompatible with the Utility Services Tenants Rights Act (USTRA). PAWC also asserted that the DSLPA "places the obligation on the landlord ratepayer to notify the utility whether the premises being served are for rental purposes." PAWC M.B. at 98.

PAWC also averred that the Company implements additional measures to determine whether service addresses should be coded as landlord-ratepayer or tenant occupied. PAWC relies on information from landlords, as well as tenants and field

service representatives to ensure properties are coded correctly. When delinquent, these accounts go through the 37-day notice process prior to service termination as required by DSLPA and USTRA with notice including directions on how to contact PAWC to continue service. PAWC represents that these processes are the same for termination or disconnection requests made by municipal sewer providers. PAWC M.B. at 98.

CAUSE-PA raised concerns regarding whether PAWC has adequate policies and procedures to monitor DSLPA compliance. CAUSE-PA M.B. at 83. According to CAUSE-PA, DSLPA compliance should require PAWC to track and report certain metrics, including: (1) the types of notices provided to tenant occupied accounts before termination for landlord/owner nonpayment; (2) when and how notices are provided; (3) whether tenants asserted their rights to continued service; (4) the number of accounts incorrectly coded as non-tenant accounts; (5) the number of notices of termination or disconnection sent to accounts improperly coded as non-tenant and if the account was terminated or disconnected while coded as non-tenant; and (6) the amount of partial payments made by tenants seeking to continue services pursuant to the DSLPA. *Id*. at 85.

CAUSE-PA's main concern stemmed from a lack of clarity given "PAWC indicates that it does not track and cannot report on the number of tenant-occupied accounts that received notice of an involuntary termination or voluntary disconnection pursuant to DSLPA." CAUSE-PA similarly points to the Company's admission that it does not track issues related to identification and coding of tenant accounts, nor does it regularly track partial payments made by tenants seeking to exercise their DSLPA rights. CAUSE-PA recommended several changes to PAWC's DSLPA policies and procedures, including reporting of the above proposed data quarterly to PAWC's Customer Assistance Advisory Group and inclusion of the data in PAWC's next rate case. CAUSE-PA M.B. at 83-85.

2. Recommended Decision

In the Recommended Decision the ALJs dismissed CAUSE-PA's concerns and found that the Company had "adequate policies and procedures in place to monitor its compliance with DSLPA." The ALJs noted that PAWC: (1) relied on information provided by landlords, tenants, and field service representatives to assist in determining whether properties are reasonably likely to be occupied by tenants and correctly coded; (2) provides the required notice prior to any service termination; and (3) utilizes the same processes prior to service termination at the request of municipal sewer providers. The ALJs found the steps taken by PAWC to determine whether a service address should be coded as landlord-ratepayer or tenant occupied to be sufficient and rejected CAUSE-PA's proposals. R.D. at 369.

3. Disposition

Since none of the Parties excepted to this determination, and finding the ALJs recommendation to be reasonable, appropriate, and in accordance with the record evidence, we agree with the ALJs' recommendation to reject CAUSE-PA's proposal and find that PAWC has sufficient policies to ensure compliance with the DSLPA.

C. Water Services Act and Section 12.1(H) of Water Tariff

1. Positions of the Parties

PAWC averred that its current policies and procedures regarding service termination at the request of a non-Company wastewater provider comply with the Water Services Act (WSA) and address several of the issues raised by the OCA and CAUSE-PA, *infra*. PAWC noted that prior to terminating service under the WSA, a ten-day termination notice must be mailed or posted at the property, and if the person

liable for the unpaid charges delivers a written statement under oath to the municipal wastewater provider raising a just defense, the water service is not to be shut off until judicial investigation is conducted. PAWC also has processes in place to verify a municipal sewer provider has complied with the WSA, including certification from a responsible municipal official and a confirmation that the municipality has not received a medical certification for the relevant premise. PAWC M.B. at 99-100.

PAWC disagreed with the below proposals from the OCA and CAUSE-PA as either inconsistent with the WSA (recommendation that PAWC post their own notice) or unnecessary in light of PAWC's existing verification process (requiring proof of mailing and posting of the termination notice). PAWC M.B. at 100. PAWC also contested proposed modifications to the Company's proposed Tariff Section 12.8. PAWC stated the proposed changes are without supporting statute or regulation and "unreasonably restrictive," with several content requests for termination notices provided by wastewater providers with whom the Company has shut-off agreements. PAWC argues the Commission should not require these requests as: (1) the termination notices provided at shut-off are not required by statute or regulation and are instead provided voluntarily; and (2) PAWC has not been able to consult with the non-Company wastewater providers with whom it has shut-off agreements to ascertain whether the changes are feasible. *Id*. at 100-01.

The Company also responded to the OCA's below proposal to limit Tariff Section 12.8 to municipal entities covered by the WSA and non-Company wastewater providers with a "Commission-approved agreement." PAWC averred that its Joint Services Agreement with Aqua was not approved by the Commission; rather, the Commission directed the parties to seek approval of tariff changes related to the provisions affecting customers. PAWC argued the OCA's proposal shows a misunderstanding of the Joint Services Agreement and its recommendations are

incompatible with the Joint Services Agreement. The Company asked for all the OCA's proposed changes to Tariff Section 12.8 to be rejected. PAWC R.B. at 77-78.

The OCA recommended the Commission adopt the revised Tariff Section 12.8 language because the language, as proposed by PAWC, "posed the risk of harming consumers and creating additional confusion regarding the process." OCA M.B. at 105. The proposed modifications were as follows, with strikeouts representing the OCA's recommended deletions and underlined text representing recommended language:

> 12.8 Termination by Company for Non-Payment of Wastewater Service to a Non-Company Wastewater Provider
>
> ~~The Company may also terminate service in accordance with the terms of any agreement between the Company and a non-Company wastewater provider for non-payment of wastewater service when due upon prior notice by the non-Company wastewater provider.~~ The Company may terminate a customer's water service due to the customer's non-payment of charges owed to a non-Company wastewater provider, provided that: (1) the Company has an effective agreement with the non-Company wastewater provider pursuant to the Water Services Act or Act of April 14, 2006, codified at 53 P.S. §§ 3102.501 – 3102.507, or a Commission-approved agreement with the non-Company wastewater provider; and (2) the customer received prior notice from the non-Company wastewater provider of the past due amounts owed to the non-Company wastewater provider.
>
> Following the issuance of termination notice by the non-Company wastewater provider, the Company will not ~~move forward with termination of~~ terminate the customer's water service upon notification to the Company by the non-Company wastewater provider that the customer does either of the following: (1) disputes the termination for non-payment; or (2) ~~if the customer~~ produces a medical certification.
>
> Upon termination, the Company will post the termination notice at the customer's premises. The Company's termination

> notice shall provide the following information in conspicuous format and plain language: (1) a statement that PAWC terminated the customer's water service due to the customer's non-payment of non-Company wastewater charges; (2) a statement that the termination of service is not the result of customer's non-payment of water charges owed to PAWC; (3) the name and contact number of the non-Company wastewater provider; (4) the contact information for the Company; and (5) a citation to Section 12.8 of PAWC's Water Tariff and the weblink for accessing the Company's tariff webpage.

OCA St. 6-SR at 18-19. The OCA asked the Commission to adopt the proposed language "to ensure that consumers are receiving reasonable service." OCA M.B. at 106.

CAUSE-PA expressed concern that PAWC's current procedures and processes for terminating water service on the request of a non-Company wastewater utility "does not adequately protect tenants." CAUSE-PA asserted that PAWC, as the entity performing service termination, "has an affirmative duty to confirm that the [Water Services] Act has been followed prior to terminating services based on a request of a sewer utility, and should not rely on sewer authorities to monitor their own compliance…" CAUSE-PA M.B. at 87-88.

To ensure that PAWC complies with the WSA and the USTRA, CAUSE-PA recommended the following policy and procedure reforms: (1) PAWC should be required to obtain actual proof of mailing and proof of posting of notice before terminating service at the request of a non-Company wastewater utility; (2) PAWC should consult with its CAAG to revise its policies and procedures to ensure compliance with the WSA and update training materials to reflect revisions; (3) PAWC should review policies and procedures to ensure that tenants are not required to rely on the wastewater utility to act on their behalf to maintain service. CAUSE-PA M.B. at 89-90.

2. Recommended Decision

The ALJs agreed with the OCA that its proposed tariff language should be adopted. The ALJs found the revisions proposed by the OCA "will remove possible confusion" from the original language filed by PAWC. In addition to providing further protections for consumers, the ALJs held the language will "allow the company to uphold its Joint Services Agreement with Aqua PA." In recommending the Commission adopt the OCA's proposed tariff language, the ALJs made a revision to the language and noted the term "a Commission-approved agreement" should be replaced with "an effective agreement" to recognize the Commission does not approve agreements under the WSA or Section 12.1 of PAWC's Water Tariff. R.D. at 374.

Conversely, the ALJs recommended the Commission reject the proposals made by CAUSE-PA regarding revised policies and procedures ensuring compliance with the WSA. After finding "that PAWC's process described by the Commission is sufficient to verify that the sewer provider has complied with all of its obligations under the WSA," the ALJs found CAUSE-PA's recommendations to be unnecessary. R.D. at 375.

3. PAWC Exception No. 12 and Replies

In its Exception No. 12, the Company takes issue with the ALJs' recommendation that the Commission adopt the tariff language proposed by the OCA. PAWC notes that the specific language requires "that notices provided upon termination under Tariff Section 12.8 (Section 12.8 Notices) include, among other things, contact information for the Company and the name and contact number of the non-Company wastewater provider." PAWC Exc. at 31-32.

PAWC accepts the recommendation that the notices provide Company contact information, but it objects to the required inclusion of the name and contact

information for the non-Company wastewater provider. Noting that the Company currently has shut-off agreements with more than 120 non-Company wastewater providers, the Company believes customers are adequately protected by receiving PAWC contact information. PAWC believes the inclusion of contact information for over 120 non-Company wastewater providers would be unduly burdensome. PAWC Exc. at 32.

In reply to PAWC's Exception No. 12, the OCA requests the Commission adopt the ALJs' recommendations regarding Section 12.8 termination notices and require inclusion of the name and contact number for the non-Company wastewater provider. Noting PAWC's "less than exemplary call center performance," the OCA argues it would create an additional burden on customers to have to contact PAWC to inquire regarding the non-Company termination notice. The OCA requests the Commission adopt the recommendation of the ALJs and the OCA's proposed tariff language given that PAWC has not shown inclusion of the additional contact information will create an undue burden and will also aide the Company in upholding its Joint Services Agreement with Aqua. OCA R. Exc. at 24-25.

4. Disposition

We concur with the reasoning outlined in the Recommended Decision and believe the proposed tariff language, as modified by the ALJs' recommendation, is appropriate. The proposed language provides greater clarity to customers, increases customer protection, and also allows PAWC to uphold its Joint Service Agreement with Aqua. In addition, we find the steps taken by PAWC to ensure compliance with the WSA by non-Company wastewater utilities to be sufficient, and, therefore, reject the proposals made by CAUSE-PA.

In concurring with the ALJs, we shall reject Exception No. 12 filed by PAWC. We find the inclusion of non-Company wastewater utility contact information on

termination notices to not be onerous and believe it provides greater clarity to customers. We agree with the OCA that not including the information creates additional burdens on customers who must call PAWC regarding the termination notice and PAWC's call center which must provide contact information for non-Company wastewater utilities.

D. American Water Resources

1. Positions of the Parties

PAWC averred that its relationship with AWR adheres to all Commission regulations and has remained unchanged for over twenty (20) years. PAWC M.B. at 102. Although AWK, parent company of PAWC, sold its interest in AWR in December 2021, ending an affiliate relationship between AWR and PAWC, the relationship between AWR and PAWC remains essentially the same based on a Utility Agreement executed by AWR and PAWC at the time of sale. *Id*. (citing CONFIDENTIAL OCA Exhibit BA-8).

The Company explains that AWR offers optional water line and sewer line protection plans to PAWC customers, with the customer paying a monthly fee that, for convenience, can be either directly billed by AWR or included on the customer's PAWC bill. If the customer experiences an issue, AWR will send a contractor for repairs under the warranty program with minimal up-front cost to the customer. PAWC M.B. at 101.

PAWC insisted its relationship with AWR is standard industry practice and points to the fact that AWR offers similar services to residential water and sewer utility customers "in 42 other states and the District of Columbia." PAWC M.B. at 102 (citing PAWC St. 9-R at 16). PAWC also pointed out that Commission regulations recognize the practice of utilities billing for "charges other than basic service," including "line repair programs and appliance warranty programs." PAWC M.B. at 102 (citing 52 Pa. Code § 56.13). PAWC stated that, consistent with Commission regulations, if a customer opts

to purchase the AWR services, the charges for these services will be included on the PAWC bill, with customer payments first applied to the PAWC portion of the bill. Notably, a failure to pay for AWR's services does not result in a service termination request by PAWC. PAWC M.B. at 102.

PAWC responded to the OCA's contention, *infra,* that PAWC including AWR charges on its bill discriminates against other providers by noting "no other person has sought to include its non-basic products and services on PAWC's bills." PAWC averred its Utility Agreement with AWR does not preclude the Company from offering similar on-bill services to another entity and, since no other entity has sought such access, PAWC is not providing any preference or advantage to AWR. PAWC M.B. at 104.

PAWC also objected to the OCA's request that the Company have some oversight of AWR's pricing, noting that "non-basic products and services are beyond the scope of the Code and not subject to Commission jurisdiction." PAWC passes through AWR's contract pricing as a separate line item and does not terminate customers in the event of non-payment of AWR charges. PAWC M.B. at 105.

Regarding AWR's usage of PAWC's name and logo, PAWC asserted that such agreements are a standard industry practice and has been ongoing for over twenty (20) years. PAWC argued that no investigation was needed as this practice was not misleading based on disclosures "on all marketing materials explaining that AWR is not affiliated with PAWC, its products and services are optional, and AWR's prices are not determined by PAWC." PAWC M.B. at 105-06.

PAWC also addressed concerns raised by the OCA regarding PAWC's relationship with AWR and monitoring conducted by PAWC. *See*, OCA R.B. at 70-72 (Confidential). PAWC argued each of these concerns is unfounded as it is done pursuant to a PUC-approved Service Agreement. PAWC M.B. at 106 (Confidential).

Finally, PAWC objected to the OCA's proposal to "impute" AWR revenues and asserted it was "unreasonable and inconsistent with proper ratemaking" to order PAWC to suspend AWR services but act as if the Company were still receiving revenues from that service. PAWC M.B. at 107.

The OCA advanced that PAWC is "engaging in deceptive and discriminatory billing and marketing practices for non-utility 'protection services.'" The OCA believes this relationship is to the detriment of consumer interests and enabled by: (1) a written billing and marketing agreement between AWR and PAWC; and (2) a licensing agreement between AWK and its ex-subsidiary, AWR, both of which were entered into at or around the time AWK sold off AWR on or around December 9, 2021. As noted in Section VI.C, *supra*, the OCA recommended the Commission investigate the relationship between PAWC and AWR and suspend new customer enrollments pending such investigation. OCA M.B. at 106. As part of the investigation, the OCA recommended the Commission investigate whether the Utility Agreement approved by the Commission in 1989 is still reasonable. *Id*. at 74-75.

The OCA further expanded on its arguments, countering PAWC's assertion that PAWC and AWR's relationship has not changed by noting AWK's sale of its interest in AWR in December of 2021 and the two agreements noted in its Main Brief. OCA R.B. at 70. The OCA also refers to specific portions of the agreements for the assertion that there should be an investigation of the relationship between PAWC and AWR. *Id*. 70-72 (Confidential).

The OCA also argued the "exclusive marketing and billing arrangement" between PAWC and AWR is discriminatory to other providers of similar services in PAWC's service territory and may result in consumers paying more for such services. OCA buttressed this assertion by noting that "AWR stands to benefit from the false impression given to PAWC's customer" by being included on PAWC bills as a line-item

and AWR's use of the Company's name and logo. OCA contested PAWC's argument that its arrangement with AWR is similar to those of other Pennsylvania utilities by noting that the example cited by PAWC is for non-basic utility services that are not included on bills by the utility. OCA R.B. at 72-74.

Lastly, the OCA addressed PAWC's argument regarding revenues from AWR. The OCA restated its position, set forth in Section VI.C, *supra,* that given the uncertainty of a possible investigation and that the revenue PAWC collected from AWR is "fully substantiated and benefits consumers," it should remain included in the revenue requirement for the FPFTY. OCA R.B. at 75 (citing OCA St. 2-SR at 50).

2. Recommended Decision

The ALJs recommended that the Commission reject the OCA's assertion that PAWC's relationship with AWR has resulted in discriminatory billing and marketing practices. The ALJs pointed to the voluntary nature of AWR's services, including the fact that PAWC customers could elect to have the charges appear on their bill or to be billed separately and would not be terminated by PAWC for failure to pay AWR charges. Also compelling to the ALJs were the disclosures included on all marketing materials explaining that AWR is not affiliated with PAWC, the services and products are optional, and PAWC does not determine AWR's pricing. R.D. at 381.

The ALJs also held that PAWC's relationship with AWR has remained unchanged for over 20 years and that the Utility Agreement between the parties provides the business relationship is not exclusive, and there has also not been a request by another entity seeking access to PAWC's bills. R.D. at 382.

Finally, the ALJs agreed with PAWC that the prices of non-basic products and services are beyond the scope of Commission jurisdiction and, therefore, PAWC

should not be required to have monitoring responsibility over AWR's charges. Accordingly, the ALJs recommended the Commission reject the OCA's request for an investigation of the program. R.D. at 382.

3. OCA Exception Nos. 2 and 25 and Replies

The OCA raised two Exceptions to the Recommended Decision regarding PAWC's relationship with AWR. These Exceptions are discussed below.

In Exception No. 2, the OCA argues the ALJs erred in Finding of Fact No. 176, which states, as follows:

> Although [AWK] sold its interest in AWR in December 2021, which ended the affiliate relationship between AWR and PAWC, the day-to-day relationship between PAWC and AWR remains the essentially the same by virtue of a Utility Agreement executed by PAWC and AWR at the time of the sale. PAWC's relationship with AWR as a partner who provides optional warranty products and services to its customers has remained unchanged over the last two decades.

OCA Exc. at 4 (citing R.D. at 32; additional citations omitted). In support of its Exception No. 2, the OCA contends that this finding is not supported by the record when AWR was sold in 2021 and the relationship between AWR and PAWC is now controlled by a Utility Agreement. The OCA believes "[t]hese changes are material and significant and support the recommendation that the OCA made in its case that PAWC should be required to cease it [*sic*] marketing and billing arrangements prospectively and the Commission should open an investigation into the relationship between these companies." OCA Exc. at 4-5.

In its Exception No. 25, the OCA takes issue with the analysis conducted by the ALJs that resulted in their finding that PAWC's relationship with AWR has

remained unchanged for over 20 years and is not deceptive and discriminatory to the detriment of PAWC's customers. The OCA points to the sale of AWR by AWK in December of 2021, which ended the affiliate relationship between AWR and PAWC and necessitated the signing of a Licensing Agreement between AWR and PAWC. The OCA argues that AWR's usage of the AWK name and logo, access to PAWC bills as a line item, and access to PAWC's customers for marketing creates a false impression that the companies are affiliated and that both parties profit from the false impression. OCA Exc. at 38-39. The OCA also insists the ALJs erred by finding the Utility Agreement and PAWC's practice of including AWR charges on customer bills is not discriminatory to other providers and reinforces its request that the Commission order an investigation into the AWR program. OCA Exc. at 39-40 (Confidential).

In reply, PAWC reiterates its argument that the Company's billing is not discriminatory as "PAWC is not providing any preference or advantage to AWR that runs afoul of the Public Utility Code." Additionally, PAWC restates that no other entity is seeking access to PAWC's bills. PAWC also maintains that AWR's use of PAWC's name and logo is reasonable as there are clear disclosures noting PAWC and AWR are not affiliated, AWR's services are optional, and AWR's prices are not determined by PAWC. PAWC states this "long-standing use of PAWC's name and logo for marketing purposes does not provide a basis for" the Commission to grant the OCA's request for an investigation. PAWC R. Exc. at 16-17.

4. Disposition

We agree with the ALJs and reject the OCA's request for an investigation into the relationship between PAWC and AWR. In doing so, we note the record evidence showing the relationship between PAWC and AWR has not materially changed, despite the issues outlined by the OCA. Therefore, we shall reject Exceptions No. 2 and No. 25 filed by the OCA and adopt the ALJs' recommendation on this issue.

In so doing, we first consider the OCA's argument that the relationship between PAWC and AWR has changed based on the December 2021 sale of AWK's interest in AWR and the parties' subsequent entrance into a Utility Agreement. As noted by the ALJs, this agreement maintains essentially the same day-to-day relationship between PAWC and AWR, with PAWC continuing to adhere to Commission regulations related to billing of AWR charges. The essential relationship between PAWC and AWR, a partnership where AWR provides optional warranty products and services to PAWC customers, is unchanged. The usage of PAWC's name and logo for marketing purposes is a longstanding practice as part of this arrangement and does not provide support for the OCA's requested investigation, especially given the clear disclosures that PAWC and AWR are not affiliated and AWR's services are optional.

Additionally, we find the relationship between PAWC and AWR is not discriminatory. The agreement between the parties is not exclusive and PAWC showed that no other companies were seeking access to PAWC's bill at this time. Taking note of the OCA's arguments, we also consider Section 1502 of the Code, 66 Pa.C.S § 1502, which prohibits discrimination or unreasonable preference to "any person, corporation, or municipal corporation." Here, the record does not show any preferential treatment on the part of PAWC towards AWR.

Regarding the OCA's request that PAWC have some oversight of AWR's pricing, we concur with the ALJs and reject this proposal, finding that the prices of non-basic products and services are beyond the scope of Commission jurisdiction and, therefore, PAWC should not be required to have monitoring responsibility over AWR's charges. In light of our findings here, we believe the revenues PAWC receives from AWR are appropriately part of this proceeding. Accordingly, as noted in Section VI.C, *supra*, we have approved PAWC's claim for miscellaneous revenues related to AWR.

E. Main Extensions

1. Positions of the Parties

PAWC explained that the OCA's witness, Mr. Terry Fought, recommended that the Company consider a main extension project that would extend an existing water line along Bethel Ridge Road to the West Virginia state border with spurs to serve Shades of Death Road, Locust and Carter Lanes and Penobscot Road in Jefferson Township. PAWC M.B. at 107. PAWC estimated that the main extension proposed by Mr. Fought and Jefferson Township Municipal Authority (JTMA) would require the Company to invest $5.2 million to install mains at 39 locations along the route presented in OCA Exhibit TLF-4. *Id*. (citing, PAWC St. 3-R at 3-4). PAWC noted that it is still assessing whether the proposed main extension is eligible under Rule 27.1(F) of its tariff, which permits main extensions within its existing service territory to be installed without customer contributions subject to Commission approval to address health and safety concerns. PAWC M.B. at 107.

The OCA explained in its Main Brief that Mr. Phil Choff is part of the JTMA Formal Complaint that requests an extension of water service within PAWC's existing service territory in Avella, Washington County, to at least 39 residents that struggle with quantity and quality of water. OCA M.B. at 106-07 (citing Tr. 1840-41; OCA St. 7-Supp. at 8-9, Exh. TLF-4). The OCA recommended that, as part of the approval of any rate increase in this proceeding, that PAWC be ordered to:

1. Seek grant funding, lower-cost funding, or contributions from other sources to help offset the costs of the project, whether or not the extension is funded under Rule 27.1(F).

2. Meet regularly with the OCA and other interested parties to provide updates on the JTMA project and allow the OCA to ask questions in real time. OCA St. 7-SR at 8-9.

OCA M.B. at 107.

2. Recommended Decision

Noting the absence of any disagreement between the Parties on this issue, the ALJs recommended the adoption of the OCA's proposal that PAWC be ordered to seek funding to offset the costs of the JTMA main extension request and to regularly meet with the OCA and other interested parties to provide updates on the JTMA project. R.D. at 384.

3. Disposition

No Exceptions have been filed to this determination. Finding the ALJs' recommendation to be reasonable, appropriate, and in accordance with the record evidence, it is adopted.

F. Pressure Surveys and Pressure Reducing Valves

1. Positions of the Parties

PAWC explained that Rule 4.7 of the Company's Water Tariff outlines the requirement for customers to install and maintain a pressure reducing valve (PRV) if the pressure at their service location exceeds 100 pounds per square inch (psi). PAWC stated that it largely agrees with the OCA's recommendations regarding this issue except for the OCA's proposed general education campaign. According to PAWC, the Company already records pressure information and reports it to the Commission for pressure

complaints. Additionally, the Company asserted that it agreed to establish a notification process for customers where PAWC's system pressure regularly exceeds 100 psi. PAWC explained that as a part of this notification, the Company will educate the customer on their responsibility of installing a PRV at their service location under PAWC's tariff and encourage the customer to contact a licensed plumber for installation and maintenance of PRVs. PAWC M.B. at 108-09. The Company further explained that it will identify customers in higher pressure areas to receive this notification by using its Geographic Information System (GIS) system. *Id.* at 109 (citing Tr. at 1983-84). Due to the small number of customers affected by the PRV tariff requirement, PAWC's current education efforts, and its agreement to deploy a new, targeted notification process, the Company argued that the Commission should reject the outreach and education program proposed by the OCA's witness, Ms. Alexander. PAWC M.B. at 109.

The OCA noted PAWC's witness, Mr. Runzer's, statement regarding the Company's agreement to establish a notification process for customers where PAWC's system pressure regularly exceeds 100 psi. OCA M.B. at 107 (citing OCA St. 7 at 10; OCA St. 7-SR at 2; OCA St. 6 at 42-43; OCA St. 6-SR at 24-25; Tr. at 1983). The OCA stated that it supports the plan, which includes annual notice and targeted notices for move-ins. OCA M.B. at 107 (citing Tr. at 2055). In addition, the OCA recommended that PAWC also provide notice if, for operational reasons, the Company increases regular operating pressures above 100 psi. OCA M.B. at 107 (citing OCA St. 7-SR at 2). The OCA asserted that the Commission should direct the agreed-upon notification, including the OCA's addition, as a part of any authorized rate increase. OCA M.B. at 107-08 (citing 66 Pa.C.S. §§ 523, 1501, 1505; *PG&W 1986* at 244-45; *PGW 2000* at *41-44).

2. Recommended Decision

In the Recommended Decision, the ALJs recognized the public input hearing testimony from customers that had concerns regarding negative experiences with

excess pressure. R.D. at 386 (citing Tr. at 1472-1523). As a result, the ALJs recommended that the Commission adopt the agreement between PAWC and the OCA that the Company provide notice to customers where systems regularly exceed 100 psi and the OCA's proposal that the Company provide annual notice and targeted notices for move-ins and if the Company increases regular operating pressures above 100 psi. R.D. at 386.

3. Disposition

No Exceptions have been filed to this determination. Finding the ALJs' recommendation to be reasonable, appropriate, and in accordance with the record evidence, it is adopted.

XIV. Miscellaneous Issues

A. Customer Notices Related to Rate Changes

1. Positions of the Parties

PAWC argued that it complied with the Commission's Regulations at 52 Pa. Code § 53.45 when it provided notice to all customers that reflected the Company's proposed Act 11 wastewater-to-water revenue requirement allocation. PAWC contended that the OCA's below proposal, that PAWC be required to mail customers a new notice of approved rates before rates go into effect, should be rejected. PAWC M.B. at 109. PAWC averred that any new notice requirements should be adopted by the Commission and applied to all water and wastewater utilities, and not solely to PAWC. PAWC submitted that its notice here was consistent with each of the notices in its rate cases since the enactment of Act 11, and that it already provides detailed notice of its rate changes once they are approved by the Commission through a bill insert. PAWC

contended that an additional mailing is not feasible given the short time period between when rates are approved and when those rates become effective, and the process of sending a customized direct mail notice to its nearly 800,000 customers takes several weeks and is a considerable expense. *Id*. at 109-10.

The OCA argued that PAWC's notices to customers regarding the contents of its proposed rate changes are deficient and constitute inadequate notice. The OCA averred that the notice is deficient in terms of the accuracy of the bill impact of PAWC's proposed revenue shift under 66 Pa.C.S. § 1311(c), the residential customer usage level, and the Commission's final disposition of PAWC's proposed alternative ratemaking mechanisms under 66 Pa.C.S. § 1330. To remedy this deficiency, the OCA recommended that customer notices provide relevant information about the impact on their bill if PAWC's cost-of-service revenue deficiencies are used to set rates, and that a chart, illustrating three usage levels, be included in the rate case notices for water and wastewater in PAWC's next base rate filing. OCA M.B. at 108.

Furthermore, the OCA proposed that a notice should be directly mailed at the end of this proceeding that shows customers the impact on their bills from the final order, similar to how PAWC used direct mailing for the notices at the time of its filing. The OCA argued that this notice should include a link to the alternative ratemaking information posted on PAWC's website, as required by Commission Regulation or Order, as well as 66 Pa.C.S. § 1330(c)(1) and (2), and the website posting with the alternative ratemaking information could include information about the bill impact of the Commission's final order at three usage levels. The OCA averred that PAWC benefits from the obscurity that is provided by only showing what a typical customer's bill would be. Rather, the OCA contended that PAWC could choose to show usage at multiple levels but has made the choice not to do so. The OCA asserted that this could be accomplished without changing the Commission's Regulation on notice. OCA M.B. at 108-09.

2. Recommended Decision

The ALJs found that there is no need to revise customer notices related to rate changes, and that the notice provided by PAWC to customers in this and recent base rate cases complies with the Commission's Regulations. The ALJs also concluded that any new notice requirements should first be adopted by the Commission and then applied to all Pennsylvania water and wastewater utilities. Therefore, the ALJs recommended that the notice changes proposed by the OCA be rejected. R.D. at 389.

3. Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJs' recommendation and adopt it without further comment.

XV. Conclusion

Based on our review of the record in this proceeding, we shall: (1) grant, in part, and deny, in part, the Exceptions filed by I&E, the OCA, and CAUSE-PA; (2) deny the Exceptions filed by PAWC, PAWLUG, Cleveland-Cliffs, and the City of Scranton; (3) deem the OCA Motion to be moot; and (4) approve an annual revenue increase of $88,121,069 to the Company's *pro forma* revenue at present rates of $820,869,547, or approximately 10.74%, for its water service and an annual revenue increase of $11,207,944 to the Company's *pro forma* revenue at present rates of $173,308,937, or approximately 6.47%, for its wastewater service, consistent with this Opinion and Order; **THEREFORE,**

IT IS ORDERED:

1. That the Exceptions filed by the Commission's Bureau of Investigation and Enforcement on May 17, 2024, are granted, in part, and denied, in part, consistent with this Opinion and Order.

2. That the Exceptions filed by the Office of Consumer Advocate on May 17, 2024, are granted, in part, and denied, in part, consistent with this Opinion and Order.

3. That the Exceptions filed by the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania on May 17, 2024, are granted, in part, and denied, in part, consistent with this Opinion and Order.

4. That the Exceptions filed by Pennsylvania-American Water Company on May 17, 2024, are denied, consistent with this Opinion and Order.

5. That the Exceptions filed by Pennsylvania-American Water Large Users Group on May 17, 2024, are denied, consistent with this Opinion and Order.

6. That the Exceptions filed by Cleveland-Cliffs Steel on May 17, 2024, are denied, consistent with this Opinion and Order.

7. That the Exceptions filed by the City of Scranton on May 17, 2024, are denied, consistent with this Opinion and Order.

8. That the Motion for Relief Regarding Ex Parte Communications filed by the Office of Consumer Advocate on May 22, 2024, is deemed to be moot, consistent with this Opinion and Order.

9. That the Recommended Decision of Deputy Chief Administrative Law Judge Christopher P. Pell and Administrative Law Judge John M. Coogan, issued on May 7, 2024, is adopted, as modified, by this Opinion and Order.

10. That the corrections and modifications directed by this Opinion and Order, reflected in the Pennsylvania-American Water Company and Pennsylvania-American Water Company-Wastewater Division, Docket Nos. R-2023-3043189 and R-2023-3043190 (Commission Tables Calculating Allowed Revenue Increase), attached hereto, are adopted as being in the public interest.

11. That Pennsylvania-American Water Company shall not place into effect the rates contained in Supplement No. 45 to Tariff – Water Pa. P.U.C. No. 5, as filed.

12. That Pennsylvania-American Water Company shall not place into effect the rates contained in Supplement No. 47 to Tariff – Wastewater Pa. P.U.C. No. 16, as filed.

13. That Pennsylvania-American Water Company is authorized to file tariffs, tariff supplements and/or tariff revisions, on at least one day's notice, and pursuant to the provisions of 52 Pa. Code §§ 53.1, *et seq*., and 53.101, designed to produce an annual operating revenue of approximately $908,990,615 for its water operations, representing an annual revenue increase of approximately $88,121,069, to become effective for service rendered on and after August 7, 2024.

14. That Pennsylvania-American Water Company is authorized to file tariffs, tariff supplements and/or tariff revisions, on at least one day's notice, and pursuant to the provisions of 52 Pa. Code §§ 53.1, *et seq*., and 53.101, designed to produce an annual operating revenue of approximately $184,516,880 for its wastewater

operations, representing an annual revenue increase of approximately $11,207,944 , to become effective for service rendered on and after August 7, 2024.

15. That Pennsylvania-American Water Company shall file detailed calculations with its tariff filings, which shall demonstrate to the Commission's satisfaction that the filed tariff adjustments comply with the provisions of this final Opinion and Order.

16. That Pennsylvania-American Water Company shall allocate the authorized increase in water operating revenues and wastewater operating revenues to each service, rate schedule, and customer class, and rate schedule within each rate customer class, in the manner prescribed in this Opinion and Order.

17. That Pennsylvania-American Water Company shall file with the Commission's Secretary's Bureau at these dockets and provide the Commission's Bureaus of Technical Utility Services and Investigation and Enforcement with updates to PAWC Exhibit 3-A, pages 26, 97, 146, 179, and 218 no later than December 1, 2025, which should include actual plant additions and retirements for the twelve months ending June 30, 2024, and for the twelve months ending June 30, 2025, as set forth in Section V.A of this Opinion and Order.

18. That Pennsylvania-American Water Company shall comply with all directives and conclusions contained in this Opinion and Order that are not the subject of individual ordering paragraphs as if they were the subject of specific ordering paragraphs.

19. That the Commission's Law Bureau, in conjunction with the Bureau of Technical Utility Services, shall implement an investigation into the quality-of-service issues in Pennsylvania American Water Company's northeastern service territory, culminating in the issuance of a root cause analysis report exhibiting any key findings,

within nine (9) months after the effective date of rates resulting from this base rate proceeding, *i.e.*, by no later than May 7, 2025, as set forth in Section III of this Opinion and Order.

20. That the Law Bureau, in conjunction with the Bureau of Technical Utility Services, may refer the findings of the investigation described in the previous ordering paragraph to the Commission's Bureau of Investigation and Enforcement and the Pennsylvania Department of Environmental Protection, or both, should it deem such action necessary.

21. That in its next base rate proceeding, Pennsylvania-American Water Company shall include Rider DIS and Rider DRS customers as separate customer classes in its water cost-of-service-study, as set forth in Section X.C of this Opinion and Order.

22. That Pennsylvania-American Water Company shall implement the increased tiered discount percentages of its Bill Discount Program within one (1) year after the effective date of rates resulting from this base rate proceeding, *i.e.*, by no later than August 7, 2025, as set forth in Section XII.B of this Opinion and Order. By this date, the Company shall file an associated report with the Commission's Bureau of Consumer Services.

23. That Pennsylvania-American Water Company shall implement the adoptions to its Hardship Fund, as described in Section XII.C of this Opinion and Order, within one (1) year after the effective date of rates resulting from this base rate proceeding, *i.e.*, by no later than August 7, 2025. By this date, the Company shall file an associated report with the Commission's Bureau of Consumer Services

24. That in its next base rate proceeding, Pennsylvania-American Water Company shall explain the efforts it has undertaken to provide Hardship Fund assistance

to as many eligible, low-income customers as possible, as set forth in Section XII.C of this Opinion and Order.

25. That Pennsylvania American Water Company should strive to set a target donation of an additional $1 million into its Hardship Fund.

26. That within one (1) year after the effective date of the rates resulting from this base rate proceeding, *i.e.*, by no later than August 7, 2025, Pennsylvania American Water Company shall implement the recommendations of the Office of Consumer Advocate and the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania regarding the Company's Low-Income Customer Outreach, Screening, and Intake, as set forth in Section XII.E of this Opinion and Order.

27. That within one (1) year after the effective date of the rates resulting from this base rate proceeding, *i.e.*, by no later than August 7, 2025, Pennsylvania-American Water Company shall file a plan with the Commission's Bureau of Consumer Services outlining how the Company proposes to implement the recommendations of the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania regarding the Company's Data Collection, Reporting, and Monitoring of its Low-Income Programs, as set forth in Section XII.F of this Opinion and Order.

28. That Pennsylvania American Water Company shall prepare and submit plans demonstrating how it intends to continue to improve its call abandonment rate and its percentage of calls answered in sixty (60) seconds or fewer, as set forth in Section XIII.A of this Opinion and Order. Such plans shall be filed with the Commission's Bureau of Consumer Services no later than one-hundred and eighty (180) days from the entry date of a Final Commission Order in this base rate proceeding.

29. That the following Formal Complaints at the respective docket numbers be dismissed and marked closed by the Commission's Secretary's Bureau:

Complainant(s)	Docket Number (Water)
Office of Consumer Advocate	C-2023-3044289
Office of Small Business Advocate	C-2023-3044375
Mark Henderson	C-2023-3044156
Kathleen Schwartz	C-2023-3044190
Amanda Johnsen	C-2023-3044185
Adam Nemchick	C-2023-3044191
Kirk Spencer	C-2023-3044189
Keith Sauer	C-2023-3044218
Andrew Kulp	C-2023-3044225
Jim Davidson	C-2023-3044223
Robert K. Ralls	C-2023-3044220
Richard Tawadros	C-2023-3044244
Natalie Rarick	C-2023-3044234
Tracy M. Rutherford	C-2023-3044293
David Ross	C-2023-3044348
Phyllis Connelly	C-2023-3044352
Thomas J. Hollenbach	C-2023-3044389
Alecia M. Lilley	C-2023-3044359
Lynn Mugno	C-2023-3044365
Michelle White	C-2023-3044369
Dr. Mostafa Easa	C-2023-3044567
Lynn DeAcosta	C-2023-3044380
Jeff Henry	C-2023-3044406
Anh Duong	C-2023-3044354
William Cameron & Linda Long	C-2023-3044355
Nicole Glimp	C-2023-3044565
Anthony McCann	C-2023-3044578
Shanna Weagle	C-2023-3044399
Brian Dugas	C-2023-3044563
Todd Blum	C-2023-3044583
Jennifer Dianna	C-2023-3044394
Mallory & Glenn Kercher	C-2023-3044686
Danielle Gabriel	C-2023-3044683
Devon Landis	C-2023-3044442
Morgan Wengert	C-2023-3044426
Angelica Alvarez	C-2023-3044405
John P. Dolekary	C-2023-3044580
John Miller	C-2023-3044416

Carl & Sharon Winter	C-2023-3044607
Paul & Catherine Brown	C-2023-3044611
Raymond Volsario	C-2023-3044614
Matthew J. Miller	C-2023-3044429
William R. Thomas	C-2023-3044601
Horace R. Battle	C-2023-3044600
Chirstopher Blake	C-2023-3044443
Laura Semel	C-2023-3044461
Robert M. Nowotarski	C-2023-3044676
Matthew & Melissa Mengel	C-2023-3044673
Tracy Cosgrove	C-2023-3044672
Richard Peal	C-2023-3044622
Patricia A. Finley	C-2023-3044504
Joseph Donahue	C-2023-3044524
Robert Bifano	C-2023-3044534
Gary Sirois	C-2023-3044830
Michelle Zebrowski	C-2023-3044868
Mary Ann Maro	C-2023-3044869
Joel Hernandez	C-2023-3044872
Dan Nebeker o/b/o Coldwater Lemoyne Carwash	C-2023-3044874
Mary Chibatar	C-2023-3044876
Mary Tanealian	C-2023-3044576
Tao Lu	C-2023-3044585
Jennifer Cohen	C-2023-3044682
Carla Seidel	C-2023-3044679
Amy E. Dalton	C-2023-3044677
Nicholas Orman	C-2023-3044642
Jay Phillips	C-2023-3044707
Carl W. Tunall, Jr.	C-2023-3044725
Steven Solomon	C-2023-3044733
Debora A. Sokol	C-2023-3044768
Shaun Keperling	C-2023-3044801
Audrey Gerold	C-2023-3044785
Robert Anderson	C-2023-3044799
Carl Kupchunas	C-2023-3044826
Matthew Jordan	C-2023-3044813
Cindy Cabrera	C-2023-3044816
Marie Sweeney	C-2023-3044918
Pennsylvania-American Water Large Users Group	C-2023-3044871
West Norriton Township	C-2023-3044965
John J. Heilenman	C-2023-3044908
Thalia Karalis	C-2023-3044929
Daniel Bergey	C-2023-3044984

Richard Matijasich	C-2023-3044981
Nicholas Collette	C-2023-3045023
Angela P. Kern	C-2023-3045039
Dennis McConnell	C-2023-3045053
James & Peggy Lingwall	C-2023-3045054
Wolfram Milz	C-2023-3045055
Donald Jones	C-2023-3045059
Marie Dougherty	C-2023-3045061
Michael & Mary Weishner	C-2023-3045062
Michelle R. Miller	C-2023-3045063
Carol Patterson	C-2023-3045064
Zachary Sprowls	C-2023-3045072
Elizabeth Sprowls	C-2023-3045073
Catharine Anderson	C-2023-3045082
Kathleen Donell	C-2023-3045083
Paul & Eileen Miller	C-2023-3045084
Norman T. Carpenter	C-2023-3045085
David Duquette	C-2023-3045087
Wesley Hartman	C-2023-3045088
Don Anderson	C-2023-3045089
Melissa Harper	C-2023-3045090
Charles E. Schwering	C-2023-3045093
Beth A. Gandelman	C-2023-3045094
Catherine & Kenneth Green	C-2023-3045095
Violet B. Kern	C-2023-3045105
Paul J. Walaski	C-2023-3045113
Cindy Murphy	C-2023-3045123
Gino Purchiaroni	C-2023-3045124
Christopher Nicholson	C-2023-3045134
Richard Small	C-2023-3045121
Nancy and Charles Wilson	C-2023-3045138
Harry Haas	C-2023-3045137
Jean Ustaszewski	C-2023-3045146
Kathryn Wilson	C-2023-3045152
Thomas McAuliffe	C-2023-3045156
Keith Pinkerton	C-2023-3045159
Kelly Knapp	C-2023-3045185
Alicia W. Shussett	C-2024-3045187
Patrick F. Boyle	C-2024-3045190
Jefferson Township Municipal Authority, c/o Patricia Lawrence, Secretary	C-2024-3045202
Juan F. Ramos	C-2024-3045208
Kyle Donahue	C-2024-3045210

John Erbicella	C-2024-3045209
Angela Gilmore	C-2024-3045212
Tracy L. Duff	C-2024-3045220
Timothy J. Creelman	C-2024-3045249
Frank Cerra	C-2024-3045257
Thomas F. Miller	C-2024-3045261
Mark Schuette	C-2024-3045263
Andrea Devlin	C-2024-3045285
Alena Trently	C-2024-3045258
Vicki DiArchangelo	C-2024-3045278
Thomas C. Kidwell	C-2024-3045315
Barry S. & Ethel Wagner	C-2024-3045320
Priscilla T. Gentry	C-2024-3045341
Matthew & Heather Heliger	C-2024-3045343
Barbara Stettenbauer	C-2024-3045360
Elizabeth Clark	C-2024-3045366
East Norriton Township	C-2024-3045399
Beth A. Gandelman	C-2024-3045422
Naomi Conte	C-2024-3045457
Ryan Gandelman	C-2024-3045467
Priscilla Jovais & Walter Baginski	C-2024-3045871
George M. Kamage, Jr.	C-2024-3045968
Julia Wright	C-2024-3045983
Anita Sakevich	C-2024-3045907
Michael W. Knoll	C-2024-3045985
Joseph Koza	C-2024-3045992
Randy McDaniels	C-2024-3045701
Christine Janiga	C-2024-3045987
Nereida Colon-Gonzalez	C-2024-3045788
Ruth McMullan	C-2024-3045997
Miranda Connors	C-2024-3046001
Deborah Nystrom	C-2024-3046000
Lora Gibb	C-2024-3045999
Ernest & Kathy Mayer	C-2024-3046292
Kathleen & William Nole	C-2024-3046296
Frances S. Kearney	C-2024-3046246
William Stevens	C-2024-3046071
Joe Dominick	C-2024-3046262
Andrea O'Neill-Hoffman	C-2024-3046195
Leslie Spindler	C-2024-3046230
Richard Brill	C-2024-3046111
Josephine Roman	C-2024-3046059
Mildred Decelles	C-2024-3046085

Gerald Smurl	C-2024-3046220
William Roman	C-2024-3046082
Harold Kiefer	C-2024-3046263
James G. Haggerty	C-2024-3046164
Ronald Benke	C-2024-3046112
Jodi Mayer	C-2024-3046291
James Wynder	C-2024-3046294
Billydon Hickson	C-2024-3046079
Elaine F. Campbell	C-2024-3046261
John Borer	C-2024-3046172
Thomas Tomeo	C-2024-3046047
Mary McKenna	C-2024-3046218
Bill Gaughan	C-2024-3046094
Jimmy Allen	C-2024-3046080
Mark Mecca	C-2024-3046055
Chris Casciano	C-2024-3046114
John Laskowski	C-2024-3045814
Colleen M. Gaughan	C-2024-3046044
Sean McAndrew	C-2024-3046252
Brian Cadugan	C-2024-3046169
Timothy Brier	C-2024-3046254
Joseph Baronski	C-2024-3046170
Michael Bussacco	C-2024-3046240
Robert Meyers	C-2024-3046219
Arthur F. Werner, Jr.	C-2024-3045244
Marianne Vergnetti	C-2024-3046108
Edmund Moroney	C-2024-3046061
Alice Lord	C-2024-3046043
Giselle Rutchford	C-2024-3046095
Ann McDermott	C-2024-3046046
Patricia Shultz	C-2024-3046050
Frank S. Sislo	C-2024-3046087
Linda Kiefer	C-2024-3046265
Dominic Cuchara	C-2024-3046109
Anthony Palmere, Jr.	C-2024-3046243
Debbie Wilson	C-2024-3046276
Gerard Dombroski	C-2024-3046259
Roberta Brentano	C-2024-3046098
William Seeger	C-2024-3046057
Elizabeth Zangardi	C-2024-3046226
Paul DelRossso	C-2024-3046217
Joseph Guerra	C-2024-3046168
Michael Shafer	C-2024-3046215

Marty Flynn	C-2024-3046257
Patrick H. Brentano	C-2024-3046099
Gary Shiner	C-2024-3046166
David F. Sevensky	C-2024-3046267
Susan Gilday	C-2024-3046238
Bernadette Bussacco	C-2024-3046221
Theodore Parchinski	C-2024-3046053
John Blackledge	C-2024-3046274
John Kulick	C-2024-3046353
Richard & Carmella Zaleski	C-2024-3046482
Nadine Simms	C-2024-3046351
James P. McDermott	C-2024-3046301
Lucy Jason	C-2024-3046302
Lynn King	C-2024-3046249
John McAuliffe	C-2024-3046392
Laura Virtue-Delayo	C-2024-3046397
Jessica Libassi	C-2024-3045805
David A. Grecco	C-2024-3046096
Leroy James Watters	C-2024-3046404
James Metzer	C-2024-3046411
Lorraine Perry	C-2024-3046408
Stephen Marr	C-2024-3046410
Brian A. McDonald	C-2024-3046741
Patricia A. Perri	C-2024-3046970
Patricia Barbuti	C-2024-3046810
Ryan & Leslie Ferguson	C-2024-3046467
Natalie Davis	C-2024-3046744
Patricia A. Perri	C-2024-3046745
Gary Graziano	C-2024-3046736
Joseph & Erin Kreis	C-2024-3046470
Caesar Bordo	C-2024-3046870
Ann McDonald	C-2024-3046746
Janice M. Mcdonald	C-2024-3046874
Jennifer Comparetta	C-2024-3046471
Sharon Cuff	C-2024-3046477
Karen Schuster	C-2024-3046742
Valerie Mendicino	C-2024-3046737
William J. O'Malley, III	C-2024-3046734
Louis Guzzi, Jr.	C-2024-3046406
Francis Kranick, Jr.	C-2024-3046811
Tara & Tom Schuster	C-2024-3046738
Colleen Demuro	C-2024-3046867
Charlotte DeRosier	C-2024-3046466

Albert Denunzio	C-2024-3046871
Mary C. Jennings	C-2024-3046743
James F. McCormick	C-2024-3046873
Laura A. O'Malley	C-2024-3046405
Mary & David Dobrzyn	C-2024-3046875
Gene Stanavitch	C-2024-3046403
Pat Stanavitch	C-2024-3046402
Robert Barry	C-2024-3046399
John Borgia	C-2024-3047073
Domenic P. Cafarella	C-2024-3046878
Michael D. Brooks	C-2024-3046880
Daniel E. Skvarla	C-2024-3046881
Donna Antonelli	C-2024-3046882
Michael Dempsey	C-2024-3046884
Marianne Brown	C-2024-3046886
Sharon Soudas	C-2024-3046885
Gina McCarthy	C-2024-3047515
Gerald Fabricatore	C-2024-3047312
Gerald R. Fabricatore	C-2024-3047375
Laura Wisniewski	C-2024-3047521
Julie Janosy	C-2024-3047695
Lackawanna County	C-2024-3048333
Vincent Ennis	C-2024-3048341
Clyde H. Morgan	C-2024-3045569
Colleen Adams	C-2024-3045573
Mark J. Mazurkiewicz	C-2024-3045579
Linda Culbertson	C-2024-3045650
Larry Wise	C-2024-3045668
James Lyband Jackson	C-2024-3045674
Gail Y. Gayeski	C-2024-3045666
Veronica A. Hannevig	C-2024-3045667
Theresa Skobel	C-2024-3045670
Jordan Henning	C-2024-3045678
Kyle & Lori Rompella	C-2024-3045681
Stefanie Adams	C-2024-3045685
Deborah & Robert May	C-2024-3045687
David & Lynn Griffith	C-2024-3045686
Paul Krammes	C-2024-3045690
Thomas Campisano	C-2024-3045691
Nelson Moeller	C-2024-3045703
Paulette Knott	C-2024-3045741
Gene & Patricia Malaspina	C-2024-3045750
Stephanie Sienkel	C-2024-3045767

Robert Boni	C-2024-3045765
Janice M. Reynolds	C-2024-3045768
Bilal Salaam	C-2024-3045812
Michael Troutman	C-2024-3045835
Kendra Robinson	C-2024-3045838
Gertrude Terrell	C-2024-3045842

Complainant(s)	Docket Number (Wastewater)
Office of Consumer Advocate	C-2023-3044292
Office of Small Business Advocate	C-2023-3044377
Mark Henderson	C-2023-3044159
Brian Gottschall	C-2023-3044170
Leroy Bumbarger	C-2023-3044169
Kathleen Schwartz	C-2023-3044193
Amanda Johnsen	C-2023-3044187
Adam Nemchick	C-2023-3044192
Anne Lockwood & Michael Haehnel	C-2023-3044168
Keith Sauer	C-2023-3044219
Natalie Rarick	C-2023-3044239
Darlene Hamilton	C-2023-3044170
Tracy M. Rutherford	C-2023-3044333
David Ross	C-2023-3044349
Alecia M. Lilley	C-2023-3044367
Lynn DeAcosta	C-2023-3044401
Nicole Glimp	C-2023-3044564
William H. Rissmiller	C-2023-3044569
Michelle White	C-2023-3044371
Jennifer Dianna	C-2023-3044395
Thomas J. Hollenbach	C-2023-3044685
Mallory Kercher	C-2023-3044681
Devon Landis	C-2023-3044448
Morgan Wengert	C-2023-3044427
Jeff Henry	C-2023-3044407
John Miller	C-2023-3044413
Angelica Alvarez	C-2023-3044566
Andrew Kulp	C-2023-3044468
Sharon Winter	C-2023-3044615
Paul Brown	C-2023-3044616
Charles L. Heydt	C-2023-3044618
William R. Thomas	C-2023-3044604
Linda Allison	C-2023-3044595
Chirstopher Blake	C-2023-3044444
Richard Peal	C-2023-3044620

Tracy Cosgrove	C-2023-3044667
Donald D. Dickerson	C-2023-3044662
Patricia A. Finley	C-2023-3044505
Jennifer Cohen	C-2023-3044671
Michael D. Fletcher	C-2023-3044688
Mary Tanealian	C-2023-3044577
Tao Lu	C-2023-3044573
Amy E. Dalton	C-2023-3044678
Mark Coogan	C-2023-3044704
Carla Seidel	C-2023-3044732
Anh Duong	C-2023-3044353
Borough of St. Lawrence	C-2023-3044757
Debora A. Sokol	C-2023-3044767
Audrey Gerold	C-2023-3044786
Matthew Jordan	C-2023-3044814
Laura Semel	C-2023-3044821
Lynn Mugno	C-2023-3044366
Pennsylvania-American Water Large Users Group	C-2023-3044873
Joel Hernandez	C-2023-3044877
Mary Chibatar	C-2023-3044879
Dennis McConnell	C-2023-3044880
Marie T. Ratchford-Demkosky	C-2023-3044881
Cindy Cabrera	C-2023-3044916
Thalia Karalis	C-2023-3044915
Richard Matijasich	C-2023-3044982
Daniel B. Fletcher	C-2023-3045056
James Lingwall	C-2023-3045065
Donald Jones	C-2023-3045066
Marie Dougherty	C-2023-3045067
Jay Phillips	C-2023-3045069
Carl W. Tunall, Jr.	C-2023-3045070
Catharine Anderson	C-2023-3045074
Kathleen Donell	C-2023-3045075
Paul & Eileen Miller	C-2023-3045077
Norman T. Carpenter	C-2023-3045079
David Duquette	C-2023-3045091
Wesley Hartman	C-2023-3045092
Shaun Keperling	C-2023-3044802
Cindy Murphy	C-2023-3045125
Patrick O'Donnell	C-2023-3045140
Kathryn Wilson	C-2023-3045153
Keith Pinkerton	C-2023-3045164
Nancy and Charles Wilson	C-2023-3045160

Dayna Gardecki	C-2023-3045167
Kelly Knapp	C-2023-3045186
Alicia W. Shussett	C-2024-3045188
Patrick F. Boyle	C-2024-3045191
Juan F. Ramos	C-2024-3045206
Kyle Donahue	C-2024-3045211
Angela Gilmore	C-2024-3045213
John Erbicella	C-2024-3045255
Vicki DiArchangelo	C-2024-3045279
Alena Trently	C-2024-3045259
Andrea Devlin	C-2024-3045296
Thomas C. Kidwell	C-2024-3045316
Lloyd Simmers	C-2024-3045332
Anne-Marie Trace	C-2024-3045331
Borough of Port Vue	C-2024-3045334
Christopher Nicholson	C-2024-3045337
Priscilla T. Gentry	C-2024-3045342
Ruth & Craig Benderoth	C-2024-3045346
Matthew & Heather Heliger	C-2024-3045344
Barbara Stettenbauer	C-2024-3045362
Elizabeth Clark	C-2024-3045367
Catherine & Kenneth Green	C-2023-3045441
Naomi Conte	C-2024-3045464
Clyde H. Morgan	C-2024-3045571
Colleen Adams	C-2024-3045572
Mark Pezone	C-2024-3045574
Mark J. Mazurkiewicz	C-2024-3045582
Larry Wise	C-2024-3045669
James Lyband Jackson	C-2024-3045673
Janice M. Reynolds	C-2024-3045684
Veronica A. Hannevig	C-2024-3045694
Theresa Skobel	C-2024-3045695
David & Lynn Griffith	C-2024-3045696
Thomas Campisano	C-2024-3045723
Paulette Knott	C-2024-3045734
Gene & Patricia Malaspina	C-2024-3045747
Jordan Henning	C-2024-3045773
Kyle & Lori Rompella	C-2024-3045779
Richard Hamilton	C-2024-3045806
Kenneth Stoudt Jr.	C-2024-3045811
Bilal Salaam	C-2024-3045826
Ashley Sanchez	C-2024-3045815
Kendra Robinson	C-2024-3045839

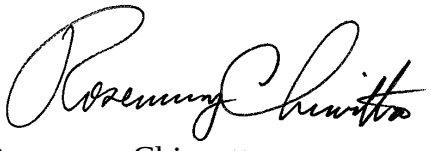
David Breitegam	C-2024-3045873
Anita Sakevich	C-2024-3045902
George M. Kamage, Jr.	C-2024-3045967
Michael W. Knoll	C-2024-3045984
Joseph Koza	C-2024-3045989
Ruth McMullan	C-2024-3045994
Thomas Tomeo	C-2024-3046051
David A. Grecco	C-2024-3046052
Theodore Parchinski	C-2024-3046054
Mark Mecca	C-2024-3046056
William Seeger	C-2024-3046058
Josephine Roman	C-2024-3046060
Edmond Maroney	C-2024-3046062
Nereida Colon-Gonzalez	C-2024-3046072
William Roman	C-2024-3046081
Frank S. Sislo	C-2024-3046088
Patrick H. Brentano	C-2024-3046083
Bill Gaughan	C-2024-3046089
Giselle Rutchford	C-2024-3046091
Roberta Brentano	C-2024-3046093
Brian Cadugan	C-2024-3046119
John Fletcher	C-2024-3046121
Marianne Vergnetti	C-2024-3046126
Dominic Cuchara	C-2024-3046128
Richard Brill	C-2024-3046130
Ronald & Lucy Benke	C-2024-3046133
Gary Shiner	C-2024-3046134
Suzanne Horishny	C-2024-3046145
Chris Casciano	C-2024-3046150
James G. Haggerty	C-2024-3046152
Joseph Baronski	C-2024-3046154
Joseph Guerra	C-2024-3046156
John Borer	C-2024-3046159
Michael Shafer	C-2024-3046160
Joel Hoffman	C-2024-3046185
Paul DelRosso	C-2024-3046193
Ferentz Irrevocable Grantor Trust c/o Joseph Surenko	C-2024-3046197
Robert Meyers	C-2024-3046198
Bernadette Bussacco	C-2024-3046222
Susan Gilday	C-2024-3046223
Arthur F. Werner, Jr.	C-2024-3046242
Timothy Brier	C-2024-3046239
Frances S. Kearney	C-2024-3046251

Sean McAndrew	C-2024-3046255
Elaine F. Campbell	C-2024-3046256
Marty Flynn	C-2024-3046258
Gerard Dombroski	C-2024-3046260
Harold Kiefer	C-2024-3046264
Linda Kiefer	C-2024-3046266
David F. Sevensky	C-2024-3046268
John Blackledge	C-2024-3046273
John Mayer	C-2024-3046280
Lucy Jason	C-2024-3046247
Lynn King	C-2024-3046248
Ernest & Kathy Mayer	C-2024-3046293
James & Marie Wynder	C-2024-3046295
Kathleen Nole	C-2024-3046297
James P. McDermott	C-2024-3046300
Nadine Simms	C-2024-3046350
David A. Grecco	C-2024-3046352
John Kulick	C-2024-3046354
Richard & Carmella Zaleski	C-2024-3046355
John McAuliffe	C-2024-3046393
Laura Virtue-Delayo	C-2024-3046398
Robert Barry	C-2024-3046400
Mark Perry	C-2024-3046407
Rebecca Pesyna	C-2024-3046409
Louis Guzzi, Jr.	C-2024-3046472
Maureen Guzzi	C-2024-3046473
David Dobrzyn	C-2024-3046474
Albert Denunzio	C-2024-3046475
Caesar Bordo	C-2024-3046476
Gary & Beth Graziano	C-2024-3046739
Valerie Mendicino	C-2024-3046740
Tara & Tom Schuster	C-2024-3046752
Karen Schuster	C-2024-3046807
Mary C. Jennings	C-2024-3046808
Patricia Barbuti	C-2024-3046809
Francis Kranick, Jr.	C-2024-3046812
Natalie Davis	C-2024-3046863
Sharon Cuff	C-2024-3046869
Colleen Demuro	C-2024-3046868
Domenic P. Cafarella	C-2024-3046879
Michael Dempsey	C-2024-3046883
Marianne Brown	C-2024-3046887
Gerald Fabricatore	C-2024-3047362

Gerald R. Fabricatore	C-2024-3047371
Gina McCarthy	C-2024-3047533
Julie Janosy	C-2024-3047696

30. That a copy of this Opinion and Order be served on the Commission's Bureau of Consumer Services, Division of Policy; the Bureau of Investigation and Enforcement; the Bureau of Audits, and the Bureau of Technical Utility Services, Finance/Tariff Division for monitoring and compliance.

BY THE COMMISSION,



Rosemary Chiavetta
Secretary

(SEAL)

ORDER ADOPTED: July 11, 2024

ORDER ENTERED: July 22, 2024

LIST OF ABBREVIATIONS

AIA	Affiliated Interest Agreement
ALJ	Administrative Law Judge
AMP	Arrearage Management Plan
APP	Annual Performance Plan
ASC 715	Accounting Standard Codification Topic 715
Audits	Bureau of Audits
AWK	American Water Works Company, Inc.
AWR	American Water Resources
AWWA	American Water Works Association
BASA	Butler Area Sewer Authority
BCS	Bureau of Consumer Services
BDP	Bill Discount Program
BEC	Base-Extra Capacity
BTI	Bill-to-Income
CAAG	Customer Assistance Advisory Group
CAPM	Capital Asset Pricing Model
CAUSE-PA	Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania
CCA	Customer Care Agent
CEO	Commission on Economic Opportunity
Code	Pennsylvania Public Utility Code
COSS	Cost-of-Service Study
CSR	Customer Service Representative
CSS	Combined Sewer System
DCF	Discounted Cash Flow
DCP	Defined Contribution Plan
DEF	Dollar Energy Fund
DIS	Demand Industrial Sales
DRS	Demand Resale Sales
DSIC	Distribution System Improvement Charge
DSLPA	Discontinuance of Services to Lease Premises Act
ECAPM	Empirical Capital Asset Pricing Model
ECIC	Environmental Compliance Investment Charge
ECP	Environmental Compliance Plan
EDC	Electric Distribution Company
EDWA	East Dunkard Water Authority
EE&C	Energy Efficiency and Conservation

EPS	Earnings Per Share
ERP	Equity Risk Premium
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FPFTY	Fully Projected Future Test Year
FPL	Federal Poverty Level
FTY	Future Test Year
FY	Fiscal Year
GDP	Gross Domestic Product
GIS	Geographic Information System
H2O	Help to Others
HTY	Historic Test Year
I&E	Bureau of Investigation and Enforcement
I&I	Inflow and Infiltration
IOTG	Insurance Other Than Group
JTMA	Jefferson Township Municipal Authority
LIAG	Low Income Advocacy Groups
LIHWAP	Low-Income Household Water Assistance Program
LIURP	Low-Income Usage Reduction Program
LTIIP	Long Term Infrastructure Investment Plan
LTPP	Long-Term Performance Plan
MCLGs	Maximum Contaminant Level Goals
MCLs	Maximum Contaminant Levels
MHI	Median Household Income
MHI-HO	Median Household Income Data From Homeowners
NAWC	National Association of Water Companies
NGDC	Natural Gas Distribution Company
NSF	National Science Foundation
O&M	Operating and Maintenance
OALJ	Office of Administrative Law Judge
OCA	Office of Consumer Advocate
OPEB	Other Post-Employment Benefits
OSBA	Office of Small Business Advocate
PADEP	Pennsylvania Department of Environmental Protection
PAWC	Pennsylvania-American Water Company
PAWLUG	Pennsylvania-American Water Large Users Group
PFAS	Polyfluoroalkyl Substances
PGW	Philadelphia Gas Works

PIP	Percentage of Income Program
PRV	Pressure Reducing Valve
psi	Pounds Per Square Inch
PSU	Performance Stock Units
R.D.	Recommended Decision
RDM	Revenue Decoupling Mechanism
ROE	Return on Equity
RROR	Relative Rate of Return
RSU	Restricted Stock Units
RZ-1	Rate Zone 1
RZ-2	Rate Zone 2
RZ-3	Rate Zone 3
RZ-4	Rate Zone 4
RZ-5	Rate Zone 5
RZ-6	Rate Zone 6
RZ-7	Rate Zone 7
RZ-8	Rate Zone 8
RZ-9	Rate Zone 9
S&P	Standard & Poor's
SBC	Stock-based Compensation
SCADA	Supervisory Control and Data Acquisition
SCERP	Service Company Executive Retirement Plan
SLIBCO	Scranton Lackawanna Industrial Building Company
SSS	Sanitary Sewer System
STAS	State Tax Adjustment Surcharge
STMA	Sadsbury Township Municipal Authority
SVF	Straight Fixed Variable
TUS	Bureau of Technical Utility Services
USEPA	United States Environmental Protection Agency
USP	Universal Service Program
USTRA	Utility Services Tenants Rights Act
VA	VA Medical Center
WACC	Weighted Average Cost of Capital
WB	West Brandywine
WSA	Water Services Act
WWTP	Wastewater Treatment Plant
YBCs	York Bulk Customers

Pennsylvania Public Utility Commission, *et. al.*

v.

Pennsylvania-American Water Company
Pennsylvania-American Water Company-Wastewater Division
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Commission Tables Calculating Allowed Revenue Increase

Table Act 11 **Act 11 Water and Wastewater Revenue Requirement Summary**

Water Tables

Table I	**Income Summary**
Table IA	**Rate of Return**
Table IB	**Revenue Factor**
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Table III	**Interest Synchronization**
Table IV	**Cash Working Capital: Interest and Dividends**
Table V	**Cash Working Capital: Taxes**
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Wastewater SSS Tables

Table I	**Income Summary**
Table IA	**Rate of Return**
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Table V	**Cash Working Capital: Taxes**
Table VI	**Cash Working Capital: O&M Expense**

Wastewater-CSS Tables

Table I	**Income Summary**
Table IA	**Rate of Return**
Table IB	**Revenue Factor**
Table II	**Summary of Commission Adjustments**
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Table IV	**Cash Working Capital: Interest and Dividends**
Table V	**Cash Working Capital: Taxes**
Table VI	**Cash Working Capital: O&M Expense**

Commission Final Allowance
TABLE ACT 11
PENNSYLVANIA-AMERICAN WATER COMPANY
WATER AND WASTEWATER REVENUE REQUIREMENT SUMMARY
R-2023-3043189, R-2023-3043190

Line No.	Description	Total Company	Water Operations	Wastewater SSS Operations	Wastewater CSS Operations
		$	$	$	$
1	Present Rate Revenue	$ 994,178,484	$ 820,869,547	$ 94,672,721	$ 78,636,216
2	Additional Revenue Requirement [1]	99,329,012	64,799,685	24,226,880	10,302,448
3	Act 11 - Wastewater Allocation	-	23,321,384	(18,170,160)	(5,151,224)
4	Proposed Revenues	$ 1,093,507,496	$ 908,990,615	$ 100,729,441	$ 83,787,440
5	Rate Increase/(Decrease) $	$ 99,329,012	$ 88,121,069	$ 6,056,720	$ 5,151,224
6	Rate Increase/(Decrease) %	9.99%	10.74%	6.40%	6.55%
7	Rate Increase/(Decrease) $ - Total Wastewater Operations			$ 11,207,944	
8	Rate Increase/(Decrease) % - Total Wastewater Operations			6.47%	

Notes:
[1] Excludes revenue requirement associated with the BASA and Brentwood acquisitions.

Commission Final Allowance
TABLE I WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
INCOME SUMMARY
R-2023-3043189, R-2023-3043190

		Pro Forma Present Rates (1)	Company Adjustments (2)	Pro Forma Present Rates (Revised (3))	Commission Adjustments	Commission Pro Forma Present Rates	Commission Revenue Increase	Total Allowable Revenues
		$	$	$	$	$	$	$
		(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) + (4)	(6)	(7) = (5) + (6)
1.	Operating Revenue	$ 824,117,186	$ -	$ 824,117,186	$ (3,247,639)	$ 820,869,547	$ 64,799,685	$ 885,669,232
2.	Expenses:							
3.	O & M Expense	256,824,574	(720,938)	256,103,636	(10,032,096)	246,071,540	762,044	246,833,584
4.	Depreciation	210,700,336	1,660,367	212,360,703	(1,174,154)	211,186,549	0	211,186,549
5.	Taxes, Other	14,398,232	(62,322)	14,335,910	(48,401)	14,287,509	412,868	14,700,377
6.	Income Taxes:							
7.	State	13,347,020	67,799	13,414,819	658,374	14,073,193	5,083,619	19,156,812
8.	Federal	33,635,358	163,955	33,799,313	1,592,133	35,391,446	12,293,642	47,685,088
9.	Total Expenses	528,905,520	1,108,861	530,014,381	(9,004,144)	521,010,237	18,552,173	539,562,410
10.	Net Income Available for Return	295,211,666	(1,108,861)	294,102,805	5,756,504	299,859,309	46,247,511	346,106,821
11.	Rate Base	4,704,067,656	(3,127,277)	4,700,940,379	(11,146,058)	4,689,794,321		4,689,794,321
12.	Rate of Return	6.28%		6.26%		6.39%		7.38%

Notes and Sources:
(1) PAWC Exh. 3-A Initial.
(2) Difference between PAWC Exh. 3-A Initial and Exh. 3-A Revised.
(3) PAWC Exh. 3-A Revised.

Pre-Act 11 Allocation Revenue Change (%):	7.89%
Pre-Act 11 Allocation % of requested Increase	50.10%

Commission Final Allowance
TABLE I(A) WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
RATE OF RETURN
R-2023-3043189, R-2023-3043190

		Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
		(1)	(2)	[(3)=(1)x(2)]	(4)	[(5)=(3)x(4)]
1.	Total Cost of Debt			2.09%		2.09%
2.	Long-term Debt[1]	44.01%	4.76%	2.09%		2.09%
3.	Short-term Debt	0.00%	0	0.00%		0.00%
4.	Preferred Stock	0.00%	0	0.00%	0.726879	0.00%
5.	Common Equity[1]	55.99%	9.45%	5.29%	0.726879	7.28%
6.	Rate of Return[1]	100.00%		7.38%		9.3700%
7.	Pre-Tax Interest Coverage	4.48				
8.	After-Tax Interest Coverage	3.53				
9.	Tax Rate Complement (1-(21%+(7.99% X (1-21%))	72.68790%				

Notes and Sources:
[1]See Section IX - Fair Rate of Return

Commission Final Allowance
TABLE I(B) WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
REVENUE FACTOR
R-2023-3043189, R-2023-3043190

1.	100%	1.00000000
	Less:	
2.	Uncollectible Accounts Factor [1]	0.01176000
3.	PUC, OCA, OSBA, DPC Assessment Factors [1]	0.00637145
4.	Gross Receipts Tax	0.00000000
5.	Other Tax Factors	0.00000000
6.		0.98186855
7.	State Income Tax Rate [1]	0.07990000
8.	Effective State Income Tax Rate	0.07845130
9.	Factor After Local and State Taxes	0.90341725
10.	Federal Income Tax Rate [1]	0.21000000
11.	Effective Federal Income Tax Rate	0.18971762
12.	Revenue Factor (100% - Effective Tax Rates)	0.71369963

Notes and Sources:
[1] PAWC Exh. 3-A Revised

Commission Final Adjustments
TABLE II WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
SUMMARY OF ADJUSTMENTS
R-2023-3043189, R-2023-3043190

	Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		$	$	$	$	$	$	$
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	19,785						
3.	Taxes (Table V)	146,442						
4.	O & M (Table VI)	(1,157,109)						
5.	Farmington (water) Plant	(2,502,611)						
6.	Audubon Plant	(360,229)						
7.	Farmington (water) Acq Adj.	(195,736)						
	Audubon Acq Adj.	(6,939,459)						
8.	Farmington (water) Trans. Cost	(49,799)						
9.	Audubon Trans. Cost	(107,142)						
10.								
	REVENUES:							
11.	Audubon Revenue [1] [4]		(2,965,024)	(34,869)		(18,891)	(232,610)	(562,517)
12.	Farmington (water) Revenue [1] [4]		(266,371)	(3,133)		(1,697)	(20,897)	(50,535)
13.							0	0
14.	Concomitant Revenue [1] [4]		(16,244)	(191)		(103)	(1,274)	(3,082)
15.							0	0
16.	EXPENSES:						0	0
17.	Audubon O&M & Taxes-Other [2]			(1,557,863)		(27,709)	126,687	306,366
18.	Farmington (water) Expenses [3]			(152,385)			12,176	29,444
19.	Pension Expense [5]			(4,771,807)			381,267	922,013
20.	OPEB Expense [5]			(1,664,016)			132,955	321,523
21.	AMP [4]			(1,847,832)			147,642	357,040
22.							0	0
23.	Audubon Depreciation				(269,599)		21,541	52,092
24.	Farmington (water) Depreciation				(101,751)		8,130	19,660
25.	Audubon Acq Amort. [6]				(775,772)		61,984	149,895
26.	Farmington (water) Acq Amort. [7]				(27,032)		2,160	5,223
27.					0		0	0
	TAXES:							
28.								
29.	Interest Synchronization (Table III)						18,613	45,011
30.	TOTALS	(11,146,058)	(3,247,639)	(10,032,096)	(1,174,154)	(48,401)	658,374	1,592,133

Notes to Accompany Table II – Water

(1) Revenue adjustments require concomitant adjustments for bad debt & general assessment expenses (Table IB-Water) & forfeited discounts / late payment fee revenues (PAWC Exh. 3-A Revised at 24R) that are determined as a percentage of revenues. Concomitant revenue is then subject to the same adjustment.

(2) See PAWC Exh. 3-A Revised at 63R and PAWC Exh. 3-B at 304. Taxes-Other includes only property taxes.

(3) See PAWC Exh. 3-A Revised at 63R and PAWC Exh. 3-B at 303.

(4) No cash working capital adjustment is provided for non-cash adjustments, including for bad debt/AMP and depreciation. Tax adjustments are in Table V-Water.

(5) *See*, I&E M.B. at 24.

(6) Reduction of $775,772 to remove PAWC's claims related to Audubon. This includes an acquisition adjustment amortization expense of $763,977 and associated transaction costs of $11,795. [$763,977 + $11,795=$775,772]. See Section VII. M of this Opinion and Order.

(7) Reduction of $27,032 to remove PAWC's claims related to Farmington (water). This includes an acquisition adjustment amortization expense of $21,549 and associated transaction costs of $5,483. [$21,549 + $5,483]. See Section VII.M of this Opinion and Order.

Commission Final Allowance
TABLE III WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
INTEREST SYNCHRONIZATION
R-2023-3043189, R-2023-3043190

		Amount $
1.	Company Rate Base Claim [1]	4,700,940,379
2.	Commission Rate Base Adjustments (From Table II)	(11,146,058)
3.	Commission Rate Base (Line 1 - Line 2)	4,689,794,321
4.	Weighted Cost of Debt (From Table IA)	2.09000000%
5.	Commission Interest Expense - (Line 3 x Line 4)	98,016,701
6.	Company Claim [1]	98,249,654
7.	Total Commission Adjustment	232,953
8.	Company Adjustment	0
9.	Net Commission Interest Adjustment (Line 7 - Line 8)	232,953
10.	State Income Tax Rate	7.99%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	18,613
12.	Net Commission Interest Adjustment (Line 9)	232,953
13.	State Income Tax Adjustment (Line 11)	18,613
14.	Net Commission Adjustment for F.I.T. (Line 12 - Line 13)	214,340
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 14 x Line 15) (Flow to Table II)	45,011

Notes and Sources:

[1] Company Main Brief

Commission Final Allowance
TABLE IV WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - Interest and Dividends
R-2023-3043189, R-2023-3043190

		Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Short-Term Debt		
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$4,700,940,379	$4,700,940,379	Company Rate Base Claim	$4,700,940,379
2.	Commission Rate Base Adjustments	($11,146,058)	($11,146,058)	Commission Rate Base Adju	($11,146,058)
3.	Commission Rate Base	$4,689,794,321	$4,689,794,321	Commission Rate Base	$4,689,794,321
4.	Weighted Cost of Debt	2.09%	0.00%	Weighted Cost Pref. Stock	0.00%
5.	Commission Annual Interest Exp.	$98,016,701	$0	Commission Preferred Divide	$0
6.	Average Revenue Lag Days [1]	50.6	50.6	Average Revenue Lag Days	50.6
7.	Average Expense Lag Days [1]	81.6	15.0	Average Expense Lag Days	46.4
8.	Net Lag Days	-31.0	35.6	Net Lag Days	4.2
9.	Working Capital Adjustment				
10.	Commission Daily Interest Exp.	$268,539	$0	Commission Daily Dividends	$0
11.	Net Lag Days	-31.0	35.6	Net Lag Days	4.2
12.	Commission Working Capital	($8,327,394)	$0		$0
13.	Company Claim [1]	($8,347,179)	$0	Company Claim [1]	$0
14.	Commission Adjustment	$19,785	$0		$0
15.	Total Interest & Dividend Adj.	$19,785			

Notes and Sources:
[1] Company Main Brief.

Commission Final Allowance
TABLE V WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - TAXES
R-2023-3043189, R-2023-3043190

	Description	Company Proforma Tax Expense Present Rates	Commission Adjustments	Commission Pro forma Tax Expense Present Rates	Commission Allowance	Commission Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days [1]	Accrued Tax Adjustment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	Assessments	$5,164,137	($20,692)	$5,143,445	$412,868	$5,556,313	$15,222.77	190.20	$2,895,371
2.	Public Utility Realty	$2,126,732	$0	$2,126,732		$2,126,732	$5,826.66	47.35	$275,892
3.	Local Property Tax	$2,073,365	($27,709)	$2,045,656		$2,045,656	$5,604.54	64.56	$361,855
		$0	$0	$0		$0	$0.00	0.00	$0
		$0	$0	$0		$0	$0.00	0.00	$0
4.	State Income Tax	$13,414,819	$658,374	$14,073,193	$5,083,619	$19,156,812	$52,484.42	13.60	$713,788
5.	Federal Income Tax	$34,032,905	$1,592,133	$35,625,038	$12,293,642	$47,918,680	$131,284.05	-18.40	($2,415,627)
6.		$56,811,958	$2,202,106	$59,014,064	$17,790,129	$76,804,193	$210,422	8.70	$1,831,279
7.							Commission Allowance		$ 1,831,279
8.							Company Claim [1]		$ 1,684,837
9.							Commission Adjustment		$ 146,442

Notes and Sources:
[1] Company Main Brief

Commission Final Allowance
TABLE VI WATER
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL -- O & M EXPENSE
R-2023-3043189, R-2023-3043190

	Description	Company Pro forma Expense	Commission	Commission Pro forma Expenses	Lag Days[3]	Lag Dollars
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Service Company [1]	$60,897,948	($302,738)	$60,595,210	12.05	$730,426,780
2.	Chemicals [1]	$23,528,121	($96,468)	$23,431,653	47.20	$1,106,012,803
3.	Group Insurance [1]	$11,220,476	($95,992)	$11,124,484	11.00	$122,369,324
4.	Insurance, Other [1]	$14,893,805	($71,451)	$14,822,354	-69.48	($1,029,789,524)
5.	Labor [1]	$68,588,923	($504,647)	$68,084,276	12.05	$820,701,480
6.	Leased Equip./Rent	$105,375	$0	$105,375	-13.36	($1,407,511)
7.	Leased Vehicles	$5,043,012	$0	$5,043,012	54.08	$272,747,715
8.	Miscellaneous [1]	$39,139,084	($485,598)	$38,653,486	30.46	$1,177,398,731
9.	Natural Gas	$1,232,626	$0	$1,232,626	33.33	$41,087,081
10.	Power [1]	$15,812,740	($150,641)	$15,662,099	31.00	$485,590,492
11.	Purchased Water	$3,099,741	$0	$3,099,741	35.22	$109,173,435
12.	Telephone	$4,396,974	$0	$4,396,974	3.88	$13,398,219
13.	Waste Disposal [1]	$3,337,122	($2,349)	$3,334,773	41.96	$139,928,434
14.	Post Retirement Benefits/VEBA [2]	($6,496,737)	($1,664,379)	($8,161,116)	0.00	$0
15.	Pensions [2]	$971,072	($4,771,807)	($3,800,735)	-6.41	$24,381,605
16.	Totals	$246,370,282	($8,146,070)	$238,224,212	16.30	$4,018,019,064
17.	Commission Average Revenue Lag	50.6				
18.	Less: Commission Avg. Expense Lag	16.3				
19.	Net Difference	33.7	Days			
20.	Commission Pro forma					
22.	O & M Expense per Day	$652,663				
23.	Commission CWC for O & M	$21,994,945				
24.	Less: Company Claim [3]	$23,152,054				
25.	Commission Adjustment	($1,157,109)				

Notes and Sources:

[1] See Table II-Water, Notes 2 & 3. In PAWC Ex. 3-B at 303-304, "Labor", "401K", "DCP", & "Payroll Taxes" are assigned to Labor above. "Contracted Services", "Rents", "General Office", "Miscellaneous", & "Maintenance" are assigned to Miscellaneous above. Other O&M Expenses are assigned to a description above that matches the expense.

[2] See Table II-Water, Note 5. The OPEB adjustment is assigned to Post Retirement Benefits/VEBA above, and the Pensions adjustment is assigned to Pensions above.

[3] Company Main Brief

Commission Final Allowance
TABLE I WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INCOME SUMMARY
R-2023-3043189, R-2023-3043190

		Pro Forma Present Rates (1)	Company Adjustments (2)	Pro Forma Present Rates (Revised (3))	Commission Adjustments	Commission Pro Forma Present Rates	Commission Revenue Increase	Total Allowable Revenues
		$	$	$	$	$	$	$
		(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) + (4)	(6)	(7) = (5) + (6)
1.	Operating Revenue	$95,470,867	$ -	$ 95,470,867	$ (798,146)	$ 94,672,721	$24,226,880	$ 118,899,600
2.	Expenses:							
3.	O & M Expense	26,009,252	57,140	26,066,392	(670,027)	25,396,365	284,908	25,681,273
4.	Depreciation	27,406,489	0	27,406,489	(110,119)	27,296,370	0	27,296,370
5.	Taxes, Other	3,217,927	3,124	3,221,051	(8,632)	3,212,419	154,360	3,366,779
6.	Income Taxes:							
7.	State	2,906,503	(4,825)	2,901,678	7,665	2,909,343	1,900,630	4,809,973
8.	Federal	7,064,720	(11,668)	7,053,052	18,536	7,071,588	4,596,266	11,667,854
10.	Total Expenses	66,604,891	43,771	66,648,662	(762,578)	65,886,084	6,936,164	72,822,248
11.	Net Income Available for Return	28,865,976	(43,771)	28,822,205	(35,568)	28,786,637	17,290,715	46,077,352
12.	Rate Base	649,330,622	5,483	649,336,105	(4,897,620)	644,438,485		644,438,485
13.	Rate of Return	4.45%		4.44%		4.47%		7.15%

Notes and Sources:
(1) PAWC Exh. 3-A Initial.
(2) Difference between PAWC Exh. 3-A Initial and Exh. 3-A Revised.
(3) PAWC Exh. 3-A Revised.

Pre-Act 11 Allocation Revenue Change (%):	25.59%
Pre-Act 11 Allocation % of requested Increase	76.05%

Commission Final Allowance
TABLE I(A) WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
RATE OF RETURN
R-2023-3043189, R-2023-3043190

		Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
		(1)	(2)	[(3)=(1)x(2)]	(4)	[(5)=(3)x(4)]
1.	Total Cost of Debt			2.15%		2.15%
2.	Long-term Debt [(1)]	42.73%	4.76%	2.03%		2.03%
3.	Wastewater Specific Long-term Debt [(1)]	4.40%	2.67%	0.12%		0.12%
4.	Preferred Stock	0.00%	0	0.00%	0.726879	0.00%
5.	Common Equity [(1)]	52.87%	9.45%	5.00%	0.726879	6.88%
6.	Rate of Return[(1)]	100.00%		7.15%		9.0300%
7.	Pre-Tax Interest Coverage	4.45				
8.	After-Tax Interest Coverage	3.52				
9.	Tax Rate Complement (1-(21%+(7.99% X (1-21%))	72.68790%				

Notes and Sources:
[(1)]See Section IX - Fair Rate of Return

Commission Final Allowance
TABLE I(B) WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
REVENUE FACTOR
R-2023-3043189, R-2023-3043190

1.	100%	1.00000000
	Less:	
2.	Uncollectible Accounts Factor [1]	0.01176000
3.	PUC, OCA, OSBA, DPC Assessment Factors [1]	0.00637145
4.	Gross Receipts Tax	0.00000000
5.	Other Tax Factors	0.00000000
6.		0.98186855
7.	State Income Tax Rate [1]	0.07990000
8.	Effective State Income Tax Rate	0.07845130
9.	Factor After Local and State Taxes	0.90341725
10.	Federal Income Tax Rate [1]	0.21000000
11.	Effective Federal Income Tax Rate	0.18971762
12.	Revenue Factor (100% - Effective Tax Rates)	0.71369963

Notes and Sources:
[1] PAWC Exh. 3-A Revised

Commission Final Adjustments
TABLE II WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
SUMMARY OF ADJUSTMENTS
R-2023-3043189, R-2023-3043190

	Adjustments (1)	Rate Base (2) $	Revenues (3) $	Expenses (4) $	Depreciation (5) $	Taxes-Other (6) $	State Income Tax (7) $	Federal Income Tax (8) $
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	8,962						
3.	Taxes (Table V)	21,955						
4.	O & M (Table VI)	(31,379)						
5.	STMA Plant[7]	(2,018,697)						
6.	Farmington (wastewater) Plant[8]	(2,878,461)						
7.								
	REVENUES:							
8.	STMA Revenue [1][4]		(471,228)	(5,542)		(3,002)	(36,968)	(89,400)
9.	Farmington (wastewater) Revenue [1][4]		(322,926)	(3,798)		(2,058)	(25,334)	(61,265)
10.								0
	Concomitant Revenue [1]		(3,992)	(47)		(25)	(313)	(757)
11.								
12.	EXPENSES:							
13.	STMA O&M & Taxes-Other [2]			(245,741)		(3,547)	19,918	48,168
14.	Farmington (wastewater) O&M [3]			(264,176)			21,108	51,044
15.	AMP [4]			(150,724)			12,043	29,123
16.								0
17.	STMA Depreciation				(51,847)		4,143	10,018
18.	Farmington (wastewater) Depreciation				(137,987)		11,025	26,662
19.	STMA Acq. Amort.[5]				85,414		(6,825)	(16,504)
20.	Farmington (wastewater) Acq. Amort.[6]				(5,699)		455	1,101
28.	TAXES:							
29.	Interest Synchronization (Table III)						8,413	20,346
30.	TOTALS	(4,897,620)	(798,146)	(670,027)	(110,119)	(8,632)	7,665	18,536

Notes to Accompany Table II – Wastewater SSS

(1) Revenue adjustments require concomitant adjustments for bad debt & general assessment expenses (Table IB-Wastewater SSS) & forfeited discounts / late payment fee revenues (PAWC Exh. 3-A Revised, at 95R) that are determined as a percentage of revenues. Concomitant revenue is then subject to the same adjustment.

(2) See PAWC Exh. 3-A Initial at 126 & PAWC Exh. 3-B at 306. Taxes-Other includes only property taxes.

(3) See PAWC Exh. 3-A Initial at 126 & PAWC Exh. 3-B at 305.

(4) No cash working capital adjustment is provided for non-cash adjustments, including for bad debt/AMP and depreciation. Tax adjustments are in Table V-Wastewater SSS.

(5) Addition of $85,414 to remove PAWC's claimed negative acquisition amortization expense related to STMA. This includes a negative acquisition amortization of $94,561 and associated transaction costs of $9,147. [($94.561)+$9,147=($85,414)]. See Section VII.M of this Opinion and Order.

(6) Reduction of $5,699 to remove the transaction costs associated with Farmington (wastewater). See Section VII.M of this Opinion and Order.

(7) Amount includes removal of claimed $1,935,612 in Net Utility Plant in Service and $83,085 of transaction costs related to the STMA system. [$1,935,612+$83,085=$2,018,697].

(8) Amount includes removal of claimed $2,826,700 in Net Utility Plant in Service and $81,761 of transaction costs related to the Farmington (wastewater) system. [$2,826,700+$51,761=$2,878,461].

Commission Final Allowance
TABLE III WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INTEREST SYNCHRONIZATION
R-2023-3043189, R-2023-3043190

		Amount $
1.	Company Rate Base Claim [1]	649,336,105
2.	Commission Rate Base Adjustments (From Table II)	(4,897,620)
3.	Commission Rate Base (Line 1 - Line 2)	644,438,485
4.	Weighted Cost of Debt (From Table IA)	2.15%
5.	Commission Interest Expense - (Line 3 x Line 4)	13,855,427
6.	Company Claim [1]	13,960,726
7.	Total Commission Adjustment	105,299
8.	Company Adjustment	0
9.	Net Commission Interest Adjustment (Line 7 - Line 8)	105,299
10.	State Income Tax Rate	7.99%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	8,413
12.	Net Commission Interest Adjustment (Line 9)	105,299
13.	State Income Tax Adjustment (Line 11)	8,413
14.	Net Commission Adjustment for F.I.T. (Line 12 - Line 13)	96,886
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 14 x Line 15) (Flow to Table II)	20,346

Notes and Sources:

[1] Company Main Brief

Commission Final Allowance
TABLE IV WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - Interest and Dividends
R-2023-3043189, R-2023-3043190

		Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Wastewater Specific Long-Term Debt			
		(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim		$649,336,105	$649,336,105	Company Rate Base Claim	$649,336,105
2.	Commission Rate Base Adjustments		($4,897,620)	($4,897,620)	Commission Rate Base Adjustments	($4,897,620)
3.	Commission Rate Base		$644,438,485	$644,438,485	Commission Rate Base	$644,438,485
4.	Weighted Cost of Debt		2.03%	0.12%	Weighted Cost Pref. Stock	0.00%
5.	Commission Annual Interest Exp.		$13,082,101	$773,326	Commission Preferred Dividends	$0
6.	Average Revenue Lag Days [1]		50.6	50.6	Average Revenue Lag Days [1]	50.6
7.	Average Expense Lag Days [1]		81.6	81.6	Average Expense Lag Days	46.4
8.	Net Lag Days		-31.0	-31.0	Net Lag Days	4.2
9.	Working Capital Adjustment					
10.	Commission Daily Interest Exp.		$35,841	$2,119	Commission Daily Dividends	$0
11.	Net Lag Days		-31.0	-31.0	Net Lag Days	4.2
12.	Commission Working Capital		($1,111,429)	($65,710)		$0
13.	Company Claim [1]		($1,119,895)	($66,206)	Company Claim [1]	$0
14.	Commission Adjustment		$8,466	$496		$0
15.	Total Interest & Dividend Adj.		$8,962			

Notes and Sources:
[1] Company Main Brief.

Commission Final Allowance
TABLE V WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL -TAXES
R-2023-3043189, R-2023-3043190

	Description	Company Proforma Tax Expense Present Rates	Commission Adjustments	Commission Pro forma Tax Expense Present Rates	Commission Allowance	Commission Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days [1]	Accrued Tax Adjustment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	Assessments	$598,699	($5,085)	$593,614	$154,360	$747,974	$2,049.24	190.20	$389,765
2.	Public Utility Realty	$0	$0	$0		$0	$0.00	47.35	$0
3.	Local Property Tax	$2,227,703	($3,547)	$2,224,156		$2,224,156	$6,093.58	64.56	$393,430
		$0	$0	$0		$0	$0.00	0.00	$0
		$0	$0	$0		$0	$0.00	0.00	$0
4.	State Income Tax	$2,901,678	$7,665	$2,909,343	$1,900,630	$4,809,973	$13,178.01	13.60	$179,221
5.	Federal Income Tax	$7,053,052	$18,536	$7,071,588	$4,596,266	$11,667,854	$31,966.72	-18.40	($588,188)
6.		$12,781,132	$17,569	$12,798,701	$6,651,256	$19,449,957	$ 53,287.55	7.02	$374,228
7.							Commission Allowance		$ 374,228
8.							Company Claim [1]		$ 352,273
9.							Commission Adjustment		$ 21,955

Notes and Sources:
[1] Company Main Brief

Commission Final Allowance
TABLE VI WASTEWATER SSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL -- O & M EXPENSE
R-2023-3043189, R-2023-3043190

	Description	Company Pro forma Expense	Commission	Commission Pro forma Expenses	Lag Days	Lag Dollars
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Service Company [1]	$1,903,699	($63,607)	$1,840,092	12.05	$22,180,837
2.	Chemicals [1]	$1,827,234	($7,500)	$1,819,734	47.20	$85,894,457
3.	Group Insurance [1]	$1,070,958	($15,709)	$1,055,249	11.00	$11,607,739
4.	Insurance, Other [1]	$2,098,237	($12,770)	$2,085,467	-69.48	($144,888,732)
5.	Labor [1]	$5,286,389	($75,958)	$5,210,431	12.05	$62,807,577
6.	Leased Equip./Rent	$50,345	$0	$50,345	-13.36	($672,466)
7.	Leased Vehicles	$176,055	$0	$176,055	54.08	$9,521,809
8.	Miscellaneous [1]	$5,595,997	($106,873)	$5,489,124	30.46	$167,200,642
9.	Natural Gas	$431,432	$0	$431,432	33.33	$14,380,908
10.	Power [1]	$3,372,968	($37,500)	$3,335,468	31.00	$103,413,441
11.	Purchased Water	$0	$0	$0	35.22	$0
12.	Telephone	$211,445	$0	$211,445	3.88	$820,828
13.	Waste Disposal [1]	$3,087,197	($190,000)	$2,897,197	41.96	$121,567,566
14.	Post Retirement Benefits	$3,810	$0	$3,810	0.00	$0
15.	Pensions	$216,538	$0	$216,538	-6.41	($1,388,085)
16.	Totals	$25,338,304	($509,917)	$24,828,387	18.20	$452,445,521

17.	Commission Average Revenue Lag	50.6	
18.	Less: Commission Avg. Expense Lag	18.2	
19.	Net Difference	32.4	Days
20.	Commission Pro forma		
22.	O & M Expense per Day	$68,023	
23.	Commission CWC for O & M	$2,203,945	
24.	Less: Company Claim [2]	$2,235,324	
25.	Commission Adjustment	($31,379)	

Notes and Sources:

[1] See Table II-Wastewater SSS, Notes 2 & 3. In PAWC Ex. 3-B at 305-306, "Labor", "401K", "DCP", & "Payroll Taxes" are assigned to Labor above. "Contracted Services", "Rents", "General Office", "Miscellaneous", & "Maintenance" are assigned to Miscellaneous above. Other O&M Expenses are assigned to a description above that matches the expense.

[2] Company Main Brief

Commission Final Allowance
TABLE I WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INCOME SUMMARY
R-2023-3043189, R-2023-3043190

		Pro Forma Present Rates [1]	Company Adjustments [2]	Pro Forma Present Rates (Revised [3])	Commission Adjustments	Commission Pro Forma Present Rates	Commission Revenue Increase	Total Allowable Revenues
		$	$	$	$	$	$	$
		(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) + (4)	(6)	(7) = (5) + (6)
1.	Operating Revenue	$ 78,636,216	$ -	$ 78,636,216	$ -	$ 78,636,216	$ 10,302,448	$ 88,938,664
2.	Expenses:							
3.	O & M Expense	21,438,527	20,813	21,459,340	(113,746)	21,345,594	121,157	21,466,751
4.	Depreciation	20,497,016	0	20,497,016	0	20,497,016	0	20,497,016
5.	Taxes, Other	2,231,143	892	2,232,035	0	2,232,035	65,642	2,297,677
6.	Income Taxes:							
7.	State	1,984,048	(2,279)	1,981,769	9,058	1,990,827	808,240	2,799,067
8.	Federal	4,906,577	(5,513)	4,901,064	21,905	4,922,969	1,954,556	6,877,525
10.	Total Expenses	51,057,311	13,913	51,071,224	(82,783)	50,988,441	2,949,595	53,938,036
11.	Net Income Available for Return	27,578,905	(13,913)	27,564,992	82,783	27,647,775	7,352,853	35,000,628
12.	Rate Base	483,184,280	6,317,381	489,501,661	17,613	489,519,274		489,519,274
13.	Rate of Return	5.71%		5.63%		5.65%		7.15%

Notes and Sources:
[1] PAWC Exh. 3-A Initial.
[2] Difference between PAWC Exh. 3-A Initial and Exh. 3-A Revised.
[3] PAWC Exh. 3-A Revised.

Pre-Act 11 Allocation Revenue Change (%):	13.10%
Pre-Act 11 Allocation % of requested Increase	65.06%

Commission Final Allowance
TABLE I(A) WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
RATE OF RETURN
R-2023-3043189, R-2023-3043190

		Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
		(1)	(2)	[(3)=(1)x(2)]	(4)	[(5)=(3)x(4)]
1.	Total Cost of Debt			2.15%		2.15%
2.	Long-term Debt [(1)]	42.73%	4.76%	2.03%		2.03%
3.	Wastewater Specific Long term Debt[(1)]	4.40%	2.67%	0.12%		0.12%
4.	Preferred Stock	0.00%	0	0.00%	0.726879	0.00%
5.	Common Equity [(1)]	52.87%	9.45%	5.00%	0.726879	6.88%
6.	Rate of Return[(1)]	100.00%		7.15%		9.0300%
7.	Pre-Tax Interest Coverage	4.45				
8.	After-Tax Interest Coverage	3.52				
9.	Tax Rate Complement (1-(21%+(7.99% X (1-21%))	72.68790%				

Notes and Sources:
[(1)]See Section IX - Fair Rate of Return

Commission Final Allowance
TABLE I(B) WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
REVENUE FACTOR
R-2023-3043189, R-2023-3043190

1.	100%	1.00000000
	Less:	
2.	Uncollectible Accounts Factor [1]	0.01176000
3.	PUC, OCA, OSBA, DPC Assessment Factors [1]	0.00637145
4.	Gross Receipts Tax	0.00000000
5.	Other Tax Factors	0.00000000
6.		0.98186855
7.	State Income Tax Rate [1]	0.07990000
8.	Effective State Income Tax Rate	0.07845130
9.	Factor After Local and State Taxes	0.90341725
10.	Federal Income Tax Rate [1]	0.21000000
11.	Effective Federal Income Tax Rate	0.18971762
12.	Revenue Factor (100% - Effective Tax Rates)	0.71369963

Notes and Sources:
[1] PAWC Exh. 3-A Revised

Commission Final Adjustments
TABLE II WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
SUMMARY OF ADJUSTMENTS
R-2023-3043189, R-2023-3043190

	Adjustments (1)	Rate Base (2)	Revenues (3)	Expenses (4)	Depreciation (5)	Taxes-Other (6)	State Income Tax (7)	Federal Income Tax (8)
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	(31)						
3.	Taxes (Table V)	17,644						
4.	O & M (Table VI)	0						
8.	REVENUES:							
9.								
10.	Concomitant Revenue [1]		0	0		0	0	0
11.								
12.	EXPENSES:							
13.	AMP [2]			(113,746)			9,088	21,978
14.								
28.	TAXES:							
29.	Interest Synchronization (Table III)						(30)	(73)
30.	TOTALS	17,613	0	(113,746)	0	0	9,058	21,905

Notes and Sources:
[1] Revenue adjustments require concomitant adjustments for bad debt & general assessment expenses (Table IB-Wastewater CSS) & forfeited discounts / late payment fee revenues (PAWC Exh. 3-A Revised at 216R) that are determined as a percentage of revenues. Concomitant revenue is then subject to the same adjustment.
[2] No cash working capital adjustment is provided for non-cash adjustments, including for bad debt/AMP and depreciation. Tax adjustments are in Table V.

Commission Final Allowance
TABLE III WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
INTEREST SYNCHRONIZATION
R-2023-3043189, R-2023-3043190

		Amount $
1.	Company Rate Base Claim [1]	489,501,661
2.	Commission Rate Base Adjustments (From Table II)	17,613
3.	Commission Rate Base (Line 1 - Line 2)	489,519,274
4.	Weighted Cost of Debt (From Table IA)	2.15%
5.	Commission Interest Expense - (Line 3 x Line 4)	10,524,664
6.	Company Claim [1]	10,524,286
7.	Total Commission Adjustment	(378)
8.	Company Adjustment	0
9.	Net Commission Interest Adjustment (Line 7 - Line 8)	(378)
10.	State Income Tax Rate	7.99%
11.	State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	(30)
12.	Net Commission Interest Adjustment (Line 9)	(378)
13.	State Income Tax Adjustment (Line 11)	(30)
14.	Net Commission Adjustment for F.I.T. (Line 12 - Line 13)	(348)
15.	Federal Income Tax Rate	21.00%
16.	Federal Income Tax Adjustment (Line 14 x Line 15) (Flow to Table II)	(73)

Notes and Sources:

[1] Company Main Brief

Commission Final Allowance
TABLE IV WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL - Interest and Dividends
R-2023-3043189, R-2023-3043190

		Accrued Interest			Preferred Stock Dividends	
			Long-Term Debt	Wastewater Specific Long-Term Debt		
		(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim		$489,501,661	$489,501,661	Company Rate Base Claim	$489,501,661
2.	Commission Rate Base Adjustments		$17,613	$17,613	Commission Rate Base Adjustments	$17,613
3.	Commission Rate Base		$489,519,274	$489,519,274	Commission Rate Base	$489,519,274
4.	Weighted Cost of Debt		2.03%	0.12%	Weighted Cost Pref. Stock	0.00%
5.	Commission Annual Interest Exp.		$9,937,241	$587,423	Commission Preferred Dividends	$0
6.	Average Revenue Lag Days [1]		50.6	50.6	Average Revenue Lag Days [1]	50.6
7.	Average Expense Lag Days [1]		81.6	81.6	Average Expense Lag Days	46.4
8.	Net Lag Days		-31.0	-31.0	Net Lag Days	4.2
9.	Working Capital Adjustment					
10.	Commission Daily Interest Exp.		$27,225	$1,609	Commission Daily Dividends	$0
11.	Net Lag Days		-31.0	-31.0	Net Lag Days	4.2
12.	Commission Working Capital		($844,247)	($49,895)		$0
13.	Company Claim [1]		($844,216)	($49,895)	Company Claim [1]	$0
14.	Commission Adjustment		($31)	$0		$0
15.	Total Interest & Dividend Adj.		($31)			

Notes and Sources:
[1] Company Main Brief.

Commission Final Allowance
TABLE V WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL -TAXES
R-2023-3043189, R-2023-3043190

	Description	Company Proforma Tax Expense Present Rates	Commission Adjustments	Commission Pro forma Tax Expense Present Rates	Commission Allowance	Commission Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days [1]	Accrued Tax Adjustment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	Assessments	$497,495	$0	$497,495	$65,642	$563,137	$1,542.84	190.20	$293,448
2.	Public Utility Realty	$0	$0	$0		$0	$0.00	47.35	$0
3.	Local Property Tax	$1,198,060	$0	$1,198,060		$1,198,060	$3,282.36	64.56	$211,924
		$0	$0	$0		$0	$0.00	0.00	$0
		$0	$0	$0		$0	$0.00	0.00	$0
4.	State Income Tax	$1,981,769	$9,058	$1,990,827	$808,240	$2,799,067	$7,668.68	13.60	$104,294
5.	Federal Income Tax	$4,901,064	$21,905	$4,922,969	$1,954,556	$6,877,525	$18,842.53	-18.40	($346,703)
6.		$8,578,388	$30,963	$8,609,351	$2,828,438	$11,437,789	$31,336	8.3916	$262,963
7.							Commission Allowance		262,963
8.							Company Claim [1]		245,319
9.							Commission Adjustment		17,644

Notes and Sources:
[1] Company Main Brief

Commission Final Allowance
TABLE VI WASTEWATER CSS
PENNSYLVANIA-AMERICAN WATER COMPANY
CASH WORKING CAPITAL -- O & M EXPENSE
R-2023-3043189, R-2023-3043190

	Description	Company Pro forma Expense	Commission	Commission Pro forma Expenses	Lag Days	Lag Dollars
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Service Company	$1,038,033	$0	$1,038,033	12.05	$12,512,657
2.	Chemicals	$2,129,667	$0	$2,129,667	47.20	$100,523,807
3.	Group Insurance	$1,327,139	$0	$1,327,139	11.00	$14,598,529
4.	Insurance, Other	$1,434,260	$0	$1,434,260	-69.48	($99,645,841)
5.	Labor	$7,280,640	$0	$7,280,640	12.05	$87,762,291
6.	Leased Equip./Rent	$16,425	$0	$16,425	-13.36	($219,391)
7.	Leased Vehicles	$690,475	$0	$690,475	54.08	$37,343,849
8.	Miscellaneous	$3,209,124	$0	$3,209,124	30.46	$97,751,042
9.	Natural Gas	$150,057	$0	$150,057	33.33	$5,001,845
10.	Power	$1,691,208	$0	$1,691,208	31.00	$52,434,512
11.	Purchased Water	$0	$0	$0	35.22	$0
12.	Telephone	$120,976	$0	$120,976	3.88	$469,628
13.	Waste Disposal	$1,704,931	$0	$1,704,931	41.96	$71,539,599
14.	Post Retirement Benefits	$32,234	$0	$32,234	0.00	$0
15.	Pensions	$245,439	$0	$245,439	-6.41	($1,574,484)
16.	Totals	$21,070,608	$0	$21,070,608	18.00	$378,498,043
17.	Commission Average Revenue Lag	50.6				
18.	Less: Commission Avg. Expense Lag	18.0				
19.	Net Difference	32.6	Days			
20.	Commission Pro forma					
22.	O & M Expense per Day	$57,728				
23.	Commission CWC for O & M	$1,881,933				
24.	Less: Company Claim [1]	$1,881,933				
25.	Commission Adjustment	$0				

Notes and Sources:
[1] Company Main Brief

PENNSYLVANIA
PUBLIC UTILTY COMMISSION
Harrisburg, PA 17105-3265

Public Meeting held December 8, 2022

Commissioners Present:

Gladys Brown Dutrieuille, Chairman
Stephen M. DeFrank, Vice Chairman, Statement, Conflict
Ralph V. Yanora
Kathryn L. Zerfuss
John F. Coleman, Jr., Statement

Pennsylvania Public Utility Commission	:	R-2022-3031672
Office of Consumer Advocate	:	C-2022-3032485
Office of Small Business Advocate	:	C-2022-3032331
Pennsylvania-American Large Users Group	:	C-2022-3033215
Keith Saur	:	C-2022-3032345
Ivan Figueroa	:	C-2022-3032376
Carl E. Meyer	:	C-2022-3032384
Darlene Nychey	:	C-2022-3033046
Hao Tang	:	C-2022-3033043
James Pagel	:	C-2022-3032486
William H. Rissmiller	:	C-2022-3032500
Ramkrishna Sen	:	C-2022-3032501
Barbara Cetnarowski	:	C-2022-3032659
Simon Dobrev & Poli Iordanova	:	C-2022-3032511
Jerome & Sheryl Rodzinak	:	C-2022-3032623
Zachary O'Brien	:	C-2022-3032547
Maria Elena Selznick	:	C-2022-3032569
Earl Knight	:	C-2022-3032620
Meade Buffington	:	C-2022-3032670
Michael Pope	:	C-2022-3032969
Samantha Maize	:	C-2022-3032970
Kathleen Jeffries	:	C-2022-3032988
Tracy M. Rutherford	:	C-2022-3032662
Bridget L. Salkowski	:	C-2022-3032652
Sabatini Montesti	:	C-2022-3032657
Sean Seidel	:	C-2022-3032730
Trish E. Luberda	:	C-2022-3032722
Jorge Salazar	:	C-2022-3033085
Frank Piccola	:	C-2022-3033110
Amanda Barto-Ealy	:	C-2022-3032771
Judith Ann Garofolo	:	C-2022-3033211
Leroy Waters III	:	C-2022-3032999

Latrese Laporte	:	C-2022-3032830
John Palermo	:	C-2022-3032963
Paul Walaski	:	C-2022-3033057
Jessica Weiss	:	C-2022-3033080
Ellen Katz	:	C-2022-3033231
Walter J. Yourkavitch	:	C-2022-3033212
Diane Michalowski	:	C-2022-3033222
Victory Brewing Company	:	C-2022-3033275
Samantha J. Wesner	:	C-2022-3033256
West Norriton Township	:	C-2022-3033271
Xin Xu	:	C-2022-3033360
Carla Seidel	:	C-2022-3033316
Christine Nicholson	:	C-2022-3033377
James Jackson	:	C-2022-3033593
Jeff Henry	:	C-2022-3032313
Lisa Tunzi	:	C-2022-3032317
	:	
v.	:	
	:	
Pennsylvania-American Water Company	:	

Pennsylvania Public Utility Commission	:	R-2022-3031673
Office of Consumer Advocate	:	C-2022-3032487
Office of Small Business Advocate	:	C-2022-3032346
Darlene Nichey	:	C-2022-3033048
James Pagel	:	C-2022-3032489
Carla Seidel	:	C-2022-3032744
Nathan Woodford	:	C-2022-3032693
Stephen Nardi	:	C-2022-3032497
Lisa Inmon	:	C-2022-3033119
Karla Haynes	:	C-2022-3033586
Mark Henderson	:	C-2022-3032315
William H. Rissmiller	:	C-2022-3032499
Simeon Dobrev & Poli Iordanova	:	C-2022-3032513
Maria Elena Selznick	:	C-2022-3032578
Sabatini Monatesti	:	C-2022-3032658
Trisha E. Luberda	:	C-2022-3032723
Jorge Salazar	:	C-2022-3033206
Frank Piccola	:	C-2022-3033111
Judith Anne Garofolo	:	C-2022-3033213
Latrese Laporte	:	C-2022-3032819
Walter J. Yourkavitch	:	C-2022-3033217
Diane Michalowski	:	C-2022-3033218
Victory Brewing Company	:	C-2022-3033282

James Jackson	:	C-2022-3033594
	:	
v.	:	
	:	
Pennsylvania-American Water Company – (Wastewater)	:	
	:	

ORDER

BY THE COMMISSION:

We adopt as our action the Recommended Decision of Deputy Chief Administrative Law Judge Joel H. Cheskis dated November 8, 2022;

THEREFORE,

IT IS ORDERED:

1. That Pennsylvania-American Water Company and Pennsylvania-American Water Company (Wastewater) shall not place into effect the rates, rules, and regulations contained in Water Tariff Supplement No. 35 and Wastewater Tariff Supplement No. 34 regarding its cost recovery base rates for water and wastewater service revenues within its service territory filed on April 29, 2022 at the above referenced docket.

2. That the Joint Petition for Settlement of Rate Investigation filed on October 11, 2022 at the above referenced docket is granted and the Settlement is approved, without modification.

3. That Pennsylvania-American Water Company and Pennsylvania-American Water Company (Wastewater) are authorized to file tariffs or tariff supplements containing rates, rules and regulations, consistent with the findings herein, and Appendices attached to the Joint Petition for Settlement, to produce, on a total Company basis, an annual increase in revenues of $138 million for service rendered on and after January 28, 2023.

4. That the changes in rules, regulations and terms of service set forth in the tariffs submitted as Appendices A and B to the Joint Petition are lawful, just and reasonable, and are also approved.

5. That Pennsylvania-American Water Company and Pennsylvania-American Water Company (Wastewater)'s tariffs and/or tariff supplements may be filed to become effective on at least one day's notice after entry of the Commission's Order approving the Settlement for the rates effective on and after January 28, 2023.

6. That the formal complaints of the Office of Consumer Advocate at Docket No. C-2022-3032485 and at Docket No. C-2022-3032487, the Office of Small Business Advocate at Docket No. C-2022-3032331 and at Docket No. C-2022-3032346, the Pennsylvania American Water Large Users Group at Docket No. C-2022-3033215 and at Docket No. C-2022-3033216, and Victory Brewing Company at Docket No. C-2022-3033275 and at Docket No. C-2022-3033282 are deemed satisfied.

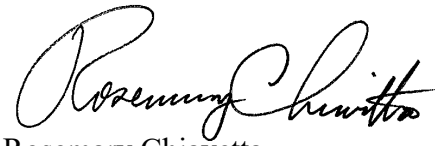
7. That the formal complaints of James Jackson at Docket No. C-2022-3033593 and at Docket No. C-2022-3033594 are denied.

8. That the formal complaints of Jerome and Sheryl Rodzinak at Docket No. C-2022-3032623, Jeff Henry at Docket No. C-2022-3032313, Mark Henderson at Docket No. C-2022-3032315, Liza Tunzi at Docket No. C-2022-3032317, Keith Sauer at Docket No. C-2022-3032345, Ivan Figueroa at Docket No. C-2022-3032376, Carl Meyer at Docket No. C-2022-3032384, James Pagel at Docket No. C-2022-3032489 and at Docket No. C-2022-3032486, Stephen Nardi at Docket No. C-2022-3032497, William Rissmiller at Docket No. C-2022-3032499 and 3032500, Ramkrishna Sen at Docket No. C-2022-3032501, Simeon Dobrev and Poli Iordanova at Docket No. C-2022-3032511 and at Docket No. C-2022-3032513, Zachary O'Brien at Docket No. C-2022-3032547, Maria Elena Selznick at Docket No. C-2022-3032569 and at Docket No. C-2022-3032578, Earl Knight at Docket No. C-2022-3032620, Bridget Salkowski at Docket No. C-2022-3032652, Sabatini Monatesti at Docket No. C-2022-3032657 and at Docket No. C-2022-3032658, Barbara Cetnarowski at Docket No. C-2022-3032659, Tracy Rutherford at Docket No. C-2022-3032662, Meade Buffington at Docket No. C-2022-3032670, Nathan

Woodford at Docket No. C-2022-3032693, Trish Luberda at Docket No. C-2022-3032722 and at Docket No. C-2022-3032723, Sean Seidel at Docket No. C-2022-3032730 and at Docket No. C-2022-3032744, Amanda Barto-Ealy at Docket No. C-2022-3032771, Latrese Laporte at Docket No. C-2022-3032819 and at Docket No. C-2022-3032830, Palermo at Docket No. C-2022-3032963, Michael Pope at Docket No. C-2022-3032969, Samantha Maize at Docket No. C-2022-3032970, Kathleen Jeffries at Docket No. C-2022-3032988, LeRoy James Watters, III, at Docket No. C-2022-3032999, Hao Larry Tang at Docket No. C-2022-3033043, Darlene Nychey at Docket No. C-2022-3033046 and at Docket No. C-2022-3033048, Paul J. Walaski at Docket No. C-2022-3033057, Jessica Weiss at Docket No. C-2022-3033080, Jorge Salazar at Docket No. C-2022-3033085 and at Docket No. C-2022-3033206, Frank Piccola at Docket No. C-2022-3033110 and at Docket No. C-2022-3033111, Lisa Inmon at Docket No. C-2022-3033119, Judith Garofolo at Docket No. C-2022-3033211 and at Docket No. C-2022-3033213, Walter Yourkavitch at Docket No. C-2022-3033212 and at Docket No. C-2022-3033217, Diane Michalowski at Docket No. C-2022-3033218 and at Docket No. C-2022-3033222, Ellen Katz at Docket No. C-2022-3033231 and Samantha Wesner at Docket No. C-2022-3033256, Xin Xu at Docket No. C-2022-3033360, Carla Seidel at Docket No. C-2022-3033316 and at Docket No. C-2022-3032744, Christine Nicholson at Docket No. C-2022-303337 and Karla Hayne at Docket No. C-2022-3033586 are dismissed.

9. That upon Commission approval of the tariffs or tariff supplements filed by Pennsylvania-American Water Company and Pennsylvania-American Water Company (Wastewater) in compliance with the Commission's Opinion and Order, the investigation at Docket Nos. R-2022-3031672 and R-2022-3031673 be marked closed.

BY THE COMMISSION,



Rosemary Chiavetta
Secretary

(SEAL)

ORDER ADOPTED: December 8, 2022

ORDER ENTERED: December 8, 2022

Attachment 2

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held at its office in Jefferson City on the 3rd day of May, 2023.

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water Company's Request for Authority to Implement General Rate Increase for Water and Sewer Service Provided in Missouri Service Areas	)))))	**File No. WR-2022-0303** Tracking No. YW-2023-0003 Tracking No. YS-2023-0004

REPORT AND ORDER

Issue Date: May 3, 2023

Effective Date: May 13, 2023

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water Company's Request for Authority to Implement General Rate Increase for Water and Sewer Service Provided in Missouri Service Areas	)))))	**File No. WR-2022-0303** Tracking No. YW-2023-0003 Tracking No. YS-2023-0004

REPORT AND ORDER

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APPEARANCES

MISSOURI-AMERICAN WATER COMPANY:

Dean Cooper, P.O. Box 456, 312 East Capitol, Jefferson City, Missouri 65101.

Timothy W. Luft, 727 Craig Road, St. Louis, Missouri 63141.

Rachel Niemeier, 727 Craig Road, St. Louis Missouri 63141.

Hillary J. Close, 11 South Meridian Street, Indianapolis, Indiana 462047.

Nicholas K. Kile, 11 South Meridian Street, Indianapolis, Indiana 462047.

STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION:

Karen Bretz, Post Office Box 360, Governor Office Building, 200 Madison Street, Jefferson City, Missouri 65102.

OFFICE OF THE PUBLIC COUNSEL:

Lindsay VanGerpen, PO Box 2230, Jefferson City, Missouri 65102.

MIDWEST ENERGY CONSUMERS GROUP:

Tim Opitz, 308 E. High St., Suite B101, Jefferson City, Missouri 65101.

CITY OF RIVERSIDE, MISSOURI:

Joseph P. Bednar, 304 East High Street, Jefferson City, Missouri 65101,

CONSUMERS COUNCIL OF MISSOURI:

John B. Coffman, 871 Tuxedo Blvd., St. Louis, Missouri 63119.

THE EMPIRE DISTRICT ELECTRIC COMPANY D/B/A LIBERTY

Diana C. Carter, 428 E. Capitol Ave., Ste. 303, Jefferson City Missouri 65101.

MISSOURI INDUSTRIAL ENERGY CONSUMERS

Diana M. Plescia, 130 S. Bemiston, Ste. 200, St. Louis, Missouri 63105

PUBLIC WATER SUPPLY DISTRICT NO. 2 OF ANDREW COUNTY

James M. Fischer, 2081 Honeysuckle Lane, Jefferson City, Missouri 65109

SUNNYDALE PROPERTIES

Stephanie S. Bell, 308 East High Street, Ste. 300, Jefferson City, Missouri 65101

TRIUMPH FOODS, LLC

Joshua Harden, 1010 W. Foxwood Drive, Raymore, Missouri 64083.

REGULATORY LAW JUDGE: Ronald D. Pridgin, Deputy Chief

REPORT AND ORDER

I. Procedural History

A. Tariff Filings, Notice, and Intervention

On July 1, 2022, Missouri-American Water Company (MAWC) filed tariff sheets designed to implement a general rate increase for utility service. The tariff sheets bore an effective date of July 31, 2022. To allow sufficient time to study the effect of the tariff sheets and to determine if the rates established by those sheets are just, reasonable, and in the public interest, the tariff sheets were suspended until May 28, 2023.

The Commission directed notice of the filings and set an intervention deadline. The Commission granted intervention requests from: The City of St. Joseph, Missouri; The City of Riverside, Missouri; Public Water Supply District No. 2 of Andrew County; Sunnydale Properties; Missouri Industrial Energy Consumers; Missouri Energy Consumers Group; Consumers Council of Missouri; and Triumph Foods, LLC.

B. Local Public Hearings

The Commission conducted seven virtual local public hearings.[1]

C. Stipulations and Agreements

On March 3, 2023, MAWC, the Commission's Staff (Staff), the Office of the Public Counsel (OPC), Midwest Energy Consumers Group (MECG), the City of St. Joseph (St. Joseph), and Consumers Council of Missouri (CCM) filed a Stipulation and Agreement (First Stipulation). The First Stipulation resolved all revenue requirement issues. The First Stipulation allows for a $95 million rate increase.

[1] Tr. Vols. 3-9.

On March 8, 2023, MECG, Staff, OPC, Missouri Industrial Energy Consumers (MIEC), Public Water Supply District No. 2 of Andrew County, and CCM filed a Non-Unanimous Stipulation and Agreement on Class Cost of Service and Rate Design (Second Stipulation). On March 10, 2023, MAWC, Staff, OPC, MECG, St. Joseph, Public Water Supply District No. 2 of Andrew County, the City of Riverside, MIEC, and CCM filed a Stipulation and Agreement as to Rate Design and Class Cost of Service (Third Stipulation). On March 14, 2023, MAWC objected to the Second Stipulation, stating that the Third Stipulation was intended to supersede the Second Stipulation.

Although the First Stipulation and Third Stipulation were not signed by all parties, the Commission can treat them as if they were unanimous because no party filed a timely objection.[2] The Commission has reviewed the First and Third Stipulations, and finds they will result in just and reasonable rates. Thus, the Commission will approve the First and Third Stipulations. Further, because the Third Stipulation was meant to supersede the Second Stipulation, the Commission will reject the Second Stipulation.

D. Evidentiary Hearing

The evidentiary hearing was held on March 9, 2023, at the Commission's offices in Jefferson City and via WebEx.[3]

E. Case Submission

During the evidentiary hearing, the Commission admitted the testimony of witnesses, and received exhibits into evidence. Post-hearing briefs were filed according to the post-hearing procedural schedule. The final post-hearing briefs were filed on

[2] Commission Rule 20 CSR 4240-2.115(2).
[3] Tr. Vol. 10.

April 14, 2023, and the case was deemed submitted for the Commission's decision on that date.[4]

II. General Matters

A. General Findings of Fact

1. MAWC is a wholly-owned subsidiary of American Water Works Company that was incorporated in Missouri in 1879. Missouri-American provides water service to approximately 475,000 customers and wastewater service to approximately 18,000 customers in several counties throughout Missouri. MAWC's water systems consist of more than 6,800 miles of main, as well as hydrants, distribution storage tanks, water treatment plants, wells and pump stations. Missouri-American's wastewater system facilities include over 270 miles of collection mains, lift stations, and wastewater treatment plants.[5]

2. MAWC is a "water corporation", **"**sewer corporation", and a "public utility". MAWC is thus subject to the jurisdiction of the Commission.[6]

3. OPC is a party to this case pursuant to Section 386.710(2), RSMo, and by Commission Rule 20 CSR 4240-2.010(10).

4. Staff is a party to this case pursuant to Section 386.071, RSMo, and Commission Rule 20 CSR 4240-2.010(10).

[4] "The record of a case shall stand submitted for consideration by the commission after the recording of all evidence or, if applicable, after the filing of briefs or the presentation of oral argument." Commission Rule 20 CSR 4240-2.150(1).
[5] Ex. 38, p. 14.
[6] Unless otherwise stated, all statutory citations are to the Revised Statutes of Missouri, as codified in the year 2022.

5. The Commission finds that any given witness's qualifications and overall credibility are not dispositive as to each and every portion of that witness's testimony. The Commission gives each item or portion of a witness's testimony individual weight based upon the detail, depth, knowledge, expertise, and credibility demonstrated with regard to that specific testimony.[7]

6. Any finding of fact reflecting that the Commission has made a determination between conflicting evidence is indicative that the Commission attributed greater weight to that evidence and found the source of that evidence more credible and more persuasive than that of the conflicting evidence.[8]

B. General Conclusions of Law

a. MAWC is a "water corporation", "sewer corporation", and a "public utility" as defined in Sections 386.020(59), 386.020(49), and 386.020(43), RSMo, respectively. Thus, MAWC is subject to the personal jurisdiction, supervision, control and regulation of the Commission under Chapters 386 and 393 of the Missouri Revised Statutes. The Commission's subject-matter jurisdiction over MAWC's rate increase request is established under Section 393.150, RSMo.

b. Sections 393.130 and 393.140, RSMo, mandate that the Commission ensure all utilities are providing safe and adequate service and that all rates set by the Commission are just and reasonable. Section 393.150.2, RSMo, makes clear that at any hearing involving a requested rate increase the burden of proof to show the proposed

[7] Witness credibility is solely a matter for the fact-finder, "which is free to believe none, part, or all of the testimony". *State ex rel. Public Counsel v. Missouri Public Service Comm'n*, 289 S.W.3d 240, 247 (Mo. App. 2009).

[8] An administrative agency, as fact finder, also receives deference when choosing between conflicting evidence. *State ex rel. Missouri Office of Public Counsel v. Public Service Comm'n of State*, 293 S.W.3d 63, 80 (Mo. App. 2009).

increase is just and reasonable rests on the corporation seeking the rate increase. As the party requesting the rate increase, MAWC bears the burden of proving that its proposed rate increase is just and reasonable. To carry its burden of proof, MAWC must meet the preponderance of the evidence standard.[9] In order to meet this standard, MAWC must convince the Commission it is "more likely than not" that MAWC's proposed rate increase is just and reasonable.[10]

III. Disputed Issues

Should the Commission open a new rulemaking docket in order to draft affiliate transactions rules for water and sewer?

A. Findings of Fact

7. Affiliate transactions are transactions between members of a common enterprise. They are not "arm's length" transactions.[11]

8. The purpose of affiliate transaction rules is to protect captive ratepayers from monopolistic abuse. The rules can prevent a regulated utility, and, thus, its ratepayers, from subsidizing nonregulated operations.[12]

9. Interested parties have been working on an affiliate transactions rule to include water and sewer companies in File No. AW-2018-0394, since 2018.[13]

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[9] *Bonney v. Environmental Engineering, Inc.*, 224 S.W.3d 109, 120 (Mo. App. 2007); *State ex rel. Amrine v. Roper*, 102 S.W.3d 541, 548 (Mo. banc 2003); *Rodriguez v. Suzuki Motor Corp.*, 936 S.W.2d 104, 110 (Mo. banc 1996), citing to, *Addington v. Texas*, 441 U.S. 418, 423, 99 S.Ct. 1804, 1808, 60 L.Ed.2d 323, 329 (1979).

[10] *Holt v. Director of Revenue, State of Mo.*, 3 S.W.3d 427, 430 (Mo. App. 1999); *McNear v. Rhoades*, 992 S.W.2d 877, 885 (Mo. App. 1999*); Rodriguez v. Suzuki Motor Corp.*, 936 S.W.2d 104, 109-111 (Mo. banc 1996); *Wollen v. DePaul Health Center*, 828 S.W.2d 681, 685 (Mo. banc 1992).

[11] Ex. 200, p. 1, 11.

[12] Ex. 200, p. 2, 11.

[13] Ex. 200, p. 9.

10. So as to not duplicate and waste work already done in File No. AW-2018-0394, that case is the most appropriate and efficient venue to resolve any issue of applicability of the rules to water and sewer utilities.[14]

11. Staff's work in File No. AW-2018-0394 should produce draft rules in less than six months.[15]

B. Conclusions of Law

There are no additional Conclusions of Law for this issue.

C. Decision

The Commission finds that File No. AW-2018-0394 is the proper mechanism to address affiliate transactions for large water companies. The Commission understands OPC's impatience with the speed of work in File No. AW-2018-0394. However, Staff's witness stated that draft rules should be filed within six months. Moreover, a new rulemaking case will not speed up the process and, in fact, may waste the work done in File No. AW-2018-0394. Thus, the Commission will order its Staff to file a status report stating when rules will be filed to begin a formal rulemaking within 90 days of the effective date of this order.

[14] Ex. 14, pp. 25-26; Ex. 15, p. 26; Ex. 115, pp. 23-24.
[15] Tr. Vol. 10, p. 73.

Should MAWC be required to file a Cost Allocation Manual (CAM) with the Commission?

A. Findings of Fact

12. As part of the Stipulation and Agreement in a prior MAWC rate case, File No. WR-2003-0500, MAWC agreed to provide a CAM to Staff and OPC by March 16th of each year. The Commission approved that Stipulation and Agreement on April 6, 2004, and MAWC has filed a timely CAM annually since the Commission approved that Stipulation and Agreement.[16]

13. American Water Works Service Company, Inc. (Service Company) provides services to MAWC that include customer service, water quality testing, innovation and environmental stewardship, human resources, communications, information technology, finance, accounting, payroll, tax, legal, engineering, accounts payable, supply chain, and risk management services.[17]

14. The Service Company provides services to MAWC at cost.[18]

15. The CAM that MAWC files annually contains a set of criteria, guidelines and procedures for the Service Company cost allocations to MAWC and its affiliates.[19]

16. For setting rates, the costs of support services, including wages, employee benefits, professional services, and other expenses, are based on, or are an allocation of, actual costs incurred. Ultimately, MAWC affiliate transactions are scrutinized in all of its rate cases, including this one.[20]

[16] Ex. 14, pp. 25-26.
[17] Ex. 42, p. 6.
[18] Ex. 42, p. 7.
[19] Ex. 14, pp. 25-26.
[20] Ex. 14, pp. 25-26.

B. Conclusions of Law

There are no additional Conclusions of Law for this issue.

C. Decision

The Commission has already ordered MAWC to comply with a Stipulation and Agreement in File No. WR-2003-0500. That Stipulation and Agreement requires MAWC to file annual CAMs by March 16 of each year. MAWC is compliant with the Commission's order. The Commission finds MAWC's annual CAM filing to be sufficient for the Commission to analyze MAWC's affiliate transactions. This annual CAM filing could change, depending upon what water and sewer affiliate transaction rules, if any, the Commission later promulgates.

IV. Decision

MAWC provides safe and adequate service, and the Commission concludes, based upon its review of the whole record, that the rates approved as a result of this order are just and reasonable and support the continued provision of safe and adequate service. The revenue increase approved by the Commission through the First and Third Stipulations is no more than what is sufficient to keep MAWC's utility plants in proper repair for effective public service and provide to MAWC's investors the opportunity to earn a reasonable return upon funds invested. Further, the Commission finds that MAWC's current annual CAM filings and Staff's upcoming draft rules for affiliate transactions in File No. AW-2018-0394 are the appropriate resolutions of the disputed issues.

So that MAWC may proceed with the expeditious filing of its compliance tariffs, the Commission finds it reasonable to make this Report and Order effective in less than 30 days.

THE COMMISSION ORDERS THAT:

1. The First and Third Stipulations are approved, and their signatories are ordered to comply with their terms. A copy of the First Stipulation and a copy of the Third Stipulation are attached as Appendix A and Appendix B, respectively.

2. The Second Stipulation is rejected.

3. The tariff sheets submitted on July 1, 2022, assigned Tracking Nos. YW-2023-0003 and YS-2023-0004, are rejected.

4. MAWC is authorized to file tariff sheets sufficient to recover revenues approved in compliance with this order.

5. MAWC shall file the information required by Section 393.275.1, RSMo 2000, and Commission Rule 20 CSR 4240-10.060 no later than May 10, 2023.

6. Staff shall file its final proposed rules in File No. AW-2018-0394, or a status report stating how much additional time is required to file those draft rules and why additional time is needed, no later than August 11, 2023.

7. This Report and Order shall become effective on May 13, 2023.

BY THE COMMISSION

Nancy Dippell

Nancy Dippell
Secretary

Rupp, Chm., Coleman, Holsman, and
Kolkmeyer CC., concur and certify compliance
with the provisions of Section 536.080, RSMo (2016).

Dated at Jefferson City, Missouri,
on this 3rd day of May, 2023.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water Company's Request for Authority to Implement General Rate Increase for Water and Sewer Service Provided in Missouri Service Areas.	))))	Case No. WR-2022-0303

STIPULATION AND AGREEMENT

COME NOW Missouri-American Water Company ("MAWC" or the "Company"), the Staff of the Missouri Public Service Commission ("Staff"), the Office of the Public Counsel ("OPC"), the Midwest Energy Consumers Group, City of St. Joseph, and Consumers Council of Missouri (collectively, the "Signatories"), by and through their respective counsel, and, for their Stipulation and Agreement (this "Stipulation"), respectfully state as follows to the Missouri Public Service Commission ("Commission"):

1. Public Water Supply District No. 2 of Andrew County, City of Riverside, The Empire District Electric Company, the Missouri Industrial Energy Consumers, Triumph Foods, LLC, and Sunnydale Properties are not Signatories to this Stipulation. However, counsel for each have stated that they do not object to this Stipulation.

2. This Stipulation is being entered into for the purpose of settling issues 1, 2, 3b, 3c, 4, 5, 6, 7, 8, 9, 10, 11, 12, 15, 16, 17, 18, 19, 20, 21, 22 and 23 as described in the *List of Issues, List and Order of Witnesses, Order of Opening, and Order of Cross-Examination* in this case on February 16, 2023.

3. **Admission of Testimony**: The Signatories consent to the admission of, and request that the Commission admit into the record in this proceeding, without the need for witnesses to take the stand, all written testimony that has been filed herein.

4. **Total Revenue Requirement:** As a result of the settlements codified in this

Stipulation, the Signatories agree that MAWC's annual revenue requirement on a total company basis should be increased to $437.5 million. The revenue requirement of $437.5 million represents an increase of approximately $95 million over present rate revenues. The approximately $95 million includes approximately $50.3 million, which is currently being collected through the Water and Sewer Infrastructure Rate Adjustment ("WSIRA") mechanism.

5. **Water and Sewer Infrastructure Rate Adjustment ("WSIRA"):** MAWC's current WSIRA tariff will be reset to zero as of the effective date of new rates resulting from this proceeding, in accordance with § 393.1509.6 RSMo. Further:

a. For purposes of the WSIRA, the overall pre-tax weighted average cost of capital shall be 8.65%. Agreement to use of a "pre-tax" cost of capital for this purpose does not limit in any way any party's ability to challenge recovery of income tax amounts associated with WSIRA investments in future proceedings; and,

b. All WSIRA-eligible investments placed in service beginning January 1, 2023, shall be eligible for the WSIRA mechanism in accordance with Sections 393.1500 et seq., RSMo. However, MAWC's next WSIRA petition shall not be filed until after the effective date of rates resulting from this case.

6. **Billing Determinants:** The billing determinants to be used for establishing customer rates are included as **Attachments A (water) and B (sewer)** to this Stipulation.

7. **Tax Cut and Jobs Act of 2017 ("TCJA"):** The TCJA tracker balance as of December 31, 2022, shall be applied to the remaining stub period TCJA amortization and the remainder returned to customers as a one-time customer bill credit within ninety (90) days after the effective date of rates resulting from this case. MAWC will provide notice to the Commission when the credit has been completed.

Additionally, the existing tracker will be continued to capture the differences between protected Excess Accumulated Deferred Income Tax ("EADIT") returned to customers as part of the revenue requirement in this case, and the actual amortization recorded by the Company using Average Rate Assumption Method ("ARAM") for protected EADIT balances and a ten (10) year amortization period for non-stub period unprotected EADIT balances.

8. **Main Break and Water Loss Report:** MAWC agrees to conduct an annual review regarding its water main breaks and water loss by district, and, for those districts in which water loss is greater than 20%, MAWC shall include a list of items believed to be major contributors to that water loss. MAWC shall provide such review to Staff, OPC, and other interested Signatories no later than the date its Commission annual report is filed, beginning with the year 2024, until the completion of MAWC's next general rate case.

9. **Late Payment Charge:** MAWC's Late Payment Charge (currently 1.50% per month) shall be eliminated for both water and sewer.

10. **Pensions and Other Post-Employment Benefits ("OPEBs"):** Pensions and OPEBs shall be treated as described in **Attachment C** to this Stipulation.

11. **Depreciation Rates:** MAWC shall continue to use the depreciation rates approved in MAWC's last general rate case, Case Number WR-2020-0344. The depreciation rates are included in **Attachments D and E** to this Stipulation.

12. **Property Tax:**

a. The amount of revenue requirement used to set rates for property tax shall be set at $ 34,063,451, pursuant to Section 393.1275, RSMo.

b. MAWC's deferred property tax balance as of December 31, 2022, shall be included in rate base and amortized over 60 months.

13. **Lead Service Line Replacement ("LSLR"):**

a. MAWC will continue to defer and book to USOA Account 186 the costs of customer-owned LSLRs applying its long-term borrowing rate as to the carrying costs. MAWC will amortize over ten (10) years the amounts deferred. MAWC's long-term debt rate shall be applied to the unamortized balance.

b. Additionally, MAWC agrees to file bi-annually a Lead Service Line Report in this case (Case No. WR-2022-0303) that includes the following:

- Known and estimated existing lead lines by source;
- Lines replaced each reporting period filing as well as cumulative total lines replaced to date;
- Location (zip code +4) and customer type of line replacement (e.g., residential, commercial, school, commercial, etc.);
- Average cost, and breakdown by company and customer side, per district for each reporting period;
- Nature and type of pipe replaced (e.g., lead, copper, galvanized gooseneck, etc.);
- Water sampling results.

The Company agrees to meet on a bi-annual basis with Staff and the OPC to review performance to date (e.g., data) as well as the Company's progress in securing federal funding for lead line replacements. The Company will also work with Staff and the OPC on the appropriateness of updating the Company's Frequently Asked Questions ("FAQ") section of its website as well as the inclusion of a lead line replacement dashboard. The Parties to this Stipulation agree to support the Company's motion to close WW-2019-0242.

14. **Call Center Operational Audit:** There shall be a Call Center Operational Audit

conducted in accordance with the provisions of **Attachment F** to this Stipulation.

15. **Tank Painting Tracker:** The Signatories agree that MAWC will establish a regulatory asset or liability for tank painting and inspection expense. The regulatory asset or liability will increase or decrease each year for the difference between the actual tank painting and inspection expense and the amount included in rates: $1,975,173. In the Company's next rate case, the deferred balance will be amortized over 5 years. There shall be no rate base treatment on any balance. The tracker will be maintained through the effective date of rates resulting from MAWC's next general rate case.

16. **Main Extensions:** MAWC's Tariff Rule 23 (Extension of Company Mains) shall be modified to remove the 120-day time frame, remove the 4x annual revenue requirement in all instances, and implement a 75/25 sharing mechanism as to total costs state-wide. Sample tariff sheets for this purpose are attached to this Stipulation as **Attachment G**.

17. **Assistance to Troubled Systems:** Costs related to assistance provided to troubled systems shall be amortized over 60 months.

18. **Customer Programs:** MAWC will participate in the Critical Needs Program and the Rehousing Pilot Program. MAWC will provide $250,000 of annual funding to the Critical Needs Program and $100,000 of annual funding to the Rehousing Pilot Program. Such funding will be shared 50/50 between the Company and its customers.

19. **Withdrawals:** MAWC withdraws, without prejudice, its request for a revenue stabilization mechanism pursuant to Section 386.266.4, RSMo, its request for a bad debt expense tracker, its request for a production cost tracker, its request for a depreciation deferral mechanism, and its request for a post-in-service carrying cost capitalization mechanism.

General Terms

20. Unless otherwise explicitly provided herein, none of the Signatories shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, including, without limitation, any method of cost of service or valuation determination or cost allocation, rate design, revenue recovery, or revenue-related methodology. Except as explicitly provided herein, none of the Signatories shall be prejudiced or bound in any manner by the terms of this Stipulation in this or any other proceeding. This Stipulation has resulted from extensive negotiations among the parties, and the terms hereof are interdependent and non-severable. If the Commission does not approve this Stipulation unconditionally and without modification, or if the Commission approves the Stipulation with modifications or conditions to which a party objects, then this Stipulation shall be void and none of the Signatories shall be bound by any of the agreements or provisions hereof.

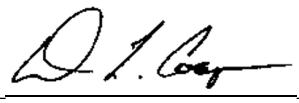
21. In the event the Commission accepts the specific terms of this Stipulation without condition or modification, the Signatories waive their respective rights to present oral argument and written briefs pursuant to RSMo. §536.080.1, their respective rights to the reading of the transcript by the Commission pursuant to §536.080.2, their respective rights to seek rehearing pursuant to §386.500, and their respective rights to judicial review pursuant to §386.510, as to the issues settled by this Stipulation only. These waivers apply only to a Commission order approving this Stipulation without condition or modification issued in this proceeding and only to the issues that are resolved hereby. These waivers do not apply to any issues not explicitly addressed by this Stipulation. The Signatories agree that all discussions, suggestions, or memoranda reviewed or discussed, related to this Stipulation shall be privileged and shall not be subject to discovery, admissible in evidence, or in any way used, described or discussed.

22. This Stipulation and its attachments contain the entire agreement of the Signatories concerning the issues addressed herein.

23. This Stipulation does not constitute a contract with the Commission. Acceptance of this Stipulation by the Commission shall not be deemed as constituting an agreement on the part of the Commission to forego the use of any discovery, investigatory powers or other statutory powers which the Commission presently has. Thus, nothing in this Stipulation is intended to impinge or restrict in any manner the exercise by the Commission of any statutory right, including the right to access information.

WHEREFORE, the Signatories respectfully request the Commission to issue an Order approving this Stipulation and Agreement and authorizing the Company to file tariffs to implement the terms hereof.

Attorneys for Missouri-American Water Company:



Dean L. Cooper, Mo. Bar #36592
BRYDON, SWEARENGEN & ENGLAND P.C.
P.O. Box 456
Jefferson City, MO 65012
(573) 635-7166 telephone
dcooper@brydonlaw.com

Timothy W. Luft, Mo. Bar #40506
Rachel L. Niemeier, Mo. Bar #56073
MISSOURI-AMERICAN WATER COMPANY
727 Craig Road
St. Louis, MO 63141
(314) 996-2279
Tim.Luft@amwater.com
Rachel.Niemeier@amwater.com

Attorney for the Staff of the Missouri Public Service Commission:

/s/ Karen E. Bretz
Karen E. Bretz
Deputy Counsel
Missouri Bar No. 70632
Attorney for the Staff of the
Missouri Public Service Commission
P.O. Box 360

Jefferson City, MO 65102
573-751-5472 (Voice)
573-751-9285 (Fax)
Karen.Bretz@psc.mo.gov

Attorney for the Office of the Public Counsel:

/s/ Lindsay VanGerpen
Lindsay VanGerpen (#71213)
Associate Counsel
Missouri Office of the Public Counsel
P.O. Box 2230
Jefferson City, MO 65102
Telephone: (573) 751-5565
Facsimile: (573) 751-5562
E-mail: Lindsay.VanGerpen@opc.mo.gov

Attorney for the Midwest Energy Consumers Group:

/s/ Tim Opitz
Tim Opitz, Mo. Bar No. 65082
Opitz Law Firm, LLC
308 E. High Street, Suite B101
Jefferson City, MO 65101
T: (573) 825-1796
tim.opitz@opitzlawfirm.com

Attorney for the City of St. Joseph

/s/ William D. Steinmeier
_____
William D. Steinmeier, MoBar #25689
WILLIAM D. STEINMEIER, P.C.
2031 Tower Drive
Jefferson City, MO 65109
Phone: 573-659-8672
Email: wds@wdspc.com

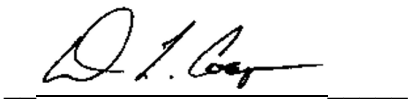
COUNSEL FOR THE CITY OF ST. JOSEPH, MISSOURI

Attorney for Consumers Council of Missouri

/s/ John B. Coffman
John B. Coffman MBE #36591
John B. Coffman, LLC
871 Tuxedo Blvd.
St. Louis, MO 63119-2044
Ph: (573) 424-6779
E-mail: john@johncoffman.net

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail, on March 3, 2023, to counsel for all parties.



Residential Water Billing Determinants

	St. Louis	Other MO	Total
Meter Billings	**Monthly**	**Monthly**	**Company**
5/8"	3,428,899	1,322,938	4,751,837
3/4"	292,675	18,979	311,654
1"	127,597	71,329	198,927
1.5"	9,082	1,789	10,871
2.0"	12,350	1,565	13,915
3.0"	251	36	287
4.0"	302	0	302
6.0"	290	0	290
8.0"	515	12	527
10.0"	36	0	36
12.0"	0	0	0
Low Income			0
Total	**3,871,997**	**1,416,649**	**5,288,645**

	St. Louis	Other MO	Total
Usage (1,000 Gallons)	**Monthly**	**Monthly**	**Company**
Rate A Volume	23,020,060	5,456,895	28,476,955
Block 1 - Mexico		115,292	115,292
Block 2 - Mexico		48,386	48,386
Block 3 - Mexico		9,176	9,176
Total	**23,020,060**	**5,629,750**	**28,649,809**

	St. Louis	Other MO	Total
Flat Rate Billings	**Monthly**	**Monthly**	**Company**
Rankin/Whitebranch		2,690	2,690
Table Rock		370	370
Monsees Lake		768	768
Total	**0**	**3,828**	**3,828**

Commercial Water Billing Determinants

	St. Louis	Other MO	Total
Meter Billings	**Monthly**	**Monthly**	**Company**
5/8" - Rate A	86,338	66,854	153,192
3/4" - Rate A	34,542	1,929	36,471
1" - Rate A	24,945	22,078	47,023
1.5" - Rate A	12,415	4,128	16,542
2.0" - Rate A	36,989	19,920	56,909
3.0" - Rate A	3,204	609	3,813
4.0" - Rate A	2,220	948	3,168
6.0" - Rate A	1,966	201	2,167
8.0" - Rate A	2,740	179	2,919
10.0" - Rate A	647	17	664
12.0" - Rate A	0	0	0
5/8" - Rate J	0	0	0
3/4" - Rate J	12	0	12
1" - Rate J	12	12	24
1.5" - Rate J	48	0	48
2.0" - Rate J	190	231	420
3.0" - Rate J	72	60	132
4.0" - Rate J	179	84	263
6.0" - Rate J	107	133	240
8.0" - Rate J	212	24	236
10.0" - Rate J	96	36	132
12.0" - Rate J	0	0	0
Total	**206,935**	**117,441**	**324,376**

	St. Louis	Other MO	Total
Usage (1,000 Gallons)	**Monthly**	**Monthly**	**Company**
Rate A Volume	7,213,898	2,305,648	9,519,546
Rate J Volume	1,059,355	605,737	1,665,092
Total	**8,273,253**	**2,911,384**	**11,184,638**

Industrial Water Billing Determinants

	St. Louis	Other MO	Total
Meter Billings	**Monthly**	**Monthly**	**Company**
5/8" - Rate A	0	334	334
3/4" - Rate A	0	48	48
1" - Rate A	0	348	348
1.5" - Rate A	0	12	12
2.0" - Rate A	1	873	874
3.0" - Rate A	11	74	85
4.0" - Rate A	18	97	115
6.0" - Rate A	11	64	75
8.0" - Rate A	0	48	48
10.0" - Rate A	2	0	2
12.0" - Rate A	0	0	0
5/8" - Rate J	0	113	113
3/4" - Rate J	0	12	12
1" - Rate J	0	60	60
1.5" - Rate J	12	0	12
2.0" - Rate J	120	360	480
3.0" - Rate J	168	74	242
4.0" - Rate J	324	246	570
6.0" - Rate J	360	123	483
8.0" - Rate J	108	60	168
10.0" - Rate J	72	0	72
12.0" - Rate J	0	0	0
Total	**1,207**	**2,946**	**4,153**

	St. Louis	Other MO	Total
Usage (1,000 Gallons)	**Monthly**	**Monthly**	**Company**
Rate A Volume	7,822	132,665	140,487
Rate J Volume	2,103,593	2,340,795	4,444,388
Special Contract 1		790,200	790,200
Special Contract 2		195,285	195,285
Total	**2,111,415**	**3,458,946**	**5,570,361**

Other Public Authority Water Billing Determinants

	St. Louis	Other MO	Total
Meter Billings	**Monthly**	**Monthly**	**Company**
5/8" - Rate A	1,780	3,792	5,572
3/4" - Rate A	2,050	227	2,277
1" - Rate A	1,717	2,218	3,935
1.5" - Rate A	914	1,007	1,921
2.0" - Rate A	2,954	4,539	7,493
3.0" - Rate A	457	551	1,008
4.0" - Rate A	329	539	867
6.0" - Rate A	467	96	563
8.0" - Rate A	156	108	264
10.0" - Rate A	36	0	36
12.0" - Rate A	0	0	0
5/8" - Rate J	0	0	0
3/4" - Rate J	0	0	0
1" - Rate J	0	24	24
1.5" - Rate J	0	0	0
2.0" - Rate J	0	83	83
3.0" - Rate J	0	12	12
4.0" - Rate J	0	36	36
6.0" - Rate J	0	0	0
8.0" - Rate J	24	36	60
10.0" - Rate J	34	0	34
12.0" - Rate J	0	0	0
Total	**10,918**	**13,268**	**24,186**

	St. Louis	Other MO	Total
Usage (1,000 Gallons)	**Monthly**	**Monthly**	**Company**
Rate A Volume	386,616	484,467	871,083
Rate J Volume	96,448	181,760	278,208
Total	**483,064**	**666,227**	**1,149,291**

Sale for Resale Water Billing Determinants

	St. Louis	Other MO	Total
Meter Billings	**Monthly**	**Monthly**	**Company**
5/8"	0	0	0
3/4"	0	0	0
1"	0	24	24
1.5"	0	0	0
2.0"	0	156	156
3.0"	0	48	48
4.0"	0	108	108
6.0"	0	72	72
8.0"	0	12	12
10.0"	0	0	0
12.0"		0	0
Total	**0**	**420**	**420**

	St. Louis	Other MO	Total
Fixed Charge	**Monthly**	**Monthly**	**Company**
Special Contract B (Fixed)	12		12
Total	**12**	**0**	**12**

	St. Louis	Other MO	Total
Usage (1,000 Gallons)	**Monthly**	**Monthly**	**Company**
Rate B Volume	1,615,664	1,131,783	2,747,447
Special Contract A	1,209,793		1,209,793
Special Contract B	1,219,594		1,219,594
Special Contract C		19,250	19,250
Total	**4,045,051**	**1,151,032**	**5,196,083**

Private Fire Water Billing Determinants

	St. Louis	Other MO	Total
Meter Billings	**Monthly**	**Monthly**	**Company**
2.0"	1,620	1,012	2,632
3.0"	12	36	48
4.0"	6,631	4,195	10,826
6.0"	27,494	8,771	36,265
8.0"	15,964	5,245	21,209
10.0"	396	810	1,206
12.0"	984	252	1,236
Hydrant	456	3,000	3,456
Total	**53,557**	**23,321**	**76,878**

	St. Louis	Other MO	Total
Usage (1,000 Gallons)	**Monthly**	**Monthly**	**Company**
Rate A Fire Volume	52,275	4,269	56,545
Total	**52,275**	**4,269**	**56,545**

Residential Sewer Billing Determinants

Unit Billings	Arnold	Other MO	Total
Arnold	101,380		101,380
Other Sewer High		71,817	71,817
Other Sewer Low		88,976	88,976
Taos		5,169	5,169
Hallsville		8,052	8,052
Monsees Lake		768	768
Total	**101,380**	**174,782**	**276,162**

Usage (1,000 Gallons)	Block 1	Block 2	Total
Arnold	505,846	35,506	541,352
Total	**505,846**	**35,506**	**541,352**

Commercial Sewer Billing Determinants

Meter Billings	Arnold	Other MO	Total
Arnold	7,798		7,798
Minimum Charge - High		860	860
Other Sewer High 5/8"		538	538
Other Sewer High 3/4"		0	0
Other Sewer High 1"		372	372
Other Sewer High 1.5"		168	168
Other Sewer High 2"		198	198
Other Sewer Low 5/8"		3,589	3,589
Other Sewer Low 3/4"		0	0
Other Sewer Low 1"		824	824
Other Sewer Low 1.5"		754	754
Other Sewer Low 2"		821	821
Other Sewer Low 3"		93	93
Other Sewer Low 4"		48	48
Other Sewer Low 6"		12	12
Taos		132	132
Hallsville		612	612
Total	**7,798**	**9,021**	**16,818**

Usage (1,000 Gallons)	Block 1	Block 2	Total
Arnold	24,067	219,857	243,924
Other Sewer High	6,637	22,733	29,370
Other Sewer Low	18,997	102,794	121,791
Total	**49,701**	**345,383**	**395,084**

Industrial Sewer Billing Determinants

Meter Billings	Arnold	Other MO	Total
Other Sewer Low 5/8"		0	0
Other Sewer Low 3/4"		0	0
Other Sewer Low 1"		0	0
Other Sewer Low 1.5"		0	0
Other Sewer Low 2"		0	0
Other Sewer Low 3"		12	12
Other Sewer Low 4"		0	0
Total	**0**	**12**	**12**

Usage (1,000 Gallons)	Block 1	Block 2	Total
Arnold			0
Arnold Speical 1			0
Growth - Arnold			0
Other Sewer Low	72	1,417	1,489
Total	**72**	**1,417**	**1,489**

Other Public Authority Sewer Billing Determinants

Meter Charge	Arnold	Other MO	Total
Arnold	11,618		11,618
Minimum Charge - High		12	12
Other Sewer High 1"		36	36
Other Sewer High 2"		24	24
Other Sewer High 3"		24	24
Other Sewer Low 5/8"		168	168
Other Sewer Low 1"		114	114
Other Sewer Low 1.5"		96	96
Other Sewer Low 2"		102	102
Taos		12	12
Hallsville		84	84
Total	**11,618**	**672**	**12,290**

Usage (1,000 Gallons)	Block 1	Block 2	Total
Arnold	362	122	484
Other Sewer High	439	2,189	2,628
Other Sewer Low	1,626	3,331	4,957
Total	**2,427**	**5,642**	**8,069**

Pension Tracker Mechanism and OPEB Tracker Mechanism

A. The Signatories agree that the rates established in this case for the MAWC pension plan include an allowance of $1,819,551. (All amounts are stated after application of a payroll expense O&M allocation factor.) The difference between the amount of pension expense included in MAWC's rates and the amount funded by MAWC shall be included in the Company's rate base in future rate proceedings, and the balance existing at the later of the end of the test year, the test year update or true-up, as applicable in the Company's next rate case shall be amortized to expense over a five-year period. The pension tracker balance resulting from this case will start to be booked in the month following the effective date of new rates in this rate case, and will continue to be booked until the end of the month for the effective date of new rates in the Company's next rate case. The Company shall be authorized to record as a regulatory asset/liability, as appropriate, the difference between the pension expense used in setting rates and the pension expense as recorded for financial reporting purposes as determined in accordance with GAAP (or such standard as the FASB may issue to supersede, amend, or interpret the existing standards). A portion of the service cost component will be capitalized, based on the labor capitalization percentage, and the non-service cost components will be expensed. All portions will be recorded to O&M for regulatory purposes.

B. The cumulative pension tracker amount in MAWC's rate base as of December 31, 2022, is a $9,599,085 reduction to rate base, and the annual amortization of that amount to expense is ($1,919,817) (reflected as an annual reduction in expense). No Service Company pension costs are included in MAWC's pension tracker balance in this case.

C. The Company shall be allowed rate recovery for prudent contributions it makes to its pension trust that exceed the ERISA minimum for any of the following reasons:

i) The minimum required contribution is insufficient to avoid the benefit restrictions

specified for at-risk plans pursuant to the Pension Protection Act of 2006, thereby causing an inability by MAWC to pay out pension benefits to recipients in its normal and customary manner, including lump sum payments; or

ii) The minimum required contribution is not sufficient to avoid any Pension Benefit Guarantee Corporation (PBFC) variable premiums.

Prudent additional contributions made pursuant to the paragraph will increase MAWC's rate base, and will receive the regulatory treatment as described in paragraph A of this Section. MAWC shall inform Staff and Public Counsel of contributions of additional amounts to its pension trust funds pursuant to this paragraph in a timely manner. Staff, Public Counsel and other Signatories reserve the right to challenge the prudence of any additional contributions made by MAWC pursuant to this paragraph in subsequent MAWC rate proceedings.

D. The Signatories agree that rates established in this case for MAWC's OPEB expense reflect an allowance of ($3,265,591). (All amounts are stated after application of a payroll O&M allocation factor.) The Company will fund its OPEB trusts based upon its expense as calculated for financial reporting purposes. The difference between the amount of OPEB expense included in MAWC's rates and the amount recorded on MAWC's books and funded by the Company shall be included in the Company's rate base in future proceedings, and the balance existing at the later of the end of the test year, the test year update or true-up, as applicable in the Company's next rate case shall be amortized to expense over a five-year period. The OPEB tracker balance resulting from this case will start to be booked in the month following the effective date of new rates in this rate case, and will continue to be booked until the end of the month for the effective date of new rates in the Company's next rate case. The Company shall be authorized to record as a regulatory asset/liability, as appropriate, the difference between the OPEB expense used in setting rates and the OPEB expense as recorded for financial reporting purposes as determined in accordance with GAAP (or such standard as the FASB may issue to supersede, amend, or interpret the existing standards). A

portion of the service cost component will be capitalized, based on the labor capitalization percentage, and the non-service cost components will be expensed. All portions will be recorded to O&M for regulatory purposes.

E. The cumulative OPEB tracker amount in MAWC's rate base as of December 31, 2022, is a $6,294,904 reduction to rate base and the annual amortization of that amount to expense is ($1,258,981) (reflected as an annual reduction in expense). No Service Company OPEB costs are included in MAWC's OPEB tracker balance in the case.

F. The provisions of FAS 158 may require certain adjustments to the prepaid pension asset/OPEB asset and/or accrued liability with a corresponding adjustment to equity (i.e. decreases/increases to Other Comprehensive Income). The Company will be allowed to set up a regulatory asset/liability to offset any adjustments that would otherwise be recorded to equity caused by applying the provisions of FAS 158 or any other FASB statement or procedure that requires accounting adjustments to equity due to the funded status or other attributes of the pension or OPEB plans. The Signatories acknowledge that the adjustments described in this paragraph will not increase or decrease rate base.

G. Nothing in this Agreement is intended to impair the ability of any Signatory in MAWC's next rate case proceeding to challenge the prudency of the Company's calculated levels of pension and OPEBs expenses that it proposes to recover from the tracker mechanisms.

MISSOURI AMERICAN WATER COMPANY – Water

Schedule of Depreciation Rates
WR-2022-0303

USOA Account Number	Account Description	Remaining Life Depreciation Rate %	Average Service Life (Years)	Iowa Curves	% Net Salvage
	Source of Supply				
311.0	Structures & Improvements	1.97%	60	R4	-25%
312.0	Collecting & Impoundment Reservoirs	0.35%	85	R3	0%
313.0	Lake, River & Other Intakes	3.57%	70	S0.5	-10%
314.0	Wells & Springs	2.52%	55	R1.5	-5%
315.0	Infiltration Galleries and Tunnels	1.77%	60	R2.5	0%
316.0	Supply Mains	1.45%	80	R3	-25%
317.0	Miscellaneous Source of Supply – Other	4.97%	25	SQ	0%
	Pumping Plant				
321.0	Structures & Improvements	3.95%	75	R2.5	-15%
322.0	Boiler Plant Equipment	3.05%	37	R3	-5%
323.0	Power Generation Equipment	3.05%	37	R3	-5%
324.0	Steam Pumping Equipment	1.89%	47	R1	-10%
325.0	Electric Pumping Equipment	1.89%	47	R1	-10%
326.0	Diesel Pumping Equipment	1.89%	47	R1	-10%
327.0	Hydraulic Pumping Equipment	1.89%	47	R1	-10%
328.0	Other Pumping Equipment	1.89%	47	R1	-10%
	Water Treatment Plant				
331.0	Structures & Improvements	2.34%	80	R2.5	-15%
332.0	Water Treatment Equipment	2.18%	48	R1.5	-20%
333.0	Miscellaneous Water Treat, Other	3.33%	30	SQ	0%
	Transmission and Distribution				
341.0	Structures & Improvements	1.49%	55	R2.5	-20%
341.1	Structures & Improve - Special Crossing	1.49%	55	R2.5	-20%
342.0	Distribution Reservoirs & Standpipes	1.70%	65	R2.5	-25%
343.0,1,2,3	Transmission & Distribution Mains	1.39%	90	R2.0	-30%
344.0	Fire Mains	1.56%	85	S1	-30%
345.0	Customer Services	2.92%	65	R2.0	-100%
346.0	Customer Meters	2.40%	42	R1.5	-10%
347.0	Customer Meter Pits & Installation	2.40%	42	R1.5	-10%
348.0	Fire Hydrants	1.85%	65	R1.5	-30%
349.0	Misc Trans & Dist – Other	2.96%	50	R3	0%
	General Plant				
390.0	Structures & Improve - Shop & Garage	3.02%	55	R2.5	-20%
390.1	Structures & Improve - Office Buildings	2.09%	47	S0	-20%
390.3	Structures & Improve – Miscellaneous	3.72%	55	R2.0	-20%
390.9	Structures & Improve – Leasehold	2.75%	25	R4	0%
391.0	Office Furniture	3.49%	20	SQ	0%
391.1	Computer & Peripheral Equipment	19.06%	5	SQ	0%
391.2	Computer Hardware & Software	19.06%	5	SQ	0%
391.25	Computer Software	5.00%	20	SQ	0%
391.26	Personal Computer Software	10.00%	10	SQ	0%
391.3	Other Office Equipment	10.46%	15	SQ	0%
391.4	BTS Initial Investment	5.00%	20		0%
392.1	Transportation Equipment - Light trucks	5.57%	9	L1.5	15%
392.2	Transportation Equipment - Heavy trucks	0.00%	10	L1.5	15%
392.3	Transportation Equipment – Autos	0.00%	6	L1.5	15%
392.4	Transportation Equipment – Other	6.15%	15	S3	5%
393.0	Stores Equipment	3.88%	25	SQ	0%
394.0	Tools, Shop, Garage Equipment	3.73%	20	SQ	0%
395.0	Laboratory Equipment	3.90%	15	SQ	0%
396.0	Power Operated Equipment	3.79%	12	L1	20%
397.1	Communication Equip - Non Telephone	5.76%	15	SQ	0%
397.2	Communication Equip – Telephone	8.94%	10	SQ	0%
398.0	Miscellaneous Equip	6.48%	15	SQ	0%
399.0	Other Tangible Equipment	2.43%	20	SQ	0%

MISSOURI AMERICAN WATER COMPANY – Sewer

Schedule of Depreciation Rates
WR-2022-0303

USOA Account Number	Account Description	Remaining Life Depreciation Rate %	Average Service Life (Years)	Iowa Curves	% Net Salvage
	Collection Plant				
351	Structures & Improvements	2.03%	50	R3	-5%
352.1	Collection Sewers (Force)	1.64%	60	R2.5	-10%
352.2	Collection Sewers (Gravity)	1.58%	70	R3	-20%
353	Services To Customers	2.87%	55	R2.0	-40%
354	Flow Measuring Devices	3.38%	25	S2.5	0%
356	Other Collection Equipment	3.15%	50		0%
357	Communication Equipment	6.67%	15	SQ	0%
	Pumping Plant				
361	Structures & Improvements	2.17%	45	R3	0%
362	Receiving Wells	2.87%	30	L2.5	0%
363	Electric Pumping Equip, (Includes Generators)	4.31%	15	L1.5	-5%
364	Diesel Pumping Equipment	4.31%	15	L1.5	-5%
365	Other Pumping Equipment	4.31%	15	L1.5	-5%
	Treatment and Disposal Plant				
371	Structures & Improvements	1.43%	60	R2.5	-5%
372	Treatment & Disposal Equipment (Includes pumps, blowers, generators)	3.97%	30	S0.5	-20%
373	Plant Sewers	1.60%	50	R2.5	0%
374	Outfall Sewer Lines	3.04%	35	L2.0	0%
	General Plant				
390.0	Structures & Improve – General	3.11%	35	R2.5	-5%
390.9	Structures & Improve – Leasehold	5.00%	20	R4	0%
391.0	Office Furniture	5.00%	20	SQ	0%
391.1	Computer & Peripheral Equipment	20.00%	5	SQ	0%
391.2	Computer Hardware & Software	20.00%	5	SQ	0%
391.25	Computer Software	5.00%	20	SQ	0%
391.26	Personal Computer Software	10.00%	10	SQ	0%
391.3	Other Office Equipment	6.67%	15		0%
391.4	BTS Initial Investment	5.00%	20		0%
392.0	WW Transportation Equipment	3.45%	10	L2.5	5%
392.1	Transportation Equipment - Light trucks	3.45%	10	L2.5	5%
392.2	Transportation Equipment - Heavy trucks	3.45%	10	L2.5	5%
392.3	Transportation Equipment – Autos	3.45%	10	L2.5	5%
392.4	Transportation Equipment – Other	3.45%	10	L2.5	5%
393.0	Stores Equipment	4.00%	25	SQ	0%
394.0	Tools, Shop, Garage Equipment	5.00%	20	SQ	0%
395.0	Laboratory Equipment	6.67%	15	SQ	0%
396.0	Power Operated Equipment	7.71%	15	L2.5	0%
397.1	Communication Equip - Non Telephone	6.67%	15	SQ	0%
397.2	Communication Equip – Telephone	6.67%	15	SQ	0%
398.0	Miscellaneous Equip	6.43%	15	SQ	0%
399.0	Other Tangible Equipment	0.00%	30	R2.0	0%

MAWC Call Center Operational Audit

Purpose:

The purpose of this call center operational audit is to evaluate the conditions and decisions made by the Customer Care Team (CCT) and Customer Insight Team (CIT) (Collectively referred to as "Customer Team") of the Customer Service Organization of American Water Works Service Company that may have contributed to the decreased performance of the call centers that service MAWC's customers from July 2020 to the present ("relevant time period"). In particular, this audit will identify and evaluate the Customer Team's decision-making process utilized to address decreased and increased performance related to the scope of the audit during the relevant time period, and will evaluate the Customer Team's operating practices, systems, and procedures and develop recommendations to ensure effective practices in place as well as those that may be helpful in the future.

Scope:

I. Geographic Routing:

The audit will include an analysis of the Customer Team's decision to no longer provide Geographic Routing for its call centers that handle MAWC customer calls. This will include an analysis of the call routing technology employed by the Customer Team to distribute calls in the queue.

II. Customer Care Team Response:

The audit will review the Customer Team's efforts to address the Average Speed of Answer (ASA) and Abandoned Call Rate (ACR) and will include analysis of the cause for any fluctuation in the levels of ASA and ACR within the relevant time period. This will also include an analysis of the effectiveness of the Interactive Voice Response system (IVR) in assisting its customers. The audit will include an examination of how MAWC utilizes customer feedback within the Customer Care Team. That examination will look at the internal methods used to determine customer satisfaction with the call center (looking specifically at items such as survey structure, response rate, and effectiveness at measuring the intended variable) and its responsiveness to customer feedback.

III. Recruitment and Training:

The audit will review the Customer Team's management decisions in the recruitment, hiring, and training for Customer Care Agents (CCA) as well as attrition rate and factors causing attrition. The analysis will include a review of the CCT's process of transitioning to a remote work environment for CCA within the relevant time period as well as whether the transition to remote work impacted call center operations.

Audit Process:

The Customer Team and MAWC employees will cooperate fully with the auditor by timely providing relevant information requested to complete the audit including, but not limited to, connecting the auditors with individuals who can assist the auditor as appropriate. The selected auditor shall be retained by MAWC and provide the audit report exclusively to MAWC, which shall file the audit report confidentially with the Commission, pursuant to 20 CSR 4240-2.135(2)(A) 3 and 5. The audit will express an independent opinion that identifies observations regarding Customer Team operations related to the scope of this audit, which will include analysis of operations that impacted call center performance, with the goal towards informing MAWC, the Staff of the Missouri Public Service Commission (Staff), and the Office of the Public Counsel (OPC) of the status of the Customer Team operations and any recommendations related to the scope of this audit, including improvements to any processes, if any. The audit report shall provide recommendations regarding actions that can be taken to continue to reduce ASA and ACR levels while enhancing customer service. It shall include a prioritization of action items (low, medium, high). It shall also provide recommendations intended to prevent a reoccurrence of the identified issues to the extent possible. The audit firm conducting the audit will provide a confidential status report on the progress of the audit at least twice during the course of the audit's time frame for completion. This confidential status report will be provided to MAWC, to MO PSC Staff and the Office of the Public Counsel. The audit shall conclude within six (6) months of the auditor being selected.

Third-Party Audit Request for Proposal (RFP):

A committee comprised of an equal number of Staff, OPC and MAWC representatives shall develop a RFP for the audit to be issued by MAWC. The RFP shall be circulated internally among the committee within 120 days of the effective dates of new rates in this case. The selection of a successful bidder, if any, shall be conducted by the same committee and shall be made by majority vote. In the event the committee cannot agree to the identity of the auditor, the committee shall submit such question to the Commission for decision. The independent third-party auditor's contract shall preserve the auditor's independence by precluding Staff, OPC, or MAWC representatives from directing or influencing the audit report's conclusions. Upon completion, MAWC shall file the audit report confidentially with the Commission in the Electronic Filing Information System (EFIS).

Audit Costs:

It is expressly acknowledged that MAWC shall provide $100,000, funded below the line (and not recovered in rates), for purposes of funding the independent third-party call center operational audit. Any additional expense beyond $100,000, required by the Commission, will be split evenly between ratepayers and shareholders.

For ratemaking purposes, any cost in excess of $100,000 shall be deferred to account 182.3 (other regulatory assets). This deferral will not receive a return, and will be amortized over 3 years, subject to the 50/50 split provided immediately above, in retail rates and cost of service in the first MAWC general rate case subsequent to the completion of the audit.

Missouri-American Water Company For Missouri Service Area
Name of Issuing Corporation Community, Town or City

Rules and Regulations Governing the Rendering of Water Service

Rule 23 – Extension of Company Mains

A. This rule shall govern the extension of the Company's water mains after the date hereof which are necessary to serve Customers within its service area. The Company's water mains can be extended within the service territory of each of its operations within the State of Missouri either by the Company's forces, Company's contractor or by an Applicant's contractor in accordance with Company's standards and contractual requirements. For any design/installation option, the following terms and conditions shall apply:

1. When an Applicant makes a request for an extension of water main, the Company shall first determine the closest adequate and reliable source of water in its existing distribution system. The Company will then determine the sizes, types, route and location of mains, loops and other tie-ins if necessary, replacement and upsizing of existing mains if necessary to meet the Applicant's requirements, and ancillary equipment needed to serve Applicant's property. Design of the extension will be based on domestic flow requirements as stated by the Applicant and fire flow requirements as determined by the local fire authority and the direct impact of the additional domestic flow and fire flow requirements of the Applicant to the Company's existing Customers. If there is no local fire authority or the local fire authority declines to impose a flow requirement, then the fire flow requirements will be determined by the Applicant and approved by the Company. At a minimum, the fire flow requirements determined by the Applicant will meet Insurance Services Office, Inc. (ISO) standards. The local fire authority will determine fire hydrant locations unless there is no local fire authority or the local fire authority declines to locate fire hydrants, in which case the Company will determine the fire hydrant locations.

2. The Applicant and Company shall fund the cost of the proposed water main extension at a ratio of 75/25 (i.e., 75% Applicant funded and 25% Company funded) for all districts. * *

3. Applicants requesting a main extension to serve a single premises in a recorded, residential single lot development can choose the aforementioned option in Provision A.2., above, or the option whereby the Company will be responsible for all of the costs, except easement acquisition, associated with extending the main up to one hundred feet (100') (Free Extension). If the main extension required is greater than one hundred feet (100') in length, all costs above the Free Extension shall be borne by the Applicant calculated on a per-foot basis. * *

* *Indicates new rate or text*
\+ *Indicates change*

Date of Issue: 2023 Effective Date: 2023

Issued By: Rich C. Svindland, President
727 Craig Road, St. Louis, MO 63141

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4. The Applicant/Company funding ratio of 75/25 for all districts will only apply to the cost for the main extensions and may include, but is not limited to, all material and labor costs of piping, public fire hydrants (as applicable), valves, fittings, casing pipe, inspection fees, testing (including but not limited to: bacteriological, chlorination, de-chlorination, pressure and flushing), water used for flushing purposes, and all overheads charged to all materials, labor, services, etc. provided by the Company. *

5. The Applicant/Company funding ratio of 75/25 for all districts, shall not apply to restoration charges or easement acquisition costs. Applicant will be responsible for one hundred percent (100%) of the restoration charges and easement acquisition costs for the main extension, except the Company will be one hundred percent (100%) responsible for restoration charges related to the Free Extension. *

6. In those instances where the Company determines that the water service requirements, including supply for fire protection of the Applicant requires the reconstruction, replacement or reinforcement of the Company's existing water mains or other appurtenances (e.g. Pressure Reducing Valves, Booster Stations, Air Valves, water service lines, etc.), the Applicant will be responsible for such reconstruction, replacement or reinforcement including all the material, labor costs, engineering and engineering review, inspection fees, testing (including but not limited to: bacteriological, chlorination, de-chlorination, pressure and flushing), restoration costs, all abnormal layout or layout review costs incurred by the Company as well as all overheads charged to all materials, labor, services, etc. provided by the Company. The Applicant may also be responsible for all, or a portion, of the costs for any new booster stations, water storage tanks, and water plant upgrades that Company determines are necessary solely to provide service to the development for which the main extension is requested. *

7. The Applicant will also be required to pay all costs associated with the acquisition and preparation of any easements or permits necessary for the installation of the aforementioned facilities relating to the main extension. *

8. The Applicant or the Applicant's authorized agent shall contract with the Company for such extension in accordance with the Company's standards and contractual requirements. *

B. **Installations by the Company or Company's Contractor:** If the Applicant or Applicant's authorized agent contracts with the Company to install the main extension, the following shall apply:

1. At the Applicant's option, the Company will either lay out the required water main extension on plans furnished by the Applicant at the cost of the Applicant, or the plans and specifications for the main extension may be prepared by the Applicant's engineer and submitted for Company approval.

Rules and Regulations Governing the Rendering of Water Service

2. The Company shall provide the Applicant with an estimate in the form of a written proposal, which will describe payment alternatives and all other contractual preconditions to the installation, along with a copy of the water main layout.

3. The proposal will include the costs related to the facilities specified in Provision A.1. plus the Company's anticipated costs of materials, labor, labor related expenses (such as pension and welfare costs), supervision, engineering, inspection fees, insurance, tools, easements, permits, appropriate taxes, and other miscellaneous expenses (such as stores expenses, administrative salaries, overhead expenses, transportation expenses, water used for flushing purposes and construction equipment expenses and similar expenses). The Company may at its discretion charge up to five percent (5%) for contingencies. The cost contained in the proposal is based on the Company's estimate of the actual cost of the job.

4. If the Applicant has chosen the option provided in Provision A.2., above, the Applicant in any of the Company's districts shall provide payment of seventy-five percent (75%) of the estimated costs for any project. The Applicant shall pay to Company such estimated costs prior to the Company scheduling the work. If after completion of the main extension, the initial payment provided to the Company is above the Applicant's percent of the total actual cost of the project, as determined by the Company, the Company will refund the excess to the Applicant. If the initial payment provided by the Applicant to the Company is below the Applicant's percent of the total actual cost of the project, the Company will bill the shortfall to the Applicant. * * *

5. For Applicants who have chosen the option of a one hundred foot (100') Free Extension:

   a) If the Applicant has chosen the option of a one hundred foot (100') Free Extension, as provided for in Provision A.3. above, and the extension will be one hundred feet (100') or less in length, then the Company will perform the necessary construction to extend its main(s). *

   b) If the Applicant has chosen the option of a one hundred foot (100') Free Extension and the extension is greater than one hundred feet (100') in length, the Applicant shall provide payment of one hundred percent (100%) of the estimated costs in excess of the one hundred foot (100') Free Extension, if any, as provided by the Company prior to the Company scheduling the work. If after completion of the main extension, the initial payment provided to the Company is above the Applicant's share of the total actual cost of the project, the Company will refund the excess to the Applicant. If the initial payment provided by the Applicant to the Company is below the Applicant's share of the total actual cost of the project, the Company will bill the shortfall to the Applicant.

Rules and Regulations Governing the Rendering of Water Service

C. **Installations by Applicant's Contractor (Developer Lay Option):** The Applicant, or the Applicant's agent, may elect to use its own contractor to construct the main extension (also known as the Developer Lay option). Under this option, the Applicant's contractor must be approved by the Company and the following terms and conditions shall apply:

1. At the Applicant's option, either the Company will lay out the required water main extension on plans furnished by the Applicant, or the plans and specifications will be prepared by the Applicant's engineer and submitted for Company approval.

2. Upon request, the Company will provide written specifications and other related documents for the proposed extension and a Developer Lay Proposal for the installation by Applicant's contractor, along with a copy of the water main layout.

3. The Developer Lay Proposal costs will include the Company's estimated costs of materials, labor, inspection fees, and other miscellaneous expenses such as stores expenses, administrative salaries, overhead expenses, transportation expenses, water used for flushing purposes and construction equipment expenses and similar expenses.

4. The Applicant, or the Applicant's agent, shall execute a Main Extension Contract with the Company on forms provided by the Company. Upon completion of the main extension, the Applicant, or the Applicant's agent, shall agree to convey the completed main extension and necessary easements to the Company on the terms and conditions stated in the Main Extension Contract.

5. Upon execution of the Main Extension Contract by the Applicant and the Company, the Applicant will pay to the Company the total estimated Developer Lay Proposal costs as determined in Provision C.3., above. Applicant will also provide all additional information as detailed in the Main Extension Contract.

6. Upon completion of the Main Extension, and prior to acceptance of the extension by the Company, the Applicant will provide to the Company a final statement of Applicant's costs to construct such extension. This final statement of costs will be added to the actual costs for Company to provide services as per the Developer Lay Proposal. Upon acceptance of the main extension, the Company will then issue payment to the Applicant of twenty-five percent (25%) pursuant to Provision A.2, above. * The Company will adjust its payment based on the shortfall or excess of the difference between the actual Developer Lay costs and the Developer Lay Proposal payment made by the Applicant pursuant to Provision C.5, above.

7. For Applicants who have chosen the option of a one hundred foot (100') Free Extension:
   a) If the Applicant has chosen the option of a one hundred foot (100') Free Extension, pursuant to Provision A.3. above, and the extension will be one hundred feet (100') or less in length, then *

Rules and Regulations Governing the Rendering of Water Service

Company will perform the necessary construction to extend its main(s).

b) If the Applicant has chosen the option of a one hundred foot (100') Free Extension and the extension is greater than one hundred feet (100') in length, then prior to the Applicant scheduling the main extension, the Applicant shall advance payment equal to the Company's total estimated Developer Lay Proposal costs (Provision C.3. above). After completion of the main extension by the Applicant, Applicant must provide support to the Company of the total costs incurred by Applicant, exclusive of the advanced payment for the Developer Lay Proposal costs. Upon verification of the costs supplied by Applicant, Company will add those costs to the actual Developer Lay Proposal costs it incurred and divide the sum by the number of feet in the main extension project to determine a cost per linear foot. The cost per foot will be multiplied by 100 to arrive at the cost of the one hundred foot (100') Free Extension to be borne by the Company. The Company will add the amount of the one hundred foot (100') Free Extension to the advanced payment made by Applicant, in accordance with Provision C.3. above, and subtract the actual Developer Lay Proposal costs incurred by the Company to arrive at an amount to be paid to, or by, the Applicant.

As an example for Provision C.7.b), above:

Applicant pays to Company $500 for estimated total Developer Lay Proposal costs
Applicant pays his own contractor $1,000
Actual Developer Lay Proposal costs incurred by Company are $200
Total Main Extension in feet is 400 feet

Calculation:

	$1,000.00	(Cost incurred by Applicant exclusive of advanced payment for Developer Lay Proposal)
Plus	200.00	(Actual Developer Lay Proposal Costs)
Equals	$1,200.00	
Divide by	400	(Main Extension in Linear Feet)
Equals	$3.00	per foot
Multiply by	100	
Equals	$300.00	(Cost for first 100 linear feet that Company will absorb)
Add	$500.00	(Amount Applicant advanced to the Company for estimated Developer Lay Proposal costs)
Subtract	$200.00	(Actual Developer Lay Proposal Costs)
	$600.00	Amount Company pays to Applicant

D. Miscellaneous Provisions

Missouri-American Water Company For Missouri Service Area
Name of Issuing Corporation Community, Town or City

Rules and Regulations Governing the Rendering of Water Service

1. Main extensions made under this rule shall be and remain the property of the Company.

2. The Company reserves the right to further extend the main and to connect mains on intersecting streets and easements. If the Company extends the main at its own cost, Applicant shall not be entitled to a Customer Frontage Refund if new Customers connect to that part of the main extension funded by the Company.

3. The size and type of material of the main extensions made under this rule shall be determined by the Company and sized to meet water service requirements, including supply for fire protection, of the Applicant. If the Company chooses to increase the size of the extension in order to meet the Company's overall system requirements beyond what is necessary to meet water service requirements, including supply for fire protection, of the Applicant, all additional costs caused by the larger size of pipe shall be borne by the Company.

4. No interest will be paid by the Company on payments made by the Applicant for the main extension.

5. All main extensions made under this rule must be installed in easements or right-of-way as determined by the Company.

6. If extensions are required on private roads, streets, through private property, or on private property adjacent to public right-of-way, a proper deed of easement, acceptable to the Company must be furnished to the Company without cost to the Company, as described in the Main Extension Contract.

7. Company main extensions shall be determined by the Company and installed to permit Company Service Lines and Customer Service Lines to be installed in accordance with the Company's installation requirements for water service lines.

8. In determining the length of main extensions, the main shall be extended to cover fully the frontage of the subdivision lot or property to be served, and if the last lot to be served is a corner lot or a lot immediately adjacent to a corner lot, the terminal point of the main extension made hereunder shall be located so that the water main installed hereunder ties in with the existing water main located in the intersecting street; and further provided that if there is no main located in the intersecting street, the terminal point of the main extension made hereunder shall be located at the nearest right-of-way line of the intersecting street. When the Company main extension is installed in an easement on private property or in public right-of-way, within the boundaries of a multi-lot subdivision, the end of each main extension shall be terminated near the farthest property line. The Company may shorten the length of the main extension that the Applicant would otherwise be required to make under this provision, if, in the Company's judgment, the main should not be extended further due to pressure, volume or water quality concerns or cannot physically be extended further.

9. In the event Company determines that the main should not be extended by the Applicant to the full extent otherwise required by these rules, the Company shall nevertheless require the Applicant to

Rules and Regulations Governing the Rendering of Water Service

provide all necessary easements commensurate with the main extension as originally proposed by the Applicant.

10. Water main extensions must be installed in accordance with the Company's then current specifications and standards.

11. At the Company's discretion, the Company, the Company's contractor or an Applicant's contractor in accordance with Company's standards and contractual requirements, will make all connections to Company's water mains.

12. At the Company's discretion, any necessary reconstruction of existing mains or installation of mains larger than twelve inches (12") in diameter will be done by Company's forces, Company's contractor or by an Applicant's contractor in accordance with the Company's standards and contractual requirements.

13. The Company reserves the right to assess additional charges if the Company is required to create multiple layouts or to perform multiple reviews pursuant to an Applicant's request.

E. Customer Frontage Charge Refunds

1. If requested by the Applicant at the time of entering into the Main Extension Contract with the Company, the Applicant shall have the option of requesting a Customer Frontage Charge Refund. The Customer Frontage Charge Refund only applies to that portion of the main extension that is to be installed by or on behalf of an Applicant to reach a public, private, commercial, government or religious development or personal dwelling described in the Main Extension Contract. The Customer Frontage Charge Refund will be made to Applicant, or its assignee, subject to the following conditions:

   a) A Customer Frontage Charge will be collected in advance from each new Customer, (in addition to the tap fee, connecting a new-metered service line) when the new Customer connects to the portion of the main extension covered by the Applicant's contract.
   b) The Customer Frontage Charge is calculated at the rate of fifty percent (50%) of the actual per foot cost of the mains as paid by the Applicant, with appurtenances, times the front footage (front footage shall mean the property footage along the main) of the premises to be served.
   c) No Customer Frontage Charge Refunds will be made for mains required to serve within new platted subdivisions for lots owned or controlled by the Applicant which the main extension is expressly intended to serve. Refunds may be made for lots located outside the new platted subdivision that can be served by the Applicant's main extension. Refunds for any lots may be made to Applicants who utilize the Free Extension serving recorded, residential single lot developments where the portion of the water main extension is above the Free Extension limits.
   d) Customer Frontage Charge Refunds shall only be made for the first five (5) years after the Applicant's main extension is accepted into the Company's system. At the expiration of the five

Rules and Regulations Governing the Rendering of Water Service

(5) year period, the refund account will be closed, and no further Customer Frontage Charge refunds will be made.

e) The Customer Frontage Charge Refunds made by the Company shall, in no event, exceed the amount paid by the Applicant to the Company for the main extension (i.e., 75% for all projects and excluding any portion funded by the Company) regardless of whether the main extension was performed by the Company, or a contractor performed the main extension on behalf of the Applicant. *

F. This Section F is applicable only to Main Extensions in St. Louis County & St. Charles County. Because Commission jurisdiction constitutes a legislative recognition that the public interest in proper regulation of public utilities transcends municipal or county lines, and that a centralized control must be entrusted to an agency whose continually developing expertise will assure uniformly safe, proper and adequate service by the Company, no regulations or ordinances of local governments shall be permitted to impose differing construction methods (excepting local permit requirements for excavation and restoration of public rights-of-way), material selections, water main sizes or licensing qualifications of the Company's employees or of those independent contractors employed to install, replace or maintain water mains owned or to be owned by the Company when such work is performed under the supervision of or inspection by Company agents or employees, unless such requirement is adopted and approved by the Commission upon complaint alleging that such requirement is necessary for safe and adequate service and requesting uniform application throughout Company's service area. *

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water Company's Request for Authority to Implement General Rate Increase for Water and Sewer Service Provided in Missouri Service Areas.	))))	Case No. WR-2022-0303

STIPULATION AND AGREEMENT
AS TO RATE DESIGN AND CLASS COST OF SERVICE

COME NOW Missouri-American Water Company ("MAWC" or the "Company"), the Staff of the Missouri Public Service Commission ("Staff"), the Office of the Public Counsel ("OPC"), the Midwest Energy Consumers Group, City of St. Joseph, Public Water Supply District No. 2 of Andrew County, City of Riverside, the Missouri Industrial Energy Consumers, and Consumers Council of Missouri (collectively, the "Signatories"), by and through their respective counsel, and, for their *Stipulation and Agreement as to Rate Design and Class Cost of Service* (this "Stipulation"), respectfully state as follows to the Missouri Public Service Commission ("Commission"):

1. The Empire District Electric Company d/b/a Liberty, Sunnydale Properties, and Triumph Foods, LLC are not Signatories to this Stipulation. However, counsel for each have stated that they do not object to this Stipulation.

2. This Stipulation is being entered into for the purpose of settling issues 13 and 14, as described in the *List of Issues, List and Order of Witnesses, Order of Opening, and Order of Cross-Examination* filed in this case on February 16, 2023.

3. **Admission of Testimony**: The Signatories consent to the admission of, and request that the Commission admit into the record in this proceeding, without the need for witnesses to take the stand, all written testimony that has been filed herein.

4. **Rate Design and Revenue Allocations:** The agreed to distribution of the rate

change resulting from this case, resulting volumetric rates, as well as the agreed to customer charges, are reflected in **Attachment A** (water) and **Attachment B** (sewer).

5. **Cost of Service:** The Company agrees in the next general rate case to file its two-step cost of service analysis filed in this case and to file an additional cost-of-service analysis based on a single step allocation process to customer class that was used in Case No. WR-2017-0285 (referred to as the GF model). The Company agrees to benchmark the two modeling approaches which will include a comparison of allocated costs by function and classification, as well as a detailed discussion of the differences between models.

6. **Community Data:** MAWC agrees to meet with Staff, OPC, and any interested stakeholders at least three times before it files its next general rate case to discuss MAWC specific community data as it pertains to Rate A customers in both districts. These meetings shall be completed six months before MAWC files its next general rate case. Topics for discussion include, but are not limited to: primary bill usage frequency distribution data at various intervals (annually, monthly, etc.); secondary census tract information (or other relevant aggregated demographic data); identifying rough approximations of customer types (residential, non-residential) within Rate A; and an emphasis on low income and/or retiree customers. MAWC agrees to make aggregated data (non-personal data) results available to stakeholders no later than when it files its next rate case.

General Terms

7. Unless otherwise explicitly provided herein, none of the Signatories shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, including, without limitation, any method of cost of service or valuation determination or cost allocation, rate design, revenue recovery, or revenue-related methodology. Except as explicitly provided herein,

none of the Signatories shall be prejudiced or bound in any manner by the terms of this Stipulation in this or any other proceeding. This Stipulation has resulted from extensive negotiations among the parties, and the terms hereof are interdependent and non-severable. If the Commission does not approve this Stipulation unconditionally and without modification, or if the Commission approves the Stipulation with modifications or conditions to which a party objects, then this Stipulation shall be void and none of the Signatories shall be bound by any of the agreements or provisions hereof.

8. In the event the Commission accepts the specific terms of this Stipulation without condition or modification, the Signatories waive their respective rights to present oral argument and written briefs pursuant to RSMo. §536.080.1, their respective rights to the reading of the transcript by the Commission pursuant to §536.080.2, their respective rights to seek rehearing pursuant to §386.500, and their respective rights to judicial review pursuant to §386.510, as to the issues settled by this Stipulation only. These waivers apply only to a Commission order approving this Stipulation without condition or modification issued in this proceeding and only to the issues that are resolved hereby. These waivers do not apply to any issues not explicitly addressed by this Stipulation. The Signatories agree that all discussions, suggestions, or memoranda reviewed or discussed, related to this Stipulation shall be privileged and shall not be subject to discovery, admissible in evidence, or in any way used, described or discussed.

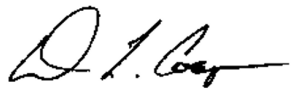
9. This Stipulation and its attachments contain the entire agreement of the Signatories concerning the issues addressed herein.

10. This Stipulation does not constitute a contract with the Commission. Acceptance of this Stipulation by the Commission shall not be deemed as constituting an agreement on the part of the Commission to forego the use of any discovery, investigatory powers or other statutory

powers which the Commission presently has. Thus, nothing in this Stipulation is intended to impinge or restrict in any manner the exercise by the Commission of any statutory right, including the right to access information.

WHEREFORE, the Signatories respectfully request the Commission to issue an Order approving this Stipulation and Agreement and authorizing the Company to file tariffs to implement the terms hereof.

Attorneys for Missouri-American Water Company:



Dean L. Cooper, Mo. Bar #36592
BRYDON, SWEARENGEN & ENGLAND P.C.
P.O. Box 456
Jefferson City, MO 65012
(573) 635-7166 telephone
dcooper@brydonlaw.com

Timothy W. Luft, Mo. Bar #40506
Rachel L. Niemeier, Mo. Bar #56073
MISSOURI-AMERICAN WATER COMPANY
727 Craig Road
St. Louis, MO 63141
(314) 996-2279
Tim.Luft@amwater.com
Rachel.Niemeier@amwater.com

Attorney for the Staff of the Missouri Public Service Commission:

/s/ Karen E. Bretz
Karen E. Bretz
Deputy Counsel
Missouri Bar No. 70632
Attorney for the Staff of the
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102
573-751-5472 (Voice)
573-751-9285 (Fax)
Karen.Bretz@psc.mo.gov

Attorney for the Office of the Public Counsel:

/s/ Lindsay VanGerpen
Lindsay VanGerpen (#71213)
Associate Counsel
Missouri Office of the Public Counsel
P.O. Box 2230
Jefferson City, MO 65102
Telephone: (573) 751-5565
Facsimile: (573) 751-5562
E-mail: Lindsay.VanGerpen@opc.mo.gov

Attorney for the Midwest Energy Consumers Group:

/s/ Tim Opitz
Tim Opitz, Mo. Bar No. 65082
Opitz Law Firm, LLC
308 E. High Street, Suite B101
Jefferson City, MO 65101
T: (573) 825-1796
tim.opitz@opitzlawfirm.com

Attorney for Missouri Industrial Energy Consumers

Curtis, Heinz, Garrett & O'Keefe, P.C.

By: **/s/ Diana M. Plescia**
Diana M. Plescia #42419
130 S. Bemiston, Suite 200
St. Louis, Missouri 63105
Telephone: (314) 725-8788
Facsimile: (314) 725-8789
E-mail: dplescia@chgolaw.com

Attorney for the City of St. Joseph

/s/ William D. Steinmeier
William D. Steinmeier, MoBar #25689
WILLIAM D. STEINMEIER, P.C.
2031 Tower Drive
Jefferson City, MO 65109
Phone: 573-659-8672
Email: wds@wdspc.com

Attorney for Public Water Supply District No. 2 of Andrew County

/s/ James M. Fischer
James M. Fischer MBN 27543
Fischer & Dority, P.C.
2081 Honeysuckle Lane
Jefferson City, Missouri 65109
573-353-8647 (cell)
email: jfischerpc@aol.com

Attorney of City of Riverside

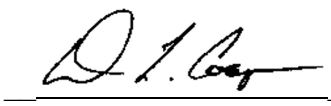
/s/ Joseph P. Bednar, Jr.
Joseph P. Bednar, Jr. #33921
SPENCER FANE LLP
304 East High Street
Jefferson City, MO 65101
Telephone: (573) 634-8116
Facsimile: (573) 634-8140
jbednar@spencerfane.com

Attorney for Consumers Council of Missouri

/s/ John B. Coffman
John B. Coffman MBE #36591
John B. Coffman, LLC
871 Tuxedo Blvd.
St. Louis, MO 63119-2044
Ph: (573) 424-6779
E-mail: john@johncoffman.net

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail, on March 10, 2023, to counsel for all parties.



WATER RATES

Meter Charges

Meter Size	Rate A	Rate B	Rate J
5/8"	$10.00	$10.00	$24.53
3/4"	$13.61	$13.61	$33.38
1"	$18.42	$18.42	$45.19
1.5"	$30.47	$30.47	$74.73
2.0"	$44.92	$44.92	$110.18
3.0"	$79.00	$79.00	$193.77
4.0"	$126.79	$126.79	$310.98
6.0"	$247.19	$247.19	$606.30
8.0"	$421.71	$421.71	$1,034.36
10.0"	$708.57	$708.57	$1,737.95
12.0"	$850.28	$850.28	$2,085.54
Flat Rate	$43.50		

Private Fire Charges

Meter Size	Rate
2.0"	$7.80
3.0"	$25.17
4.0"	$31.01
6.0"	$69.81
8.0"	$124.22
10.0"	$194.03
12.0"	$279.42
Hydrant	$69.82

Volumetric Charges

	Current Rates			Settlement	
	Base	WSIRA	Total	Proposed	vs. Current
St. Louis County					
Rate A	$5.6290	$1.2726	$6.9016	$7.7604	$0.8588
Rate B	$2.6194	$0.4772	$3.0966	$2.7176	($0.3790)
Rate J	$1.7797	$0.3394	$2.1191	$2.0012	($0.1179)
Other Missouri					
Rate A	$6.2469	$0.7058	$6.9527	$8.3781	$1.4254
Rate B	$2.6194	$0.2274	$2.8468	$2.7176	($0.1292)
Rate J	$2.8268	$0.2465	$3.0733	$2.9572	($0.1161)

Flat Rate Customers

Location	Rate
White Branch	$43.50
Rankin Acres	$43.50
Monsees Lake	$43.50
Table Rock Estates	$32.00

SEWER RATES

Customer Charges

Meter Size	Arnold	RT 2.1	RT 3.1
Residential Flat Rate	$39.09	$65.36	$53.83
Commercial Minimum		$65.36	$53.83
5/8"		$65.36	$53.83
3/4"		$90.78	$76.38
1"		$132.67	$111.63
1.5"		$237.48	$199.82
2.0"		$363.26	$305.66
3.0"		$640.00	$538.52
4.0"		$1,048.59	$882.32
6.0"		$1,744.46	$1,467.85

Volumetric Charges

Usage	Arnold	RT 2.1	RT 3.1
Over 5,000 Gal.	$7.4971		
Over 6,000 Gal.		$10.6846	$7.6318

Notes

Sheet RT 2.1 includes Cedar Hill, Jefferson City, Cole, Callaway and Benton Counties, Emerald Pointe, Branson Canyon, Incline Village, Ozark Meadows, Platte County, Stonebridge Village, Saddlebrooke Village, Wardsville, Pevely Farms, Homestead Estates, Radcliffe Estates, Rogue Creek, Hiller's Creek, Taos, Purcell, and Monsees Lake Estates.

Sheet RT 3.1 includes Pettis County (Maplewood, Quail Run, Brooking Park, Westlake Village), Fenton, Hickory Hills, Temple Terrace, Anna Meadows, Jaxson Estates, Timber Springs, Clinton Estates, Trimble, Centennial Acres, Lawson, Garden City, Hallsville, Orrick, Eureka, Stewartsville, and Smithton.

Attachment 3

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois-American Water Company	**:**	
	:	
Proposed Rate Increases for Water and Sewer Service. (tariffs filed February 10, 2022)	**:**	**22-0210**

ORDER

December 15, 2022

Attachment 3

Attachment 3

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Attachment 3

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois-American Water Company	:	
	:	
Proposed Rate Increases for Water and Sewer Service. (tariffs filed February 10, 2022)	:	**22-0210**

ORDER

By the Commission:

I. INTRODUCTION

On February 10, 2022, Illinois-American Water Company ("IAWC" or "Company") filed new tariff sheets ("Proposed Tariffs") with the Illinois Commerce Commission ("Commission") in which it proposed a general increase in water and sewer rates pursuant to Section 9-201 of the Public Utilities Act ("Act"). 220 ILCS 5/9-201. Simultaneous with and in support of its filing of the Proposed Tariffs, IAWC filed testimony, exhibits, and schedules intended to meet the requirements of 83 Ill. Adm. Code 285, 286, and 287. On March 17, 2022, the Commission entered a Suspension Order suspending the Proposed Tariffs to and including July 9, 2022. On June 23, 2022, the Commission entered a Resuspension Order extending the suspension to and including January 9, 2023.

Pursuant to due notice, a prehearing conference was held on April 19, 2022 before duly authorized Administrative Law Judges ("ALJs") of the Commission via videoconference. On April 20, 2022, the ALJs issued a ruling establishing a case schedule.

Appearances or Petitions to Intervene were filed by the following: the Attorney General of the State of Illinois ("AG"); City of Peoria; Federal Executive Agencies ("FEA"); Citizens Utility Board ("CUB"); United States Steel Corporation-Granite City Works, as a member of the Illinois Industrial Water Consumers ("IIWC"); Prairie Farms Dairy, as a member of IIWC; City of Champaign ("Champaign"); City of South Beloit; Villages of Philo and Savoy; Village of St. Joseph; City of Urbana; Village of Sidney; and City of East St. Louis ("ESL").

An evidentiary hearing was held on August 10, 2022. Testimony and exhibits filed by IAWC, Commission Staff ("Staff"), the AG, Champaign, jointly IIWC and FEA ("IIWC/FEA"), jointly IIWC, FEA, and CUB ("IIWC/FEA/CUB"), and ESL were admitted into evidence and the record was marked "Heard and Taken." On September 9, 2022, IAWC, Staff, the AG, IIWC/FEA, IIWC/FEA/CUB, and jointly Champaign, City of Urbana, City of South Beloit, Villages of Philo and Savoy, Village of St. Joseph, and Village of Sidney ("Municipalities") filed Initial Briefs ("IB"). On September 29, 2022, IAWC, Staff, the AG, IICC/FEA, IIWC/FEA/CUB, and the Municipalities filed Reply Briefs ("RB").

On October 28, 2022, a Proposed Order was served. On November 10, 2022, IAWC, Staff, IIWC/FEA, IIWC/FEA/CUB and the AG filed Briefs on Exceptions ("BOEs"). In its BOE, IAWC requested oral argument which was granted by the Commission on November 17, 2022. On November 22, 2022, IAWC, Staff, IIWC/FEA/CUB, the AG, and the Municipalities filed Reply Briefs on Exceptions. The Commission heard oral argument on November 30, 2022.

II. OPERATING EXPENSES AND REVENUES

A. Uncontested Issues

1. Employee Benefits Expense (Account 604.8 Retiree Medical Expense Capital Credits Balance)

IAWC notes that the AG made an adjustment to reflect account 604.8 Retiree Medical Expense Capital Credits as a reduction to operating expense rather than an increase to operating expense as currently reflected on IAWC Schedule C-2.14. IAWC explains that this adjustment reduces other benefits expense across rate zones and totals $90,952 in total. IAWC states that it does not oppose this adjustment. The Company has incorporated this correction into its revised C-Schedules as shown on Schedule C-2. The Commission finds that this adjustment is reasonable, and it is approved.

2. Pension/Other Post-Employment Benefits ("OPEB") Update

Staff proposed an adjustment for employee benefits expense, including OPEB benefits. Staff Ex. 1.0, Schedule 1.09. In rebuttal, IAWC presented updated and corrected test year amounts for pension and OPEB expense. IAWC states that Staff does not propose any adjustments to IAWC's proposed updated test year pension/OPEB costs. The Commission finds that IAWC's updated pension and OPEB expenses for text year 2023 are reasonable, and they are approved.

3. Inclusion of Union Medical Costs in OPEB

IAWC notes that as explained in response to AG Data Request 8.02, the Company has been working with its tax department and outside consultants to develop a plan to repurpose the excess funding of the Union Medical Voluntary Employees' Beneficiary Association ("Union Medical VEBA") so that it would not be taxable. IAWC explains that the Company now believes that it has identified an approach to repurpose the excess funding of the Union Medical VEBA so that it would not be 100% taxable and agrees that the excess funding amounts should be included within the revenue requirement as of January 1, 2023. The Commission finds that this is reasonable, and it is approved.

4. Uncollectibles Account Expense (impact of adjustments to revenues)

The AG proposed a correction to IAWC's uncollectible expense. IAWC points out that the Company responded to discovery requests AG 13.05 and 13.11, which addressed removing all uncollectible expense from net revenues. IAWC acknowledged posting and linking errors that inadvertently resulted in the amount for uncollectible accounts being related to present revenues and not proposed revenues, and the Company also provided corrected files in IAWC Ex. 31.01. The Commission finds that this is reasonable, and it is approved.

5. Lobbying Expenses

Staff proposed an adjustment for lobbying expenses of $341,433 that the Company inadvertently included in test-year operating expenses. Staff Ex. 4.0 at 4. The Company agreed with this adjustment. The Commission finds that this adjustment is reasonable and is approved.

6. Charitable Expenses

Staff proposed an adjustment for charitable contributions expenses of $13,570 that the Company included in test-year operating expenses. *Id*. at 4-5. IAWC agrees with this adjustment. IAWC Ex. 15.00 at 9. The Commission finds that this adjustment is reasonable, and it is approved.

7. Advertising Expenses

Staff proposed an adjustment to advertising (Staff Ex. 4.0, Schedule 4.01) of which the Company accepted $7,830 as promotional or goodwill. IAWC Ex. 17.00 at 39-40. The Company accepted this adjustment and proposed a breakdown by rate zone of this $7,830. IAWC Ex. 17.05 at 39. In Staff's rebuttal testimony, Staff proposed an additional $146,527 (which did not include the $7,830 that IAWC accepted) adjustment to advertising for advertisements not provided, invoices not fully explaining recorded expenses, or advertisements that are promotional or goodwill in nature. Staff Ex 12.0 at 3. In the interest of limiting the number of contested issues in this proceeding, the Company accepted Staff's proposed additional adjustment. IAWC Ex. 27.00 at 13-14.

Staff states that, looking at the details of Company surrebuttal, Schedule C-2, line 20 Advertising column (IAWC Ex. 25.01 at 13) only includes $146,527. It appears to Staff that the Company neglected to include the $7,830 of previously accepted advertising adjustment in their surrebuttal Schedule C-2 (IAWC Ex. 17.05 at 7, line 20 Advertising column). Therefore, Staff's appendices to Staff's Initial Brief correct this error and include the $7,830 advertising adjustment, by rate zone as reflected on IAWC Ex. 17.05 at 39, line 5.

IAWC accepts Staff's adjustment to advertising expense as shown on Staff Exhibit 12.0, Schedule 12.01, Page 1. IAWC provided a revised Schedule C-2.19 reflecting the adjustment to advertising expense. This matter is uncontested. The Commission finds that Staff's adjustment is reasonable, and it is approved.

8. Amortization Expense related to the IL Interurban Granite Bs Tank

IAWC agrees with the AG's proposed adjustment to remove amortization expense for the IL Interurban Granite Bs tank by $14,262 in Central Division Water and in Total Company. The Commission finds that this adjustment is reasonable, and it is approved.

9. Labor and Labor Related Correction for 401k and Deferred Compensation

IAWC states that the AG made an adjustment to the Central Water rate zone to move $82,181 from regulatory expense to other benefits expense. IAWC notes that this amount was incorrectly placed within regulatory expense and should be included in other benefits expense. IAWC notes that the Company does not oppose this correction and

has incorporated it into its revised C-Schedules as reflected on Schedule C-2. The Commission finds that this adjustment is reasonable, and it is approved.

10. Lincoln Water Rate Zone – Payroll Tax

IAWC states that the AG made an adjustment for Federal Insurance Contributions Act ("FICA") expense for the Lincoln Water rate zone. IAWC explains that due to a formula error within the Company's workpaper, FICA expense was overstated by $92,251 for the Lincoln Water rate zone. The correct amount of FICA expense for the Lincoln Water rate zone is $893. The Company does not oppose the AG's adjustment and has incorporated this correction in its updated revenue requirement as shown on IAWC Schedule C-2.7. The Commission finds that this adjustment is reasonable, and it is approved.

11. Removal of Wastewater Disposal Costs – Chicago Metro Wastewater Rate Zone

IAWC explains that it recovers its purchased wastewater disposal costs for the Chicago Metro wastewater rate zone through a purchased wastewater adjustment clause. IAWC notes that in its initial filing, it removed the purchased wastewater revenues from its revenue requirement but inadvertently did not remove the costs. The AG proposed an adjustment that would remove these costs. The Commission finds that this adjustment is reasonable, and it is approved.

12. Income Tax Adjustment for Water Used in Company Facilities

IAWC notes that the AG made an adjustment to state and federal income tax expense for the Central Water rate zone. IAWC explains that the Company's initial filing did not capture the impact on income taxes related to the adjustment for water used in company facilities. The Company accepts this adjustment and has reflected this change in its revised C-Schedules as shown on Schedule C-5. The Commission finds that this adjustment is reasonable, and it is approved.

13. Other Operating Revenues – Chicago Metro Wastewater and Central Wastewater

IAWC notes that the Company's Schedule A-3 Comparison of Present and Proposed Rates incorrectly identified other operating revenues in the Chicago Metro Wastewater rate zone. The correct other operating revenues for the wastewater rate zones as reflected in the rebuttal workpaper WPC-2.6a is shown below:

- Chicago Metro Wastewater $307,734
- Central Wastewater $117,218
- Total Wastewater $424,952

The Commission finds that the corrected operating revenues are reasonable, and they are approved.

B. Contested Issues

1. Update of Production, Building Maintenance, and Transportation Expenses

a. IAWC's Position

The Company explains that after it filed its case in early February 2022, several extraordinary economic developments occurred – developments over which IAWC had no control, including:

- The Russian invasion of Ukraine in late February 2022, and its impact on energy markets;
- Supply chain problems and significant commodity price increases in spring 2022; and
- Growing inflationary pressure, changes in monetary policy by central banks; and stock market decline.

IAWC states that these extraordinary circumstances had a significant and material impact on IAWC's costs. As a result, the Company notes, as permitted by 83 Ill. Adm. Code 287.30, IAWC proposed updates related to increases in chemical, fuel, and power costs and for pension and OPEB costs. IAWC explains that these updates are based on the availability of more recent data, including post-filing market factors driving increases in chemical, fuel, and power costs, and more recent actuarial studies supporting pension and OPEB expense. IAWC states that the significant and material updates to the 2023 totaled approximately $11.3 million.

IAWC notes that in their ruling denying Staff's Motion to Strike the update, the ALJs found that "[w]hether IAWC's evidence is substantively sufficient to support [the update] increase can and should be addressed in Staff and Intervenors' rebuttal testimony." Docket No. 22-0210, Notice of ALJs' Ruling ("ALJs' Ruling"), July 22, 2022. In rebuttal testimony, the Company explains, Staff agreed with the update to pension and OPEB costs. IAWC points out that Staff did not address IAWC's updated production costs in its rebuttal testimony but reflected them in Staff's rebuttal revenue requirement.

IAWC also notes that the AG also agreed with the update to pension and OPEB costs. The Company states that the only updated costs the AG takes issue with are those related to chemical, fuel, and power pricing. Thus, IAWC maintains, the only remaining costs at issue with respect to its proposed update are Production, Building Maintenance, and Transportation Expenses. For these costs, IAWC observes that the AG does not argue they are imprudent, unreasonable in amount, or unnecessary. Instead, the Company states, as discussed below, the AG's critique does not concern the level or prudence of these cost increases but centers primarily on whether these cost increases could have been anticipated and reflected in IAWC's initial filing. IAWC states that chemical pricing and fuel and power costs increased substantially after IAWC filed its case and because of events that could not have been reasonably anticipated.

IAWC maintains that it has therefore met the requirements for an update, and its updated costs are reasonable and should be approved as part of its future test year revenue requirement.

IAWC explains that Section 287.30 of the Commission's rules governs proposed updates to future test year data: in summary, updates may be permitted when there is "a significant and material change affecting the revenue requirement." 83 Ill. Adm. Code 287.30(a). The Company states that Section 287.30 requires IAWC to introduce evidence that will allow the ALJs, during the suspension period, to make the determination whether to "require or allow" the update. *Id.*

IAWC further explains that Section 287.30(b) directs the ALJs to consider:

> (1) Whether the changes significantly and materially affect the revenue requirement;
>
> (2) Whether the changes could have been reflected in the initial tariff filing; and
>
> (3) Whether [Staff] and other participants will have an adequate opportunity to review the updated information.

83 Ill. Adm. Code 287.30(b).

IAWC states that it has presented extensive evidence of changes to Production, Building Maintenance, and Transportation Expenses, driven by changes in chemical, fuel, and power costs, that significantly and materially affect the revenue requirement. IAWC explains that these changes result in cost updates that total over $11 million. The Company explains that Staff and the AG concede that this factor is met – Staff's Motion to Strike IAWC's update acknowledged that IAWC's proposed update "includes a significant increase in its requested revenue from its direct case." Docket No. 22-0210, Staff Motion to Strike Portions of Illinois-American Water Company's Rebuttal Testimony at 1 (July 15, 2022). And, the Company posits, the ALJs' Ruling denying Staff's Motion to Strike the update confirms this factor is met, stating "IAWC introduced evidence of a material change affecting the revenue requirement…" ALJs' Ruling at 1.

The Company states that its case was filed on February 10, 2022. IAWC explains that among a variety of factors driving IAWC's test year cost update for chemical, fuel, and power costs, two major events occurring after that filing date are critical. IAWC explains that one is the Russian invasion of Ukraine in late February 2022, which had significant impacts on energy markets and the cost of chemicals and power. The Company notes that the other is the Midcontinent Independent System Operator, Inc. ("MISO") capacity auction in April 2022, which caused a significant ($1,000,000) impact to IAWC power costs. IAWC concludes that these post-filing developments, along with other factors, clearly could not have been reflected in IAWC's initial filing because they had not yet happened at the time of that filing.

The Company explains that chemicals are critical to IAWC's operations and the chemicals IAWC uses are carefully manufactured and transported to adhere to applicable standards and must be of the quality and specifications required by the American Water Works Association ("AWWA"). IAWC states that the chemical market has been highly volatile in 2022 compared to historical levels, driven by many factors such as COVID-19 impacts, inflationary growth in commodity prices, impacts on energy prices caused by the conflict in Ukraine, and overall supply and demand pressure within a consolidating chemical market. IAWC notes that prices have increased dramatically in 2022 because

of transportation costs, supplier consolidation, energy costs, and demand for other products.

The Company explains that its initial test year forecast incorporated these factors to the extent information was available to IAWC. At the end of 2021, the Company states, it had solicited and received bid pricing for 2022, but more than half of the responses were only for the first three to six months of 2022. IAWC explains that the increase in prices from 2021 to the 2022 bids (effective January 1, 2022) resulted in an increase of approximately 36% in chemical expense. The forecast developed by the Company in its initial filing resulted in over a 30% price increase from 2021 actual expense.

The Company maintains that its updated chemical pricing, however, was developed based on market developments and information that was not known until after the Company filed its case in February 2022. The information that the Company had at the time that it filed this case suggested that the drivers of chemical price increases were temporary factors in 2021 that could stabilize later in the year. After February 2022, IAWC notes, it became apparent that these factors were not temporary, but rather would be persistent. As a result, market factors have continued to put pressure on the chemical industry throughout the year, and the Company has seen continued price increases. IAWC contends that the Russian invasion of Ukraine in late February 2022 was a major factor, leading to higher energy prices (also impacting costs of chemical production), raw material cost increases (impacts from sanctions or shortages of imported materials, leading to much tighter supply and therefore, higher costs), and higher transportation costs (fuel cost increases) that have forced suppliers to continue raising prices throughout 2022. The Company points out that these factors were not known when IAWC's rate case was filed in early February 2022.

IAWC notes that examples include the price of phosphates and ammonia, which increased 30% by the end of March 2022, driven by the fact that Russia and Ukraine were among the top exporters of those agricultural commodities in the world prior to the conflict. The Company explains that natural gas price increases also resulted in higher costs of chemical production: natural gas prices fell 20% from October 2021 to January 2022, then increased by more than 80% from January 2022 to July 2022.

IAWC explains that the update to power expense for 2023 reflects two drivers: (1) the future sourcing event to replace current pricing agreements with Homefield Energy and Constellation NewEnergy ("CNE"), which will be effective January 1, 2023, with new rates under the same pricing structure (fixed price and capacity passthrough); and (2) the impact of the MISO Capacity Market auction results in April 2022.

Regarding the first driver, IAWC explains that it has two power providers that serve its operational footprint – Ameren Illinois Company d/b/a Ameren Illinois ("Ameren") and Commonwealth Edison Company ("ComEd"). IAWC's Ameren accounts are supported through an electric supply agreement with Homefield Energy. IAWC's ComEd accounts are supported through an electric supply agreement with CNE. IAWC states that the current agreements with Homefield Energy and CNE have been in place since 2016, when they were selected as the winning suppliers in a competitive sourcing event. IAWC notes that it has extended the term on these agreements several times with the same

pricing structure. The current pricing agreements, which have a lower fixed price amount than what was originally agreed to on the first agreement, expire in January 2023.

IAWC states that the most recent indicative prices for both IAWC's Ameren and ComEd accounts are significantly higher than the current fixed pricing. IAWC points out that the quoted price for the Ameren accounts is about 80% higher than the current price and for the ComEd accounts, quoted prices are 67% higher. The Company explains that these price comparisons are based on a three-year term with the prices even higher for one- or two-year terms.

IAWC states that for the second driver, the capacity auction in April 2022 resulted in an electricity increase to $236.66/megawatt ("MW")-day from $5/MW-day a year earlier, and the expectation of continued increases in capacity costs driven by growing capacity needs. A movement of $5/MW-day to $236/MW-day is substantial and not something the Company could have anticipated prior to the completion of the April auction. And, the Company maintains, the effect is significant: the April 2022 auction will increase the capacity cost pass-through by approximately $1 million over the next year (June 1, 2022 through May 31, 2023).

IAWC states that based on this market information, which reflects developments that occurred after IAWC filed its initial case, the Company increased its fuel and power cost forecast for 2023 by approximately $5 million.

The Company explains that the invasion of Ukraine also led to increased fuel (and thus transportation costs). Diesel fuel costs have risen since the rate case filing, increasing 50% since January of 2022, which has led to rising transportation costs. The Company concludes that all of these factors have resulted in unforeseen cost increases since IAWC's original rate case filing.

IAWC notes that AG witness Selvaggio asserted, "[s]ome magnitude of the [u]pdated [e]xpenses should have been known at the time IAWC filed this case" because "the [u]pdated [e]xpenses did not suddenly in mid-2022 become volatile compared to historical levels." IAWC maintains that it is true that there was price volatility, supply chain issues, and inflationary pressures impacting IAWC's costs in 2021, although many considered these to be temporary factors that could return to lower levels later in the year. As IAWC explained, those 2021 impacts were considered in developing IAWC's original test year forecast to the extent it was available at the time that forecast was prepared. There were critical and unforeseeable developments that occurred after IAWC filed its case, however, including the Russian invasion of Ukraine in late February 2022 and the MISO capacity auction in April 2022. IAWC points out that no party argues that the Company could have anticipated these major events in its initial forecast, nor could they, given that those events had not happened yet. IAWC maintains that its updated chemical, fuel, and power costs reflect those post-filing market changes.

IAWC explains that AG witness Selvaggio did not consider this new 2022 information. Her testimony focuses on 2021 information. For example, IAWC explains, she points to a December 2021 inflation rate of 7.0% in support of her assertions. But her source for the 7.0% figure also shows the monthly inflation rate increasing to 8.5% in March and 9.1% in June. It is this sort of new information, including the future direction

of inflation, which was not known to IAWC at the time it filed its case, that support IAWC's updated expense projections.

IAWC also explains that Staff and other participants have had an adequate opportunity to review the updated information. IAWC included the proposed update in its rebuttal testimony, giving parties an additional 44 days in advance of the deadline established by Section 287.30 for an update (August 12, 2022), four weeks for Staff and Intervenors to review before their rebuttal testimony, and six weeks for all parties to review before the scheduled hearings in this proceeding. IAWC notes that the ALJs' Ruling on Staff's Motion to Strike the update (which the AG supported) found that IAWC's proposed update was timely and that "IAWC introduced evidence of a material change affecting the revenue requirement and parties may review the information and respond in rebuttal testimony." ALJs' Ruling at 1.

Ultimately, IAWC states, with respect to the substance of the update, Staff does not make any adjustments to its updated costs, and the AG does not object to the update of pension/OPEB expense. IAWC points out that no other party addresses its proposed updates, and no party testified that IAWC's updated costs were imprudent, unreasonable, or unnecessary. IAWC explains that the AG's opposition to its updated expenses for chemicals, fuel, and power, waste disposal, Building Maintenance and Transportation expenses is not supported, because it does not recognize the significant changes that occurred after IAWC filed its case.

IAWC notes that Ms. Selvaggio also claimed that IAWC did not adequately support the proposed update to chemical, fuel, and power costs because IAWC did not perform an independent audit of its updated forecast and reflect that in an updated G-2 schedule. IAWC explains that Ms. Selvaggio's assertions, however, are technical in nature, and not related to the substance of the evidence supporting IAWC's updates to production, fuel and power costs. Further, IAWC posits, Ms. Selvaggio's argument assumes that an independent audit of the updated forecast was needed. As IAWC explains, a reexamination of its updated costs by its auditor was not necessary because the scope of the proposed update was limited to impacts on production, fuel, and power costs caused by extraordinary economic developments and price increases in 2022 (and pension/OPEB expense, which was supported by an actuarial study and which no party objects to). As set forth in the American Institutes of Certificated Public Accountants ("AICPA") Guide for Prospective Financial information ("AICPA Guide"), which governs forecast examination, a "responsible party should consider whether users would expect prospective statements to be updated." Under the circumstances, IAWC states that it determined that an updated examination of its projected statements of rate base and operating income would not be expected, and so an updated G-2 schedule was not required.

IAWC notes that its updated cost projections were nevertheless thoroughly vetted. The forecast update was developed through a comprehensive review of the Company's operations. IAWC explains that recent experience and developments were considered for their impact on the Company's initial test year projections, in order to make appropriate adjustments for known or projected changes to the original projections. Where necessary, contacts were made, by local and corporate management personnel, for prices of supply chain goods and services to confirm estimates.

IAWC also notes that the AG contends that a revised auditor statement should have been provided with IAWC's rebuttal testimony to verify that the new expenses comply with AICPA guidelines, and that the changes are necessary based on information that could not have been reflected in IAWC's direct testimony. Absent this revised auditor statement, the AG states that the Company's updated expenses lack the necessary and sufficient support from a certified public accountant. As IAWC explained, however, a reexamination of updated costs by IAWC's auditor was not necessary to support IAWC's updated costs or required by forecast accounting guidelines.

IAWC explains that the scope of the proposed update was limited to impacts on production, fuel, and power costs caused by extraordinary economic developments and price increases in 2022 (and pension/OPEB expense, which was supported by an actuarial study and which no party objects to). According to IAWC, there is no requirement that a "certified public accountant" provide evidence of the reasonableness of IAWC's update for these impacts. But, IAWC explains, it did provide evidence that its update was reasonable: the review of factors and assumptions underlying the update that the AG claims is lacking did take place, and IAWC's updated cost projections were vetted. IAWC also points out that the Company did identify other changes to the forecast. In the case of rate base, IAWC updated to actuals for 2021, but made no additional adjustments to rate base, even though capital investment projections are expected to increase beyond the Company's original filing. IAWC stated that other changes were, on a net basis, not deemed material and so were not reflected in revised schedules.

And the accounting AICPA Guide cited by the AG, does not require a "revised auditor report" in every instance. As set forth in the AICPA Guide, a "responsible party should consider whether users would expect prospective statements to be updated." Under the circumstances, IAWC determined that an updated examination of its projected statements of rate base and operating income would not be expected, and so an updated audit report (G-2 schedule) was not required.

In response to IIWC/FEA/CUB's assertion that the cost increases do not relate to the types of cost increases contemplated by Part 287, IAWC explains that IAWC witness O'Drain discusses market impacts on contracts and pricing for chemicals and power. Regardless, IAWC's test year cost updates relate directly to its revenue requirement and the need for that revenue requirement to be updated to reflect new information available after IAWC filed its case.

The Company notes that the AG also complains that IAWC did not provide updated G-3, G-5, and G-6 schedules. IAWC argues that these concerns are unfounded. IAWC explains that with respect to Schedules G-3 and G-5, those schedules continue to accurately reflect how IAWC's forecast was developed and remain unchanged from IAWC's original filing, so an update is not needed. Upon further review of Schedule G-6, IAWC agreed that the G-6 schedule could be viewed as affected by the forecast update and provided an updated version in its surrebuttal. The corresponding expense updates were previously included in the Company's rebuttal filings within Schedules C-2.16 Building Maintenance Expense and C-2.17 Transportation Expense.

Lastly, IAWC notes that the AG overstates the amount of chemical expense at issue in the update. The AG proposes IAWC's chemical costs should be reduced by

$8,734,519. But IAWC's update increased Projected Chemical expense by only $4,202,175. IAWC explains that the remainder of the chemical expense increase is a correction to the test year forecast that was not expressly contested: IAWC identified a correction to the 2023 test year chemical usage forecast, discussed by Mr. O'Neill (IAWC Ex. 14.00), that increased the test year projection of chemical expense by $4,527,803.

IAWC maintains that considering the requirements for an update, the record shows the ALJs should allow IAWC to update its future test year. IAWC states that the filings of the Staff and parties in this case concede that the update changes significantly and materially affect IAWC's revenue requirement. The ALJs found that IAWC's update filing was timely, with adequate time for review. IAWC argues that the updates could not have been reflected in the initial tariff filing, as they were not known at the time of the initial filing as explained above. Therefore, IAWC concludes, it has met the criteria for an update under Section 287.30 and its updated costs should be approved and reflected in the revenue requirement.

b. AG's Position

The AG requests that the Commission remove $15,124,519 from IAWC's operating expenses because the Company added these costs in rebuttal testimony and did not sufficiently justify the additional expenses. IAWC filed its proposed tariffs and supporting exhibits on February 10, 2022. In its direct testimony, IAWC proposed a total revenue requirement increase of $87,416,477, or 31.09% above present rates. AG Ex. 3.0 at 3. In its rebuttal testimony, IAWC requested an even higher increase of $101,127,863, or 35.97%, above present rates. *Id*. In surrebuttal, IAWC slightly reduced its proposed revenue requirement to $100,731,769.

IAWC's update included increases to the production expenses, building and maintenance costs, transportation expenses, pension expenses, and OPEB expenses it had identified only five months earlier. IAWC Ex. 15.00 at 3. The AG argues that it showed that IAWC's list of purportedly unforeseeable circumstances included conditions that predated its February 2022 filing and IAWC did not demonstrate that its updates were reasonable and prudent.

The Commission's rules permit updates to test year costs and expenses during a rate case proceeding, so long as the company provides evidence "that a significant and material change affecting the revenue requirement . . . has occurred." 83 Ill. Adm. Code 287.30(a). Evidence to support a "significant and material change" includes changes to contractual obligations, revenue requirements, changes in the number of customers served, and changes required by government agencies. 83 Ill. Adm. Code 287.30(c). IAWC bears the burden of proof and must provide substantial evidence to demonstrate that its expenses are reasonable. 220 ILCS 5/9-201(c); *see also Bus. & Prof'l People for the Pub. Interest v. Ill. Commerce Comm'n*, 146 Ill. 2d 175, 196 (1991). The AG argues that IAWC also failed to show how the impacts of COVID-19 pandemic and inflation significantly and materially changed from February 2022, when it filed direct testimony, to June 2022, when it filed rebuttal testimony.

Similar increases were anticipated by Northern Illinois Gas Company d/b/a Nicor Gas ("Nicor") in its 2021 rate case, filed more than a year before IAWC filed this case. *N. Ill. Gas Co. d/b/a Nicor Gas Co.*, Docket No. 21-0098 (tariffs filed January 14, 2021). In

that docket, Nicor's witness stated that "the financial markets have been in extreme turmoil and continue to exhibit unusual volatility," and that "[s]ince January 2021, several government assistance programs have passed, which intended to stimulate the U.S. economy . . . . This infusion of cash into the economy has created concerns about inflation. The Consumer Price Index, a common measure of inflation, increased by 4.2% from April 2020 to April 2021 - the largest 12-month increase since September 2008." *See* IAWC Cross Ex. 1 at 1. In its final Order in Docket No. 21-0098, the Commission pointed out that Nicor "argues that the use of forecasted debt rates is particularly important, given how atypical current conditions are . . . [and] in recent months many members of the Federal Open Market Committee have accelerated their timelines for when interest rates will rise." Docket No. 21-0098, Order at 71. It is unclear why these circumstances were not reflected in IAWC's direct testimony when Nicor, for example, was able to anticipate those circumstances more than a year earlier.

The AG states that according to IAWC, these examples are irrelevant because inflation rose even higher in 2022. The AG points out that IAWC failed to acknowledge that this rise was part of a greater trend of inflation, as exemplified by Nicor's testimony. There is nothing in the record to suggest that inflation was waning at the time IAWC filed its rate case in February 2022 or that IAWC did not already sufficiently incorporate inflation into its future test year expenses. Further, the AG notes that IAWC did not justify its delay in modifying its test year forecast until June 29, 2022 - 125 days after the Russian invasion of Ukraine, 76 days after the results of the MISO capacity auction were released, and 27 days after Staff and Intervenors filed their direct testimony. The AG maintains that this delay was unreasonably prejudicial and left Staff and Intervenors with only 17 business days to review and analyze the updated filings, issue discovery (with a seven-day discovery turnaround), develop a position on IAWC's update, and prepare rebuttal testimony.

The AG recommends that the Commission reject IAWC's proposed updates because the Company failed to provide sufficient evidence to support them. AG Ex. 3.0 at 19, 21. Ms. Selvaggio noted, "[w]hen expenses are selectively changed based on more recent information, the original rate base, capital structure, and other expenses may also need to be revised. An update should be reflective of all key factors and assumptions known at the time of the update." AG Ex. 3.0 at 19.

This position is supported by 83 Ill. Adm. Code 287.30(b). The AG asserts that IAWC failed to provide sufficient evidence for the Commission to make the determinations required by Section 287.30(b). The AG states that it is unclear why IAWC's initial filing could not have reflected the circumstances other utilities like Nicor were aware of. Furthermore, IAWC did not update many of its schedules until surrebuttal, denying Staff and the Intervenors' witnesses the opportunity to respond to these changes.

The AG points out that IAWC failed to update other schedules at all. For example, IAWC did not update its Schedule G-2, which should contain "a statement from the independent certified accountant that the preparation and presentation of the applicable schedules comply with the guidelines of the [AICPA Guide]." *Id.* at 21. This schedule is required by Commission rule, 83 Ill. Adm. Code 285.7010, and a revised auditor statement should have been provided with IAWC's rebuttal testimony to verify that the new expenses comply with AICPA guidelines, and that the changes are necessary based

on information that could not have been reflected in IAWC's direct testimony. Absent this revised auditor statement, the AG maintains, the Company's updated expenses lack the necessary and sufficient support from a certified public accountant.

The AICPA Guide states, "[i]t is not usually expected that prospective financial statements will be updated, and the responsible party may state in the presentation that it does not intend to update them." AG Ex. 3.0 at 22. However, in cases where statements are updated, "[u]pdating requires the reanalysis of key factors and assumptions and the preparation of new prospective financial statements." *Id*. The AICPA Guide also states that if forecasts need to be updated, "appropriate disclosure should be made to persons who currently rely or are likely to rely on the prospective financial statements." *Id*. This is consistent with Section 287.30(b), which requires the Commission consider whether Staff and other parties "will have an adequate opportunity to review the updated information." 83 Ill. Adm. Code 287.30(b).

The AG notes that IAWC argues that the AG's position that IAWC must update its schedules is "technical in nature, and not related to the substance of the evidence supporting IAWC's updates to production, fuel and power costs." IAWC IB at 16. IAWC also argues that it was not required to update its Schedule G-2 because the AICPA Guide states that a "responsible party should consider whether users would expect prospective statement to be updated," and that "IAWC determined that an updated examination of its projected statements of rate base and operating income would not be expected, and so an updated G-2 schedule was not required." *Id*. The AG shows that IAWC's suggestion that the Commission would not expect an updated statement from a certificated accountant to support the Company's increased costs and expenses is self-serving, erroneous, and unreasonable. IAWC must support all of its costs and expenses with substantial evidence to satisfy its statutory burden. 220 ILCS 5/9-201(c). This includes providing all the requisite schedules to support its costs and expenses.

IAWC's Schedule G-2 does not reflect its updated test year estimates. Schedule G-2 states, "[t]he Projected Financial Information reflects management's judgment as of February 10, 2022, the date of the Projected Financial Information." IAWC Sch. G-2 at 6. IAWC updated its test year expenses on June 29, 2022, negating the assumptions and conclusions of its February 10, 2022 Schedule. The AG maintains that the Commission should reasonably expect IAWC to provide an updated statement by a certified accountant to support its updated schedules because "an update to only certain aspects of the test year forecast without a consideration of all assumptions violates the integrity of the original projected information constituting the test year." IIWC/FEA/CUB IB at 3-4. IAWC cannot simply ignore its burden of proof by self-proclaiming that these updates are "technical in nature." The AG thus requests that the Commission deny IAWC's updated expenses because it failed to provide substantial evidence—through updated schedules—to support rebuttal changes to its revenue requirement. This results in a total reduction in operating expenses of $15,124,746.

c. IIWC/FEA/CUB's Position

It is the position of IIWC/FEA/CUB that IAWC significantly increased its overall requested revenue requirement in rebuttal testimony, from $87 million to $101 million (a

16% increase), for alleged increases in its projection of certain production costs (chemicals, fuel and power) and pension/OPEB costs.

IIWC/FEA/CUB point out that AG witness Selvaggio does not agree that IAWC provided evidence sufficient to justify an update under Section 287.30. AG Ex 3.0 at 19. IIWC/FEA/CUB agree that an update to only certain aspects of the test year forecast without a consideration of all assumptions violates the integrity of the original projected information constituting the test year. *Id*. When expenses are selectively changed based on more recent information, the original rate base, capital structure, and other expenses may also need to be revised. *Id*. An update should be reflective of all key factors and assumptions known at the time of the update. *Id*. The Company did not sufficiently justify that the alleged cost increase – which remain projections based on a future test year – are changes that could not have been reflected in the initial tariff filing and were not anticipated when the Company filed its case just a few months ago. Further, the cost increases do not relate to the types of cost increases contemplated by Section 287.30: contractual obligations, revenue requirements, additions or losses of customers served, and government requirements or levies. Additionally, due to the timing of the requested increase in these production costs, Staff and Intervenors did not have adequate time to fully investigate the basis for these costs. Thus, IIWC/FEA/CUB recommend the Commission disallow these additional costs of production, Building Maintenance, and Transportation.

d. Commission Analysis and Conclusion

The Commission notes that the ALJs already determined that the Company's update to Production, Building Maintenance, and Transportation expense met the standards of Section 287.30 of the Commission's rules, and the Company was permitted to update its schedules. ALJs' Ruling at 1. The question is whether the Company could have presented that information in its initial filing in February 2022. IAWC unequivocally claims that due to the Russian invasion of Ukraine, supply chain problems and significant commodity price increases in spring 2022, inflationary pressure, changes in monetary policy by central banks, and stock market decline, it was forced to increase its revenue requirement by $11.5 million.

The Commission agrees that this is not an insignificant increase; however, the standard by which operating expenses are judged is whether they are just and reasonable. As the Company points out, the AG does not argue they are imprudent, unreasonable in amount, or unnecessary. The record demonstrates that as of the Company's tariff filing, Russia had not yet invaded Ukraine. No party disputes that due in part to that conflict, chemical pricing, fuel, and power costs increased substantially, and supply chains were significantly affected globally. Therefore, IAWC's expenses were not knowable at the time of its initial filing. Further, MISO's capacity auction in April 2022, well after the Company's filing, caused a significant impact to IAWC power costs. While the Commission agrees with the AG that Nicor in earlier dockets mentions global financial volatility due to the pandemic, it does not and could not consider the Russian invasion or the MISO auction, which were significant, impactful, yet unpredictable events.

The AG states that the Company did not update its Section 285.7010 G-2 schedule with a new auditor's certification statement. According to Section 287.30(a), "[w]hen data

are updated, the utility shall also provide updated information for any affected schedules and work papers originally submitted as a requirement of 83 Ill. Adm. Code 285." 83 Ill. Adm. Code 287.30(a). Schedule G-2 was not affected by the update, however. The Independent Accountant's Report indicated that G-2 would not be updated due to differences between projected and actual results, even if those differences are material. The independent certified public accountant did not update the prospective financial statements, nor its report; thus Schedule G-2 was not affected. When the Company filed its rebuttal testimony, Staff filed a Motion to Strike, in part, due to a concern that certain information required to be updated by Section 287.30(a) was not provided. Staff noted three schedules requiring updates were not provided: Schedule C-4, Schedule C-11.3, and Schedule B-8.1. IAWC admitted Schedule B-8.1 was inadvertently omitted and provided the schedule. Schedules C-4 and C-11.3 have no bearing on the updated calculation. In neither the AG's Response nor its Reply to Staff's Motion to Strike, did the AG suggest that an updated Schedule G-2 was needed or required. The AG's contention that an updated Schedule G-2 Schedule is now necessary is not reasonable.

The Commission deems that the parties were not prejudiced by this test year update, as Staff and Intervenors were granted an extension to file their rebuttal testimony, and additional time for discovery was provided. Not only that, Staff and Intervenors had sufficient time to serve discovery or cross witnesses concerning the update. Moreover, Staff did not respond to the issue in its briefs, and included the increase in its revenue requirement schedules, implying Staff finds those expenses are reasonable.

2. Performance Pay

a. IAWC's Position

IAWC argues that it should be afforded full and complete recovery of its market-based employee compensation costs, including costs related to American Water Works Service Company ("Service Company") performance pay. IAWC states that this is especially true when no party has introduced any evidence that the Company's performance pay has created imprudent levels of employee compensation. IAWC notes that, to the contrary, the record contains uncontested evidence, including a compensation study, establishing that IAWC's employee compensation costs are prudently incurred, just, and reasonable. The Company concludes that it should be permitted to fully recover the totality of these costs, because:

- even including performance pay, the Company's employee compensation costs – including performance pay – are below market levels;
- Service Company costs to IAWC, which include employee compensation at cost, are considerably below the market prices for such services;
- the Company's ability to manage Operations and Maintenance ("O&M") costs and strategically grow its customer base has mitigated expense increases for and created greater efficiencies in operations that have allowed the Company's O&M cost per customer to remain virtually flat over the past decade;
- IAWC's performance pay program is applicable to all employees, including bargaining unit employees; and

- the level of excellence motivated, in part, by performance pay has reaped the desired results as, for the third consecutive year, IAWC received the J.D. Power award for ranking highest in customer satisfaction among water utilities in the Midwest.

IAWC states that accordingly, the Company's total market-based compensation costs should be recoverable like all other operating costs. The Company explains that under the standard articulated by the Commission in its Order in the Company's 2007 general rate case, disallowance of cost recovery for the performance pay component of the Company's total market-based compensation program is not justified here because the performance plans, including components tied to both operational and financial goals, produce demonstrable benefits for customers. IAWC further states that where Service Company costs have also been shown to be below market levels, there is simply no reason to look behind those costs at the employee compensation plans that underlie them as a rationale for disallowing clearly reasonable costs.

IAWC maintains that the Commission should permit IAWC to fully recover its total market-based compensation costs, and not disallow recovery of performance pay costs either as a component of the Company's employee compensation or as a component of Service Company costs.

IAWC explains that employee compensation is a necessary cost of providing utility service. Therefore, IAWC states that it should be assessed through the same lens as other operating costs: if it is prudently incurred and reasonable as measured relative to what the industry pays for the same services, it should be recoverable through rates. IAWC states further that accordingly, if the Company's total compensation level is in line with the market, regardless of the combination of fixed and variable payments that the employees earn, then the Company's total compensation expense should be fully recoverable. The Company explains that, in other words, the focus should be on whether the Company's overall level of compensation is reasonable, giving management the discretion to design the compensation package that is best structured to compensate employees properly and to motivate efficiency, safety, courtesy, and other valuable employee traits.

IAWC recognizes that the Commission has in the past disallowed costs associated with performance pay that are tied to financial goals, on the grounds that they "primarily benefit" shareholders. *Ill.-Am. Water Co.*, Docket No. 07-0507, Order at 25 (July 30, 2008). IAWC contends, however, that a number of circumstances have changed over the years, not least of which is that performance pay, including financial goals, has become an integrated part of the total compensation package that businesses – including utilities – pay to their employees, which is needed to ensure utilities can recruit and retain the expertise they need to continue to provide safe and reliable service. The Company further states that the financial metrics tied to performance pay do not "primarily" benefit shareholders, but rather benefit all stakeholders including customers, employees and investors. Moreover, for IAWC specifically, the Company notes that an important change has been to provide performance pay to union employees pursuant to collectively bargained agreements. IAWC states that with the inclusion of IAWC's union employees in the performance pay compensation plan, all of IAWC's employees' efforts are aligned to drive efficiencies in the business.

IAWC points out that, in fact, the Commission's standard for recovery of performance pay has never been an absolute bar to recovery. As stated in the Order in IAWC's 2007 rate case, the Commission has "generally disallowed such expenses except where the utility has demonstrated that its incentive compensation plan has reduced expenses and created greater efficiencies in operations which provide net benefits to ratepayers." Docket No. 07-0507, Order at 25. The Company states that as established by the record evidence in this case and as further discussed below, IAWC has met this standard and should be allowed to fully recover its total market-based employee compensation costs, inclusive of performance pay.

IAWC explains that in order to attract and retain committed, dedicated and highly qualified employees, IAWC must offer compensation that is on par with that offered by the market relative to companies with which IAWC competes for employees. The Company, therefore, targets its total direct compensation (base and variable compensation) for near the market median (50th percentile). The Company explains that by using a combination of fixed and variable compensation that includes performance compensation, IAWC satisfies a dual objective of reasonably compensating employees while motivating them to achieve goals that improve performance and efficiency to benefit customers.

IAWC explains that performance pay may be awarded under two plans – the Annual Performance Plan ("APP") and the Long-Term Performance Plan ("LTPP"). All full-time employees participate in the APP. This includes bargaining unit employees, who became eligible for APP in 2018, with their first payments in 2019.

IAWC notes that APP pay is based on a combination of individual performance and achievement of plan goals. Union employees' performance pay was established through collective bargaining and is based on the achievement of plan goals.

IAWC explains that eligibility for the LTPP is limited to certain exempt employees. The LTPP consists of restricted stock units ("RSUs") and performance stock units ("PSUs") based on three-year vesting periods. RSUs are based on time-based vesting and PSUs are based on time and performance vesting conditions.

IAWC states that as part of its direct case, the Company submitted a study by Willis Towers Watson ("WTW") that assessed both IAWC's total market-based compensation program and its performance compensation program. IAWC points out that the findings of WTW's compensation study are described in the direct testimony of Mr. Mustich. *See* IAWC Ex. 9.00. The results of this study were not contested.

IAWC explains that WTW showed that the Company's Target Total Direct Compensation (base salary, plus APP, plus LTPP) lies 11% below the competitive market median measured from a national market perspective but lies 9% below the competitive market median measured from a Midwest regional market perspective.

IAWC maintains that the Company's performance compensation plans align the interests of customers, employees, and investors. The plans emphasize customer service, environmental compliance, a safe work environment, other operational goals, and financial goals. IAWC states that all of the APP and LTPP plans' performance

objectives – both operational and financial – focus employees' efforts in ways that benefit customers.

IAWC states that the operational goals of the APP are designed to focus plan participants on the performance results that can most directly influence customer satisfaction, health and safety, and environmental performance. IAWC contends that customers benefit from the plan goals because operational performance is improved by controlling costs, capturing efficiencies, promoting effective safety and risk management practices, and enhancing customer service. The Company explains that performance is determined by goals that directly benefit customers by creating a more productive workforce that is focused on customer satisfaction and achieving efficiency, environmental and safety goals.

IAWC states that goals such as reducing Occupational Safety and Health Administration incidents increase both customer and employee safety, and that maintaining and improving high quality customer satisfaction and service quality also provide customer benefits. The Company explains that its customer satisfaction performance goals measure customer contacts at IAWC's customer service centers and in the field. They are benchmarked against other utilities' performance, as reported by third-party customer satisfaction surveys. IAWC notes that in 2021, IAWC again ranked first in the Midwest Region for customer satisfaction in J.D. Power's Water Utility Residential Customer Satisfaction Study. IAWC explains that J.D. Power's Overall Water Utility Satisfaction Index measures key performance indicators in six areas: delivery (including quality), price, conservation, billing and payment, communications, and customer service. Customer satisfaction often goes hand-in-hand with reducing customer complaints. IAWC notes that its Commission inquiries for 2021 are down by approximately 61% as compared to 2017 levels.

The Company contends that all of IAWC's goals, operational and financial, benefit the customer, employees, and investors (debt and equity). IAWC explains that the goals focus employees' efforts on controlling costs, capturing efficiencies, promoting effective safety and risk management practices, and enhancing customer service. IAWC concludes that the financial goals of the APP and LTPP are thus complementary to the operational goals, and benefit customers in many ways.

IAWC notes that, importantly, achieving performance pay financial goals, such as targeted earnings per share ("EPS") performance, demands attention to operating efficiency. That is, unless the utility controls its operating costs, it likely will not achieve a targeted EPS. The Company explains that financial goal-based performance pay ensures that employees at all levels of the organization, and not just the upper ranks, remain focused on increasing efficiency, decreasing waste, and boosting overall productivity while providing excellent customer service. As a result, IAWC argues, incentivizing employees to control operating costs unquestionably benefits customers. Consequently, when financial performance is achieved through efficiency, as the Company explains is the case here, the interests of customers, employees and investors are aligned.

IAWC notes that every company has financial targets. IAWC explains that its rate case is driven by investments the Company is making in the communities it serves to help strengthen those systems, and that growth targets are in place to help measure and

manage the pace at which the Company makes those investments and to communicate that to the investment community. IAWC states that meeting those targets will help attract the ongoing capital investments needed to maintain and improve its water and waste water systems. Furthermore, the Company explains that as Mr. Mustich testified, the performance goals of most utilities and companies in general industry are aligned, so IAWC's inclusion of financial goals in the APP program is simply aligned with the market for how employees are compensated.

IAWC notes that since the Company's last general rate case, acquisitions, and new challenges, including maintenance costs post-acquisition for systems in need of upgrades, increased fuel, power, and chemical costs, and compliance with changing regulatory standards, have increased IAWC's overall O&M costs. IAWC states that despite these cost pressures, IAWC has been highly successful in managing its O&M costs. The Company notes that its proposed O&M expense per customer has remained relatively flat for the past decade and that if IAWC's costs had increased at the same rate as inflation over the same 10-year period, those costs would have been 27% higher than they are (increasing operating expense and IAWC's rate request by over $30 million). IAWC states that its ability to hold O&M costs per customer steady is a customer benefit that no party disputes. IAWC explains that given its record of controlling its per customer O&M costs over the last decade, it is apparent that IAWC's intense focus on customers, improving water efficiency, and financial performance has benefited IAWC's customers, thus satisfying the Commission's standard for allowing recovery of these costs.

IAWC maintains that the efficiency promoted and incentivized by the Company's performance pay, including financial goals, also permits increased infrastructure investment without increased rates. Specifically, the Company explains that every dollar of operating expenses saved can fund over $8 of investment – without increasing customer bills. IAWC concludes that this benefits both customers and investors.

Furthermore, IAWC notes that because water and wastewater operations are capital-intensive and must constantly and consistently access the capital markets at reasonable cost, customers benefit from a utility's financial health. IAWC explains that a financially healthy utility benefits customers because it enables the utility to meet its service obligations with reasonable financing costs, which helps the Company mitigate its requested rate increase. The Company further states that when financial performance is achieved through efficiency, as is the case for IAWC, the interests of customers and investors are aligned.

Finally, IAWC states, the analysis of the affordability of the Company's historical and proposed rates performed by Company witness Rea demonstrates that the Company's efforts have provided net benefits to its customers. IAWC explains that Mr. Rea's analysis relates the median household income for customers in its service territory to IAWC's utility bills over time, and that even with the rate increases in this case necessitated largely by the capital program, Mr. Rea's analysis demonstrates that IAWC's water service, overall, has become more affordable over time and will remain affordable under the Company's proposed rates. The Company points out that an important way that IAWC maintains the affordability of water and wastewater service is by continuously seeking to improve business processes and make investments that improve operational efficiencies. IAWC states that performance objectives – both operational and financial –

focus employees' efforts in ways to continually improve, and that this allows it to manage and contain cost increases and benefit its customers.

In summary, IAWC explains that no party contends that the Company should not compensate its employees with a combination of fixed and performance pay. Neither do they quarrel with the evidence that financial goals are an element of virtually all compensation plans offered by utilities or businesses generally. Most importantly, IAWC notes, no party disputes that IAWC's total market-based compensation costs are reasonable. Nevertheless, IAWC states that parties oppose recovery for the performance pay component of the total market-based compensation program related to financial goals. The Company responds that all performance pay, including for financial goals, benefits customers (as well as investors and employees). For these reasons, IAWC maintains, the adjustments to remove performance pay related to financial goals should be rejected, and IAWC should be authorized to recover its full compensation costs.

The Company explains that arguments by Staff and Intervenors, including assertions that the Company has provided no new evidence aside from claims it has provided in its prior rate cases, or has not demonstrated a direct correlation or derivation between the financial factors within the Company's incentive pay programs and a direct benefit to customers, fail to meaningfully address the Company's evidence.

Specifically, the Company states that Staff and Intervenors fail to rebut: (1) the Company's undisputed evidence establishing that IAWC's total compensation for its employees, as well as Service Company costs, are below market, and thus reasonable; and (2) the Company's evidence that the Company's performance pay programs, including components linked to financial goals, provide concrete customer benefits. The Company notes that the AG, for example, expressly argues that whether IAWC's current compensation levels are below market rates is irrelevant, but responds that no party can dispute that, to attract and retain talent, IAWC must offer compensation that is on par with that offered by the market relative to companies with which IAWC competes for employees, and that no party disputes the Company's evidence that performance pay, including financial goals, has become an integrated, customary and accepted part of the total compensation package that businesses—including utilities—pay to their employees. The Company notes that Staff and Intervenors do not even mention, much less rebut, evidence establishing that an important recent change has been to provide performance pay to union employees pursuant to collectively bargained agreements, meaning that all of IAWC's employees' efforts are aligned to drive efficiencies in the business. The Company further notes that an example of the demonstrated, concrete benefits for customers provided by these components of the Company's performance pay programs, which Staff and Intervenors do not address, much less rebut, is the Company's effective management of O&M costs, contrary to Staff's claim that nothing has changed since 2007.

The Company notes in reply briefing in response to Staff and Intervenors that the Company does not dispute that the Commission has articulated a standard for assessing the recoverability of performance pay costs that such costs are not recoverable if they primarily benefit shareholders. The Company explains, however, that the fact that this is the Commission's stated standard, however, does not mean it is an insurmountable barrier to recovery of all performance pay costs tied to financial goals, as suggested by

Staff's and Intervenors' briefs. IAWC explains that instead, the Commission must consider the evidence presented by the parties and determine whether a given compensation program is reasonable overall. The Company notes that while the Commission has, in the past, considered whether performance pay tied to financial goals primarily benefits shareholders, that consideration does not establish, in this case, a presumptive standard upon which the Commission can ignore the evidence. The Company submits that Staff and Intervenors have not rebutted its evidence establishing that the components of its performance pay programs that are tied to financial goals provide meaningful, concrete benefits to customers, and do not primarily, much less exclusively, benefit shareholders.

Regarding Service Company costs, IAWC states that unrefuted evidence in the record demonstrates that the Service Company provides services to American Water Works Company, Inc.'s ("American Water") affiliates, including IAWC, at cost, and at prices that are considerably below the market prices for such services. The Company explains that the Service Company provides legal, finance, accounting, engineering, environmental, technology, customer and other valuable services to IAWC and its regulated utility affiliates. IAWC states that it submitted a study at the outset of the case which showed, among other things, that: (1) the Service Company's services were necessary; (2) the Service Company's historical period cost per IAWC customer is reasonable because it is in line with the cost per customer for the proxy service companies; (3) IAWC was charged a reasonable value for managerial and professional services during the 12 months ended June 30, 2021; and (4) the services that IAWC obtained were at costs appreciably lower than the prevailing market costs for such services. IAWC states that no party has proposed an adjustment to the overall level of Service Company charges or asserted that any Service Company service is unreasonable or unnecessary.

IAWC maintains that the opposing parties' proposed adjustments to performance pay nevertheless also remove Service Company performance pay costs related to financial metrics. The Company states that including Service Company performance pay in their adjustments, however, is misplaced. The Company explains that in examining costs for accounting, engineering, legal or other professional services, the inquiry would be as to the level of such costs, rather than whether, e.g., the firm in question provided a given benefit or not. IAWC contends that the overall question that a regulator should ask regarding these services is whether their cost is reasonable given the nature of the services and the market for them, and that Service Company costs should be treated no differently. The Company notes that here, no party disputes the reasonableness of overall Service Company charges, and that accordingly, the Company should be permitted to fully recover its Service Company costs.

IAWC also explains that recruiting skilled workers, as well as retaining existing trained workers, is critical to continuing to provide safe drinking water and perform satisfactory customer service. The Company explains that competition among companies to attract and retain the best and highest performing employees is keen, and that in recruiting new employees or retaining existing employees, both the Company and American Water compete with general industry in surrounding regions and nationally. IAWC notes that especially with respect to employee retention, the loss of skilled

employees imposes a real cost on a company that then needs to attract and train replacements.

IAWC notes that both Staff and the AG's adjustment to remove performance pay tied to financial goals exclude RSUs from the adjustment. IAWC states that as Staff acknowledges, RSUs represent the right to receive stock depending on an employee's continued employment with American Water through a defined vesting period, not the achievement of financial goals. IAWC explains that RSUs are awarded to encourage employee retention, which benefits customers by providing a stable and experienced leadership team. IAWC posits that maintaining a stable and experienced leadership team has benefits from an operational standpoint, allowing continuity of management of operational programs and personnel, which in turns promotes safe and reliable service and ongoing improvements in efficiency. The Company further explains that a stable team also avoids the costs of employee turnover, which can result in lost investment in employee training and the incurrence of costs for employee replacement, such as recruiting, hiring, and new training costs.

IAWC points out that only IIWC/FEA/CUB continue to insist that RSUs be excluded from recovery. IAWC states that IIWC/FEA/CUB's position is not consistent with Staff and the AG's position or recent Commission decisions on this issue. The Company notes that the Commission has approved recovery of the cost of RSUs in rates in several recent dockets for other utilities. *See Ameren Ill. Co. d/b/a Ameren Ill.*, Docket No. 18-0463, Order (Nov. 1, 2018); *N. Ill. Gas Co. d/b/a Nicor Gas Co.,* Docket No. 18-1775, Order (Oct. 2, 2019); *Ameren Ill. Co. d/b/a Ameren Ill.*, Docket No. 19-0436, Order (Dec. 16. 2019); *Ameren Ill. Co. d/b/a Ameren Ill.*, Docket No. 20-0308, Order (Jan. 13, 2021). Thus, IAWC concludes, even if the Commission were to disallow recovery of compensation costs tied to financial performance (which it should not for all the reasons explained above), it should permit recovery of the cost of RSUs.

b. Staff's Position

Staff argues that the Commission should approve Staff's proposed adjustments to remove the cost of incentive compensation that is based on financial metrics, not providing ratepayer benefits, just as it has done in numerous prior cases. Staff Ex. 3.0 at 7-9. Staff states that the Company has provided no new evidence aside from claims it has provided in its prior rate cases, that this portion of incentive compensation provides ratepayer benefits in the form of specific dollar savings or other tangible benefits. *Id*. at 9-10. Staff's direct testimony proposed to remove 50% of the cost of the Company's Annual Incentive Plan ("AIP") and 100% of the cost of the Company's LTPP within Staff Schedule 3.02 because they were based on the achievement of financial goals. In rebuttal testimony, Staff agreed with the Company that the portion of the Company's LTTP related to RSUs are not based on the achievement of financial performance; therefore, Staff revised its proposed adjustment in Staff Exhibit 11.0, Schedule 11.02.

Staff notes that in the Company's 2007 general rate case, the Commission summarized its practice on incentive compensation as follows:

> The Commission has consistently disallowed recovery of payouts that are tied to overall company financial goals. As is apparent from previous rate orders, the Commission has

> generally disallowed such expenses except where the utility has demonstrated that its incentive compensation plan has reduced expenses and created greater efficiencies in operations which provide net benefits to ratepayers. In this case, no such showing has been made by IAWC.

Docket No. 07-0507, Order at 25. In the Company's two succeeding general rate cases (*Ill.-Am. Water Co.*, Docket No. 09-0319 (Apr. 13, 2010); *Ill.-Am. Water Co.*, Docket No. 11-0767 (Sept. 19, 2012)), the Company removed these incentive compensation expenses from its initial filings.

In Docket No. 21-0198, a rate case filed by Utility Services of Illinois, Inc., now Prairie Path Water Company ("USI" or "PPWC"), Staff proposed to remove from USI's revenue requirement incentive compensation that was based on financial metrics which was not contested by the Company:

> USI notes Staff's position that financial goals and metrics provide benefits to shareholders but not necessarily to ratepayers, and that 60% of USI's Employee Incentive Plan ("EIP") plan is based on the Company's financial performance. USI asserts that in the interest of limiting the issues in this proceeding, the Company did not contest Staff's recommendation. No other party contests the Company's calculation of incentive compensation, as adjusted by Staff, and these amounts are approved.

Util. Servs., Inc., Docket No. 21-0198, Order at 24 (Dec. 1, 2021).

Similarly, in a North Shore Gas Company rate case the Commission agreed that:

> when incentive compensation seeks to achieve goals that primarily benefit shareholders, then it is reasonable to require that shareholders bear the cost of that incentive compensation.

N. Shore Gas Co. / The Peoples Gas Light and Coke Co., Docket No. 09-0166/09-0167 (Cons.), Order at 58 (Jan. 21, 2010); Staff Ex. 3.0 at 14.

The Company continues to dispute any disallowance of its incentive compensation programs arguing that its overall employee compensation costs, including performance pay, are already below market levels. IAWC Ex. 23.00 at 3-4. Staff asserts, however, that these arguments do not address Staff's initial concern since Staff's adjustments were not proposed because of the amount of incentive compensation awarded. Rather, the issue is whether incentive compensation based on financial metrics that benefit shareholders should be recovered from ratepayers at all. Staff Ex. 11.0 at 8. Staff argues that since the Company has, once again, not demonstrated a direct correlation or derivation between the financial factors within the APP and the LTTP and a direct benefit to customers, the Commission should again remove the incentive compensation costs listed on Appendices A-E from the revenue requirement, consistent with longstanding Commission practice.

c. AG's Position

The AG requests that the Commission reduce IAWC's performance pay expenses by $3,897,310 and its proposed payroll taxes by $298,144 because IAWC's proposal would require ratepayers to reward the Company's employees for achieving goals that primarily benefit IAWC's shareholders. IAWC provides employees with incentive compensation or "performance pay" through its APP and LTPP. AG Ex. 1.0 at 4. Under the APP, IAWC rewards employees with additional compensation based on individual performance and the achievement of certain Company operating goals (short-term compensation). *Id*. Under the LTPP, IAWC rewards employees based on increases to the Company's EPS and "total shareholder return" ("TSR") with RSUs and PSUs (long-term compensation). *Id*. at 5.

The AG recommends that the Commission remove certain APP and LTPP costs, because they are based on increasing EPS, TSR, and other increases to shareholder returns. *Id*. at 5. The AG asserts that it is unreasonable to include incentive compensation based on increased shareholder returns (or profits) in IAWC's revenue requirement because that would, "in effect, require[ ] customers to reward utility management on a contingency basis for requiring them to pay higher rates." *Id*. at 5. The AG further demonstrates that if the Company achieves higher earnings than authorized or expected, related incentive costs should be borne by shareholders—the beneficiaries of achieving these financial goals—rather than ratepayers, who already will bear the additional costs of rate increases. *Id*. Staff, IIWC/FEA/CUB, and the Municipalities also recommend that these costs be removed, for similar reasons.

Excluding financial incentive compensation from the revenue requirement is consistent with the Commission's previous decisions on this matter. For example, in IAWC's 2007 rate case, the Commission disallowed the Company's proposed incentive compensation costs and noted ratepayers should not "have to help encourage IAWC's employees to meet goals benefitting shareholders and meet minimum service obligations." Docket No. 07-0507, Order at 25-26. Similarly, IAWC accepted Staff's request to remove such costs in its 2011 rate case (Docket No. 11-0767, Order at 58), and withdrew its requested incentive compensation costs from its 2016 rate case (*Ill.-Am. Water Co*., Docket No. 16-0093, Order at 23, 37 (Dec. 13, 2016)).

Further, the Commission recently removed the costs of incentive compensation based on the achievement of financial goals in Nicor's 2021 rate case, stating that "the Commission has long held that incentive compensation costs based on financial performance that primarily benefit shareholders are not recoverable in rates." Docket No. 21-0098, Order at 35–36. The Illinois Supreme Court has also held that when expenses are incurred "to achieve goals that primarily benefit shareholders, then it is reasonable to require that shareholders bear the cost of that [expense]." *People ex rel. Madigan*, 2011 IL App (1st) 100654, ¶54.

IAWC witness Matthews argued that ratepayers should be required to pay these incentive compensation costs because IAWC's employee compensation is below market levels, IAWC has reduced expenses and created operational efficiencies that benefit customers, and no party disputed whether these costs were reasonable. IAWC Ex. 13.00 at 3-5. As demonstrated above, the AG maintains that these costs are not a reasonable

cost of service because they benefit shareholders rather than ratepayers. Further, the Commission has consistently held that ratepayers are not required to pay incentive compensation costs for activities that primarily benefit shareholders. The AG points out that IAWC has not demonstrated "that it is the Company's customers that *primarily* benefit, nor has it even attempted to quantify the specific dollar savings or other tangible benefit that has accrued directly to ratepayers rather than shareholders," as a result of achieving increases in IAWC's EPS or TSR, nor has it "shown that the cause of the reduced expenses and greater efficiencies is attributable to incentive compensation related to financial goals and not operational goals." AG Ex. 3.0 at 7 (emphasis in original).

The AG notes that whether IAWC's current compensation levels are below market rates is irrelevant. There is no indication that compensation is inadequate to maintain a stable workforce. Ratepayers should not be asked to pay conditional, incentive compensation to attract employees with incentives to prospective or current employees to achieve shareholder rather than operational goals. AG Ex. 3.0 at 7-8; *see also N. Ill. Gas Co. d/b/a Nicor Gas Co.*, Docket No. 04-0779, Order at 45 (Sept. 20, 2005).

The AG maintains that IAWC witness Matthews' testimony does not justify recovery of incentive compensation based on financial metrics in light of consistent Commission precedent. In Ameren's 2015 gas rate case, the Commission made clear that "[i]ncentive compensation costs based on financial performance that primarily benefit shareholders are not recoverable." *Ameren Ill. Co. d/b/a Ameren Ill.*, Docket No. 15-0142, Order at 44 (Dec. 9, 2015). Similarly, in Nicor's 2004 rate case, the Commission stated that a utility may only recover incentive compensation costs where it has demonstrated tangible ratepayer benefits in the form of "specific dollar savings or other tangible benefits" and that a public utility cannot recover these costs simply by making "vague allegations that ratepayers benefit from an incentive compensation program." Docket No. 04-0779, Order at 44-45. The Commission reiterated this point in a 2020 Order addressing Nicor's 2016 energy efficiency reconciliation, where it noted "the Commission's longstanding practice is that incentive compensation costs are not reasonable and recoverable unless the Company can demonstrate tangible benefits to ratepayers . . . . The Commission has previously found that incentive compensation incentive compensation related to financial goals primarily benefits shareholders and therefore shareholders should bear the costs." *N. Ill. Gas Co. d/b/a Nicor Gas Co.*, Docket No. 16-0458, Order at 12 (Mar. 4, 2020). In the instant case, IAWC failed to demonstrate that its performance pay based on financial metrics resulted in specific dollar savings or other tangible benefits to ratepayers. Instead, the record evidence demonstrates that IAWC awarded performance pay to its employees for increasing Company revenues, which primarily benefits shareholders. The AG maintains that when shareholders benefit, shareholders should bear the cost.

The AG also states that the Company's claims that no party has disputed the reasonableness of IAWC's charges is simply wrong. To the contrary, the AG, Staff, and IIWC/FEA/CUB all recommended that the Commission disallow these incentive compensation charges. AG Ex. 1.0 at 4-9; Staff Ex 3.0 at 7-12; IIWC/CUB/FEA Ex. 1.0 at 79-86. The Company claims that these charges were reasonable by citing to the charges that natural gas and electric utilities report to the Federal Energy Regulatory Commission ("FERC"), through FERC Form 60. AG Ex. 3.0 at 8-9. But IAWC does not

file a FERC Form 60—which does not apply to water and wastewater companies. FERC reporting also does not govern Illinois regulatory policy or even mean that the costs are recovered through state-regulated rates. Therefore, IAWC's reference to FERC reporting is not relevant to this proceeding.

The AG notes that IAWC argues that "the financial metrics tied to performance pay do not 'primarily' benefit shareholders, but rather benefit all stakeholders, including customers, employees, and investors." IAWC IB at 20. To support this position, IAWC provided a table that showed its APP for 2021. IAWC IB at 23. However, no party has proposed that IAWC not recover the 50% of its APP that directly benefits customers. In fact, the AG, Staff, and IIWC/FEA/CUB agree to recommend that the Commission only remove the 50% of APP costs which are based on financial goals/EPS because these goals primarily benefit shareholders. The AG demonstrates that the Commission must deny IAWC's proposed recovery of incentive compensation based on the achievement of financial goals because IAWC has not and cannot demonstrate that the achievement of financial goals primarily benefits customers.

For these reasons, the AG requests that the Commission reduce IAWC's general expenses by $3,897,310 and its proposed payroll taxes by $298,144, as presented on AG IB Attach A, Sch. 2.

d. IIWC/FEA/CUB's Position

IIWC/FEA/CUB observe IAWC proposes to include in rates 100% of its short-term and long-term incentive compensation, or approximately $6.5 million of expense and some capitalized costs. This includes $4.7 million of APP expenses and $1.8 million of LTPP expenses. IIWC/CUB/FEA Ex. 1.0 at 79. The adjustment proposed by IIWC/FEA/CUB witness Walters lowers the Company's incentive compensation expense by approximately $4.2 million. *Id*. at 86.

According to IIWC/FEA/CUB, IAWC has two incentive compensation programs. APP awards incentive compensation based on the achievement of a variety of operational and financial metrics. IIWC/CUB/FEA Ex. 1.0 at 81. The plan includes goals for safety (20% of APP), customer satisfaction (15%), environmental leadership (15%), and EPS growth (50%). *Id*. at 81. The environmental leadership component is based on maintaining water quality. *Id*. American Water discusses the EPS growth metric in its APP plan description:

> We must continue to grow because growing companies can offer stable jobs, competitive compensation and benefits, and more personal development opportunities. Additionally, growth means we can deliver our outstanding service to more customers and communities across the U.S. Adjusted EPS is a key measure of our financial and operational success; achieving our earnings and strategic goals creates long-term stockholder value and provides greater total return to our stockholders.

Id.; IAWC/CUB/FEA Ex. 1.18 at 14.

IIWC/FEA/CUB take no issue with IAWC recovering APP costs that directly benefit customers, which amounts to 50% of the APP costs proposed in this proceeding. *Id*. However, IIWC/FEA/CUB observe the financial metrics include no benefits for current IAWC customers. IIWC/CUB/FEA Ex. 1.0 at 81-82. Rather, the plan description above clearly shows the primary beneficiary of the financial metrics is shareholders. *Id*. at 82. IAWC's second incentive compensation plan is LTPP, which provides equity awards in the form of RSUs and PSUs. *Id*. IIWC/FEA/CUB point out that as noted in Mr. Walters' direct testimony, American Water's plan description describes the two components.

> The equity award includes Restricted Stock Units (RSUs) and a performance-based stock component, which awards Performance Stock Units (PSUs) based on American Water's Total Shareholder Return (TSR) ranking among peer companies and adjusted compounded Earnings Per Share (EPS) growth. This design aligns with the external market and helps keep American Water competitive with our peers in the utilities industry.
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> * * *
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> As an American Water employee and stockholder, you not only have the ability to influence our day-to-day performance, you also have the opportunity to share in the long term rewards of American Water's success. The weighting of LTPP is 30% RSU and 35% for each of the two PSU components. As the plan description highlights, the equity awards under this program align the interest of employees with shareholders and, therefore, should be paid for by shareholders and not customers.

Id. (*quoting* IIWC/CUB/FEA Ex. 1.18).

IIWC/FEA/CUB argue that as the plan description highlights, the equity awards under this program align the interest of employees with shareholders and, therefore, should be paid for by shareholders and not customers. *Id*. at 82.

IIWC/FEA/CUB point out that the Commission articulated its standard on allowable incentive compensation costs in the Nicor 2004 rate case. There, the Commission made clear that incentive compensation costs should be borne by shareholders rather than ratepayers when the payment of incentives is dependent upon, or triggered by, the achievement of financial goals. In Docket No. 04-0779, the Commission stated:

> Nicor argues that incentive compensation allows it to maintain a stable workforce "that provides safe, reliable service to [Nicor] customers, which is obviously to the customers' benefit" reveals two flaws. Most importantly, it is the duty of Nicor, as a public utility, to provide safe, adequate, reliable service. If Nicor fails to meet the financial targets, or any other goals that trigger incentive compensation payments, Nicor still has an obligation to provide safe, reliable service. Given that

> Nicor's incentive compensation outlays are so heavily dependent upon financial targets, the Commission does not believe this rationale is sufficient to require ratepayers to bear the cost of the payments.

Docket No. 04-0779, Order at 45.

This standard has been upheld repeatedly since that 2004 proceeding, not just for Nicor, but also other Illinois gas, electric, and water utilities. IAWC provides no evidence that differentiates its request in this proceeding from each of these Commission determinations.

It is IIWC/FEA/CUB's position that incentive compensation costs related to financial goals should not be included in rates for several reasons. *See* IIWC/CUB/FEA Ex. 1.0 at 85. First, shareholders can pay for the incentive compensation using the higher earnings achieved as a result of meeting the financial goals. *Id*. Second, including these costs in rates exposes customers to the risk of paying for incentive compensation without knowing if the financial goals will be achieved. Third, incentive compensation costs relating to financial goals do not provide any additional benefit to customers. *Id*. IIWC/FEA/CUB argue the Commission has therefore rightly excluded these costs from rates. Consistent with both Commission standards and fair and balanced regulatory practices, the Commission disallows incentive compensation costs based on financial goals because incentive compensation programs primarily designed to align the interests of executives with shareholders should be paid for by shareholders.

IIWC/FEA/CUB reason that in addition to excluding these costs because they are designed to primarily benefit shareholders, including such costs in rates is asymmetrical by creating risk to ratepayers but not shareholders, and therefore cannot meet the just and reasonable standard in the Act. IIWC/CUB/FEA Ex. 1.0 at 85; 220 ILCS 6/9-201. For example, if incentive compensation costs are borne by shareholders and excluded from cost of service, then shareholders will pay these incentive compensation costs only if the incentive targets are achieved. IIWC/CUB/FEA Ex. 1.0 at 85. If the incentive targets are achieved, then the Company's earnings and dividend-paying ability will be enhanced. *Id*. In this instance, shareholders can pay for the incentive compensation costs out of the higher earnings created by the employees achieving the incentive financial goals. *Id*. If the goals are not achieved, shareholders will not incur the incentive compensation costs. On the other hand, if the incentive compensation costs were included in cost of service, customers would be obligated to compensate for incentive compensation costs regardless of whether or not the incentive financial goals were actually achieved. *Id*. In this instance, customers would compensate the utility for incentive compensation expenses, but customers would not benefit from the achievement of the financial goals.

According to IIWC/FEA/CUB, in IAWC's last rate case, Docket No. 16-0093, the Company withdrew its proposal to recover its test year LTPP expenses and this program was not reviewed by the Commission. Docket No. 16-0093, Order at 37-38. The Company also withdrew its proposal to recover the 50% of APP expenses tied to financial metrics in response to Staff's questions. *Id*. In its final Order in Docket No. 16-0093, the Commission commented on whether it is appropriate for a utility to recover incentive compensation tied to financial metrics in its order as follows:

> The Commission agrees with the AG that when incentive compensation seeks to achieve goals that primarily benefit shareholders, it is reasonable to require that shareholders bear the cost of that incentive compensation. In a recent [Peoples Gas Light and Coke Company / North Shore Gas Company] rate case, the Commission stated that "incentive compensation related to financial goals, affiliate goals or shareholder goals should not be recoverable from ratepayers." Docket Nos. 09-0166/0167 (Cons.) Order at 58.

Id. The Commission did approve recovery of the APP portion tied to operational metrics in Docket No. 16-0093.

IIWC/FEA/CUB note that IAWC witness Matthews argues that the financial health of the utility ties directly to customer benefits because "Utility customers benefit directly from productivity and efficiency…. Infrastructure improvement is capital intensive and the ability of the Company to fund this capital due to its financial health directly impacts the ability for us to invest in our systems while maintaining affordable customer bills." IAWC Ex. 23.00 at 3. IIWC/FEA/CUB conclude this argument fully ignores the applicable legal standard, articulated above, which has been upheld for decades by the Commission, and flies in the face of the public policy supporting this legal threshold.

It is the IIWC/FEA/CUB position that IAWC witness Matthews' justification relies on the comparative studies she cites that show IAWC's compensation programs are comparable to and competitive with market practices of other similarly sized utilities. IIWC/CUB/FEA Ex. 1.0 at 83. From this she concludes that these costs represent reasonable market-based compensation and should be recovered from customers. *Id*. While it may be true that incentive compensation is a standard part of compensation packages made available by utility companies, importantly, Ms. Matthews does not offer any evidence on how these costs are typically treated for ratemaking purposes. *Id*. at 82. Mr. Walters testified that, in his experience, incentive compensation costs tied to financial metrics are often excluded from customers' rates. *Id*. at 83. Indeed, the portion of IAWC's incentive compensation tied to financial metrics is already excluded from rates and not currently being recovered from customers. *Id*. Ms. Matthews offers no evidence this has harmed the Company's ability to hire and retain employees. *Id*.

IIWC/FEA/CUB also point out that Ms. Matthews further states that "[a]ll of the APP and LTPP plans' performance objectives – both operational and financial – focus employees' efforts in ways that benefit customers." IAWC Ex. 23.00 at 2-3. IIWC/FEA/CUB argue that opportunely, by this argument, not one dollar of incentive compensation expense would be excluded as primarily benefitting shareholders, even when the compensation is solely tied to financial goals. As IAWC would have it, all incentive compensation expense benefits customers in some indirect way. This line of argument cannot withstand scrutiny.

IIWC/FEA/CUB also assert that the Commission should disallow the cost of RSUs for the same reasons LTPP costs should be disallowed. It is the IIWC/FEA/CUB position that while the Commission has previously allowed the cost of RSUs in incentive compensation expense, Mr. Walters testified that IAWC's RSUs are awarded through its

LTPP, which describes the awards as being designed to align the interest of employees and shareholders and therefore incurred to benefit shareholders. IIWC/CUB/FEA Ex. 2.0 at 10. Thus, these costs should not be treated differently than the rest of the LTPP costs, and should be disallowed under the same legal and policy prescriptions set forth above. Mr. Walters testified that "all costs of the LTPP, including RSUs, should be excluded from ratemaking cost of service, and the cost should be paid for by shareholders via meeting the LTPP award targets." *Id*. at 10. IIWC/FEA/CUB recommend that, to be consistent with Commission practice and law, the entirety of the LTPP costs, including the award of RSUs, be excluded from the Company's cost of service.

e. Municipalities' Position

The Municipalities oppose including the costs associated with the financial metrics in rates. While they did not file testimony concerning the inclusion of financial metrics in the calculation of IAWC's incentive compensation program paid by ratepayers, the Municipalities agree with the testimony filed by the AG, Staff, and IIWC/FEA/CUB.

The inclusion of financial metrics is inconsistent with past Commission dockets where these costs have been excluded because achieving EPS goals benefits stockholders, not ratepayers. Specifically, as explained by AG witness Selvaggio, in previous IAWC cases, (i) the Company withdrew a similar request, (ii) it did not object to the costs being excluded in another case, and (iii) in Docket No. 07-0507, the Commission specifically disallowed the costs in the Company's revenue requirements. AG Ex.1.0 at 6.

Because inclusion of financial metrics benefit shareholders, the Municipalities agree with the other Intervenors and Staff that the costs associated with the metrics should not be recovered from ratepayers.

f. Commission Analysis and Conclusion

The Commission has consistently found that incentive compensation programs related to financial goals primarily benefit shareholders and those costs should not be recovered by the utility from ratepayers. The testimony and evidence presented by IAWC does not distinguish this case from the Commission's prior rulings on this issue, and the Commission once again finds that incentive compensation based on financial metrics should be removed and not recoverable from ratepayers.

IAWC argues that the Commission should consider its performance pay programs as a whole and determine whether the overall level of compensation is reasonable. The Commission disagrees because it ignores the standard for recovery previously established by the Commission. If IAWC wants to recover incentive compensation expenses based on financial metrics from ratepayers, it must demonstrate that the expenses provide cost savings or other tangible benefits to ratepayers. The financial goals included in IAWC's performance pay that Staff and the AG seek to exclude primarily benefit shareholders, not ratepayers.

IAWC argues that its performance pay programs provide customer benefits through reduced expenses and greater efficiencies. However, IAWC has not shown that these customer benefits were caused by the performance metrics related to financial goals rather than the Company's operational goals. IAWC also argues performance pay

based on financial goals is an accepted part of total compensation packages in businesses. However, merely because financial metrics are standard practice in business compensation packages does not mean that such expenses should be recovered from ratepayers.

The Commission has also rejected arguments similar to IAWC's that its performance pay plans, including the financial goals, are needed to attract and retain a skilled workforce to provide safe and reliable service. In doing so, the Commission found that such arguments ignore the standard for recovery and the legal duty of a utility to provide safe, adequate, and reliable service. *See* Docket No. 04-0779, Order at 45-46.

Accordingly, the Commission approves Staff's proposed adjustments to IAWC's performance pay. The Commission notes that Staff's proposed adjustments are in line with those proposed by the AG.

IIWC/FEA/CUB support Staff and the AG's proposed adjustments, but further argue that RSUs included in the LTPP should also be excluded. IIWC/FEA/CUB contend that because RSUs are included in the LTPP they should not be treated any differently than other costs in the LTPP and therefore should be excluded. The Commission disagrees. RSUs have a defined vesting period and are not based on the achievement of financial goals. Just because some costs in an incentive compensation program should be disallowed because they do not primarily benefit ratepayers does not invalidate the program as a whole. Under IIWC/FEA/CUB's reasoning, the entirety of the APP should be disallowed even though there are parts of the program that provide tangible benefits to ratepayers. The Commission rejects IIWC/FEA/CUB's additional adjustment to IAWC's performance pay.

3. Rate Case Expense

a. IAWC's Position

IAWC notes that IIWC/FEA/CUB and Staff contend that a four-year amortization period should be approved for the rate case expense. The Company originally proposed the use of a two-year amortization period for rate case expense, but in rebuttal testimony revised its proposal to a three-year amortization period for rate case expense. In the interest of narrowing the issues in this case, however, the Company revised its proposed amortization period to four years in its surrebuttal testimony, which is consistent with the recommendation from IIWC/FEA/CUB and Staff. The Company note that AG witness Selvaggio, supported by the Municipalities, continue to propose a six-year amortization period.

The Company points out that key to the AG's position is the argument that the Commission currently allows the unpaid amount from one case to be included in the amortization period for the rate case expense in the next rate case. According to the AG, then, even if IAWC files another rate case within the next six years, it would still recover its full rate case expense from this docket. But as IAWC explains, the unamortized balance of rate case is not reflected in rate base. Thus, IAWC states that it will not recover the carrying cost, or time value of money, related to inclusion of unamortized balances in future rate case expense. IAWC concludes that the Company will not recover its "full"

rate case expense in a reamortization scenario. IAWC states that for these reasons, the amortization period should be reasonable and not extended out over many years.

The Company states that the AG's argument - that it is reasonable to expect that IAWC's riders will have the effect of postponing the need for IAWC to file another rate case in the near term – is entirely speculative. The Company notes that prior to this docket, IAWC filed general rate cases on August 31, 2007, May 29, 2009, October 27, 2011, and January 21, 2016; making the point that, historically, there is a three-year average between filings. Therefore, IAWC states, a four-year amortization period is reasonable. IAWC argues that six years is not, as it reflects twice as long an amortization period than IAWC's historical average timing of its filings supports. Accordingly, IAWC states that the Commission should approve the four-year amortization period and decline the AG's proposed six-year timeframe.

Regarding communications costs, based on the briefing of the parties, IAWC states that this is no longer a contested issue. Although IAWC believes its overall rate case expense projection remains reasonable, in order to narrow issues in this case, IAWC has reduced its rate case expense projections by $132,000, which is comprised of $32,000 related to audit fees and $100,000 of the AG's recommended $139,738 reduction related to communications costs. The AG agrees with IAWC's proposed reduction of communication expense, and the Company, Staff, and the AG now agree that the Commission should approve IAWC's rate case expense projections as reflected in IAWC Exhibit 25.03, page 2.

b. Staff's Position

Staff argues that the Commission should approve Staff's recommended four-year amortization period, which was agreed to by the Company. Staff initially proposed adjustments to increase the amortization period of rate case expense from two years, originally proposed by the Company, to six years based on the length of time since the Company's previous rate case. Staff Ex. 3.0 at 3-6.

In rebuttal testimony, the Company disputed Staff's proposed amortization period of six years and instead argued for a three-year amortization period due to the average time between the Company's three previous rate cases, not including this proceeding. IAWC Ex. 15.00 at 12. In rebuttal testimony, Staff noted that it generally agreed with the Company's position to use the amount of time between rate cases historically but opined that the timing of the current proceeding should be considered. Staff Ex. 11.0 at 4. Therefore, as a compromise, Staff revised its original proposal and proposed a four-year amortization period which is the average amount of time between the Company's previous three rate cases in addition to this proceeding. *Id*. at 5. Staff further agreed with IIWC/FEA/CUB's recommendation for a four-year period for amortizing rate case expense. *Id*. at 3-7, *citing* IIWC/CUB/FEA Ex. 1.0 at 79.

In surrebuttal testimony, the Company agreed to revise its proposed amortization period from three years to four years, which is consistent with the recommendation from Staff and IIWC/FEA/CUB. IAWC Ex. 25.00 at 10. Additionally, in response to the AG, the Company agreed to reduce total projected rate case expense by $132,000 which is comprised of $32,000 related to audit fees and $100,000 of the AG's recommended $139,738 reduction related to communications costs. *See* AG Ex. 3.0 at 12. The AG

continues to propose a six-year amortization period. AG Ex. 3.0 at 10. Staff and the Company's agreed upon four-year amortization period is reasonable based on past rate case frequency, and Staff argues that it should be adopted by the Commission.

In rebuttal testimony Staff provided an additional recommendation regarding Section 9-229 of the Act, which requires the Commission to expressly address the justness and reasonableness of the attorney and expert compensation expended by the public utility to prepare and litigate the rate case. Staff Ex. 11.0 at 6 (*citing* 220 ILCS 5/9-229). Staff did not propose a disallowance of any specific rate case expense costs in this proceeding, but Staff's adjustment to the amortization period for rate case costs reduces the amount of expenses included in the revenue requirement. *Id*. Therefore, Staff proposes that the final Order in this proceeding include a Commission conclusion based on the Company's partially agreed reduction to total rate case expense proposed by the AG and the amortization periods agreed to by the Company, Staff, and IIWC/FEA/CUB. Staff states that if the Commission makes any adjustments to the overall total of rate case expense or the amortization period at the conclusion of this proceeding, those adjustments should be reflected in the Commission's statement that sets forth the amount of rate case expense included in the revenue requirement.

c. AG's Position

In its surrebuttal, the Company reduced its total communication costs by $100,000. IAWC Ex. 25.00 at 11. The AG requests that the Commission accept this reduction.

In its direct testimony, IAWC requested that the Commission amortize its $2.508 million rate case expense over two years. In its rebuttal testimony, IAWC increased its proposed amortization period to three years. IAWC Ex. 15.00 at 12. In surrebuttal testimony, IAWC then increased its proposed amortization period to four years. The AG recommends that the Company's rate case expense be amortized over six years. AG Ex. 1.0 at 9. In support of this position, AG witness Selvaggio indicated that IAWC's current base rates became effective in December 2016 and that its new base rates will become effective in January 2023, more than six years later. *Id*. at 9. Ms. Selvaggio further noted that the Commission approved a two-year amortization period in the Company's last rate case and, as a result, ratepayers have paid IAWC's rate case expense more than three times, over the past six years. AG Ex. 3.0 at 11.

The AG notes that IAWC argues that historically it has filed rate cases at an average of every three years. However, the AG points out that this position ignores the fact that this is only IAWC's second rate case since the Commission amended the rules governing IAWC's Qualifying Infrastructure Plant ("QIP") Surcharge in 2015. *Aqua Ill., Inc. & Ill.-Am. Water Co.*, Docket No. 15-0017, Adopting Order (June 29, 2016). In Docket No. 15-0017, IAWC noted that the approval of its QIP Surcharge would result in "reduced rate case frequency." *Id*., First Notice Order at 9 (Sept. 10, 2015). The AG demonstrates that the truth of IAWC's prediction has borne out over the past seven years, with IAWC filing one rate case in 2016 and the present case in 2022. Further, IAWC has obtained multiple tariffs that track costs outside rate cases and allow the Company to adjust charges to customers based on these costs. These tariffs include at least eight riders, including some that are relatively new. *See, e.g*., IAWC Sch. E-1, Central Division Water. These riders are also included in the tariffs of IAWC's other water and sewage districts.

See IAWC Sch. E-1 and E-2. It is reasonable to expect that these riders will continue to have the effect of postponing the need for IAWC to file another rate case in the near term. The AG shows that it is unreasonable for IAWC's rate case expense to be amortized over a four-year period, at a higher per-year cost of $594,000 to ratepayers, compared to $396,000 per year under a six-year period, when the immediate history and its multiple riders that allow it to increase charges between rate cases show IAWC is likely to wait as long or longer before filing its next rate case.

Moreover, even if IAWC files another rate case within the next six years, it would still recover its full rate case expense from this docket. The Commission currently allows the unpaid amount from one case to be included in the amortization period for the rate case expense in the next rate case. In other words, "IAWC would recover its rate case expense regardless of when the next rate case is filed." AG Ex. 1.0 at 10-11. However, if the Commission adopts IAWC's shorter amortization period, the AG asserts that ratepayers are at risk of significantly over-paying the Company for the cost of this rate case through an amortized annual balance that would remain in base rates until IAWC files its next rate case. *Id*. at 11.

For these reasons, the AG requests that the Commission adopt a six-year amortization period for IAWC's rate case expense in this docket at an annual expense of $396,000 per year.

d. IIWC/FEA/CUB's Position

IIWC/FEA/CUB note IAWC estimates the rate case expense to be $2,508,000. IAWC Ex. 4.03. IIWC/FEA/CUB take the position that rate case expenses should be recovered over the time rates are expected to be in effect. IIWC/CUB/FEA Ex. 1.0 at 78-79. Therefore, given the current rates have been in effect for five years, IAWC's proposal for a three-year amortization of rate case expenses is inappropriate and not supported by evidence in this proceeding. *Id.* IIWC/FEA/CUB witness Walters recommends the amortization period for rate case expenses be increased to four years. *Id.* This is a reasonable estimate of the time rates approved in this proceeding will be in effect given the timeframe between IAWC rate cases. *Id.*

IIWC/FEA/CUB point out that as shown in IIWC/FEA/CUB witness Walters' Table CCW-R-1, the average span between rate case filing is 3.61 years. IIWC/CUB/FEA Ex. 2.0 at 10. Mr. Walters noted that the average time between rate case filings has increased, significantly, between every rate case since the 2007 rate case filing. *Id.* For example, the amount of time has increased from 637 days to more than 2,200 days. *Id.* at 11. The trend in the time between the Company's filings over this period is that each case is being filed approximately 525 days (or 1.44 years) later than the amount of time between filing the previous case. *Id.* If we add the trend in the increased amount of time between filings (1.44 years) to the average of 3.61 years, this would be a five-year rate case cycle, or, the midpoint between my proposal of four years compared to the six-year proposal by Staff and AG. *Id.* For these reasons, Mr. Walters and IIWC/FEA/CUB continue to support an amortization period of four years for the Company's rate case expense. *Id.*

e. Municipalities' Position

The Municipalities agree with the AG that IAWC's rate case expenses be amortized over a six-year period rather than the four-year period agreed to by the Company. Initially, the Company proposed recovering rate case expenses over two years but in rebuttal testimony extended the period to four years. The more appropriate period is six years.

IAWC's current rates became effective on December 13, 2016, and any rate approved in this docket will not become effective until early 2023. Based on the greater than six-year period between its last rate case and this docket, a six-year recovery period is more appropriate. There is no harm to IAWC in establishing the six-year recovery period because, if the Company files another rate case prior to the end of the six years, any unamortized portion of rate case expenses will be included in the next case. However, the reverse is not true. If the Company is granted a four-year recovery but waits beyond the four years to file a new case, the Company will have over-recovered rate case expenses from ratepayers—and the ratepayers would not receive a refund for the overpayment.

The Municipalities agree with the AG that the more prudent course is to amortize rate case expenses over six years.

f. Commission Analysis and Conclusion

The only contested issue remaining regarding rate case expense is the amortization period. The Commission must determine an appropriate estimate of the time rates approved in this proceeding will be in effect given the timeframe between IAWC rate cases.

IIWC/FEA/CUB recommend an amortization period of four years based on the average span between IAWC rate case filings. Staff and IAWC also agreed to a compromise position of a four-year amortization period. The AG and the Municipalities support a six-year amortization period based in part on the fact that it has been six years since IAWC's last rate case. Additionally, parties note that the time-period between IAWC rate cases has gotten longer over time.

The Commission finds that a four-year amortization period is reasonable and is approved. While IAWC's last rate case was six years ago, IAWC's historical average is closer to the four-year amortization period supported by IAWC, Staff, and IIWC/FEA/CUB.

The Commission has considered the estimated costs to be expended by IAWC to compensate attorneys and technical experts to prepare and litigate rate case proceedings and assesses that the amount included as rate case expense in the total revenue requirement of $594,000 is just and reasonable pursuant to Section 9-229 of the Act.

III. RATE BASE

A. Uncontested Issues

1. Adjustment to Rate Base for 2021 Actuals (including Materials and Supplies)

IAWC states that its initial filing showed actual rate base balances as of September 30, 2021. In rebuttal, IAWC notes that it updated its rate base to account for actual balances as of December 31, 2021, which decreased rate base by $19,158,203. The AG and Staff proposed other adjustments to rate base schedules based on actual balances as of December 31, 2021. IAWC points out that based on Staff and AG adjustments, the Company revised its rate base as shown Schedule B-1-Jurisdictional Rate Base Summary. Further, IAWC Exhibit 16.03 presents year-end 2021 adjustments to materials and supplies, construction work in progress, and contributions in aid of construction balances based on year ended December 31, 2021 amounts. These adjustments, IAWC notes, along with adjustments for all other rate base components for year-end 2021 actual balances that IAWC is accepting per the AG's proposed adjustments to rate base schedules based on actual balances through December 31, 2021, can also be found on IAWC Exhibit 16.01. IAWC states that the Company has not, aside from the update to actuals, proposed further additions to rate base projections for 2023.

In rebuttal testimony, Staff proposed Schedule 9.03 regarding adjustments to rate base, reflecting data for the future test year ending December 31, 2023. Staff Ex. 9.0 at 2. The Company did not contest Staff's proposed adjustment. Staff states that the Commission should approve Staff's adjustment to rate base for 2021 actuals.

The Commission finds that IAWC's adjustment to rate base for 2021 actuals is not contested, is reasonable, and should be approved.

2. Adjustments re: Acquisitions

Staff proposed adjustments for the acquisitions of Villa Grove and YES Companies EXP Fred, LLC ("Yes Communities"). For the acquisition of Villa Grove (Central Water and Wastewater), Staff Schedule 2.01 presented adjustments to gross utility plant in service, accumulated depreciation, and depreciation and amortization expense for changes in estimates of costs related to the acquisition of Villa Grove. Staff Ex. 2.0 at 3. The Company agreed with Staff's adjustment in rebuttal testimony, and this issue is no longer contested. IAWC Ex. 16.00 at 3; Staff Ex. 10.0 at 2.

For the acquisition of YES Communities (Central Water), Staff Schedule 2.02 presented adjustments to gross utility plant in service, accumulated depreciation, and depreciation and amortization expense for changes in estimates of costs related to the acquisition of YES Communities. Staff Ex. 2.0 at 3-4. The Company did not oppose Staff's proposed adjustment; however, the Company provided an alternative calculation that included updated information for the Yes Companies water in addition to the wastewater (Central Division Wastewater) that was referenced in Staff's direct testimony as an outstanding data request response to TM 13.04. IAWC Ex. 16.02. After reviewing the data request response and the Company's rebuttal testimony and schedules, Staff found no reason to object to the Company's proposed calculation. Staff Ex. 10.0 at 2-3. Staff also indicated in direct testimony that it had outstanding issues regarding the YES

Communities wastewater acquisition, year-end adjustments to material and supplies, contributions in aid of construction, and construction work in progress. Staff Ex. 2.0 at 9. Based on the review of the Company's responses to data requests and Ms. Haugen's rebuttal testimony (IAWC Ex. 16.00, 16.02, and 16.03) addressing those outstanding issues, Staff found no reason to object to the Company's responses as stated. Staff Ex. 10.0 at 6.

This issue is not contested. The Commission approves Staff's adjustments.

3. Qualified Infrastructure Plant ("QIP")

The Company included in its rate base investments that would qualify as QIP under 83 Ill. Adm. Code 656. IAWC explains that upon entry of a final Order, the QIP Rider will be impacted with a reset of certain factors based on the new authorized amounts from this proceeding. IAWC supports Staff's recommendation to include amounts for NetQIP and NetDep by rate zone in a Findings and Orderings paragraph in the Final Order of this proceeding to document the QIP costs included in this proceeding. The Company agrees with Staff's recommended language, subject to the correction of the 2022 Central Division depreciation expense amount to $5,873,284. Staff agrees with the Company's suggested correction, and the Company did not oppose the language and amounts for all other rate zones. Staff recommends including a Findings and Ordering paragraph in the Final Order of this proceeding concerning the future review of QIP costs. IAWC agrees with Staff's recommended language. The Commission finds that this resolution is reasonable and is approved.

4. Removal of Incentive Compensation Based on Financial Metrics Capitalized Since the Last Rate Case

IAWC states that Staff and AG proposed an adjustment to rate base and depreciation expense for prior and projected capitalized performance compensation for Total Company. IAWC agrees to accept a $133,299 decrease to rate base and a $3,563 decrease in depreciation expense, as calculated by the AG. The Commission finds that this adjustment is reasonable, and it is approved.

5. Corrections to Accumulated Deferred Income Taxes ("ADIT")

IAWC states that Staff proposed an adjustment to as-filed average test year State deferred tax liability from ($83,094,362) to ($83,265,495). Staff proposed an adjustment to as-filed average test year Federal deferred tax liability from ($190,262,871) to ($190,605,224). IAWC notes that the AG proposed adjustments for restatement of accumulated deferred income taxes ("ADIT"), reducing State ADIT by $1,088,689 and Federal ADIT by $1,845,074 for Total Company. The Company accepts these adjustments. The Commission finds that these adjustments are reasonable, and they are approved.

6. Calculation of Cash Working Capital ("CWC")

Staff proposed an adjustment to calculate the CWC component of rate base for each rate zone. Staff Ex. 1.0 at 7. Staff proposed these adjustments in order to demonstrate that the total revenues should equal the total expenses. *Id*. In rebuttal testimony, the Company responded by agreeing that the final balance of CWC will be established using the revenue requirement and methodology that is ultimately approved

by the Commission in this proceeding. IAWC Ex. 20.00 at 3-4. IAWC explains that the Company summarized IAWC's CWC requirements in Schedule B-8 of Exhibit 31.01 after making the agreed to corrections of the CWC studies.

The Commission finds that, subject to its conclusions on CWC above, IAWC's proposed CWC amount is reasonable, and it is approved.

B. Contested Issues

1. Cash Working Capital ("CWC")

a. IAWC's Position

IAWC explains that CWC is the amount of funds necessary to finance the day-to-day operations of the Company and is included in the determination of a utility's rate base. CWC bridges the gap between the time when funds are provided to the Company by investors to allow the Company to provide service to customers, and the time when revenues are received from customers as reimbursement for these services. IAWC explains that it determined its CWC requirement by conducting five lead-lag studies to determine the timing of IAWC's cash inflows and outflows in order to analyze the level of funding required to operate on a day-to-day basis.

IAWC states that only two elements of the CWC requirement remain at issue – adjustments proposed by Staff and Intervenors related to the treatment of regulatory expense and deferred taxes. IAWC argues that these adjustments should be rejected so that IAWC's CWC requirement properly reflects the amount of funds necessary to finance the day-to-day operations of the Company.

IAWC states that Staff and AG propose to remove regulatory expense (rate case expense) as an operating expense line item in the calculation of CWC. IAWC argues that Staff and the AG's adjustment to the treatment of regulatory expense in CWC should be rejected.

IAWC notes that the inclusion of regulatory expenses in the determination of CWC recognizes the fact the Company is currently making cash expenditures related to the current rate case for which ratepayers have not provided any funds. IAWC contends that the inclusion of regulatory expenses in the determination of CWC recognizes that prospectively, ratepayers will pay rates enabling the Company to recover their current cash expenditure, but the collection of the cash will experience revenue lag days, as do all revenues (e.g., Central Water revenue lag of 54.8 days). IAWC contends that only considering operating expenses that typically occur during a given year ignores that the Company is currently making cash expenditures related to the current rate case and will experience lag in its recovery.

IAWC notes that Staff and the AG argue that including the regulatory expense in the CWC calculation would transform it into an investment on which ratepayers would be required to pay a return, contrary to past Commission orders that the unamortized rate case expense should not be included in rate base. IAWC states that contrary to Staff and AG's assertions, IAWC is not recommending that the unamortized rate case expense should be included in rate base, and IAWC's recommendation does not transform this expense into an investment. Rather, IAWC recommends the inclusion of regulatory expenses in the determination of CWC to recognize the fact the Company is currently

making cash expenditures related to the current rate case for which ratepayers have not provided any capital towards, and that eventually collection of the cash will experience revenue lag days, as do all revenues. IAWC states that, in short, the Company's proposed treatment of regulatory expense is about the appropriate level of working capital for the Company, not the recovery of rate case expense. For this reason, IAWC's proposed inclusion of regulatory expense in the CWC calculation is reasonable and should be approved, and the Staff and AG adjustment to the treatment of regulatory expense in CWC should be rejected.

IAWC explains that deferred income taxes are collected from customers, but not due to be paid by the Company until a future date, and so are deducted from rate base as a source of cost-free funds. IAWC further explains that there is a lag in collection of deferred taxes, but when the deferred taxes account balance is deducted from rate base, that deducted balance includes an uncollected amount of deferred tax expense that is treated as if the amount was already collected.

IAWC states that AG witness Selvaggio proposes that deferred taxes be removed from the CWC calculation because deferred taxes are a non-cash item not currently paid, and including deferred taxes in the CWC calculation transforms the deferred income taxes into an investment on which ratepayers would be required to pay a return. IAWC states, however, that excluding the revenues associated with deferred taxes from the CWC calculation ignores the lag between IAWC's recorded deferred tax amount and its cash collection of that amount from customers. IAWC collects cash associated with its deferred tax liability from customers in the same way it collects all other revenues. But when the deferred taxes account balance is deducted from rate base, that deducted balance includes an uncollected amount of deferred tax expense that is treated as if the amount was already collected. Because of this treatment, IAWC states, when that balance is deducted from rate base, it overstates the actual amount of available cost-free capital by an amount equal to the revenue requirement lag days.

Furthermore, IAWC states, inclusion of deferred taxes in CWC would not turn deferred taxes into an investment on which ratepayers would be required to pay a return, because the deferred tax account balance is already treated as a cost-free source of cash that is deducted from rate base. The Company's CWC calculation accounts for the fact that the balance that was deducted from rate base included amounts (15% of the current year's deferred tax expense) that have not actually been collected from ratepayers yet.

IAWC states that the Company and the AG agree that deferred taxes are expenses not currently paid. But IAWC's lead-lag analysis already accounts for the fact that there is no current expense associated with deferred income taxes by applying a zero-day expense lead. Assigning a zero-expense lead to deferred income taxes in CWC recognizes that a portion of these cost-free funds have not actually been collected from customers. IAWC explains that their treatment of deferred income taxes is in accordance with the Commission's holding in Docket No. 16-0093 because IAWC's CWC proposal treats deferred income taxes as a non-cash expense by applying a zero-day expense lead.

IAWC explains that their treatment is thus wholly consistent with the Illinois Supreme Court decision cited by the AG, *City of Alton v. Ill. Commerce Comm'n*, that "A

working capital allowance is designed to provide a return on those funds which are used to pay expenses incurred before the income produced by those expenses has been received," *City of Alton v. Ill. Commerce Comm'n* ,19 Ill.2d 76, 85 (1960), because IAWC's proposal acknowledges the lag in receipt of income from customers related to deferred taxes. So, while it may be correct that "Such a [CWC] return is not justified where payments by the utility's customers make funds available to meet current expenses without additional investment by stockholders", (*id.*), in this case, the payments (in rates for deferred taxes) by the utility's customers to make funds available have not happened yet.

IAWC states that if the Commission adopts the AG's proposal to remove deferred income taxes from CWC, that decision will deprive the Company of an opportunity to earn a fair rate of return on their entire plant investment. Accordingly, IAWC urges the Commission to decline to adopt the AG's adjustment to CWC for deferred taxes.

For these reasons, IAWC concludes, the Commission should approve IAWC's CWC as presented in IAWC Exhibit 31.00.

b. Staff's Position

Staff argues that the Commission should approve Staff's proposed adjustments to calculate the CWC component of rate base for each rate zone. Staff Ex. 1.0 at 7. Specifically, Staff proposes removal of regulatory expense as an operating expense line item in the calculation of CWC.

As Ms. Pearce testified, Staff's position is that rate case expense should not be included in the calculation of CWC because the costs are given special recognition from a regulatory ratemaking perspective, and these costs are not representative of operating expenses that typically occur in the course of a given year. Staff Ex. 9.0 at 5. In Illinois, public utilities are permitted to accumulate the total approved rate case expense and amortize it over a specified number of years, as approved by the Commission in a rate proceeding. *Id*. It is unnecessary to include these expenses in the CWC calculation as any unamortized portion of rate case expense will be recovered from ratepayers. *Id*. at 6. Thus, investors will recover the total amount of rate case expense that is approved by the Commission, and there is no need to include the expenses in the CWC calculation. *Id*.

Additionally, Staff explains that rate case expenses are not representative of operating expenses as total rate case expenses are significant in dollar amount and are only incurred in the years that a utility is preparing and litigating a request for a rate increase. *Id*. Rate cases such as the instant case, filed pursuant to Section 9-201 of the Act, are not filed annually, but rather periodically. As a utility does not file a rate case every year, or incur rate case expenses every year, Staff notes that it logically follows that these costs require special treatment different than normally recurring operating expenses. *Id*. at 6-7. Further, Staff asserts that to include the costs in the calculation of CWC as normal operating expenses would distort the cost of service for the test year. *Id*.

IAWC argues that this treatment does not adequately compensate shareholders because the Company is currently making cash expenditures related to the instant rate case for which ratepayers have not yet provided any funds. Staff states that the costs of

a rate case are more properly viewed as deferred costs which should be spread among the years between rate cases — not as an investment on which shareholders should be allowed to earn a rate of return. If such costs were included in the calculation of CWC, that is exactly what the ratemaking impact would be.

For example, if the cost of approved rate case expenses were included as a cost in the CWC calculation and some number of lead days were assigned to the costs, the resulting amount would increase the total balance of CWC. Staff notes that, because the balance of CWC is reflected in rate base, that amount would earn an overall rate of return equal to the Commission-approved weighted average cost of capital ("WACC"). This would distort the calculation of CWC, however, because rate case expenses are not representative of service costs for a test period. *Id*. Staff notes that the well-established Commission practice of deferring rate case expenses and amortizing them over the estimated number of years between rate cases provides a reasonable method of recovery for these costs. It permits full cost recovery of the Commission-approved amount from ratepayers, while spreading those costs over the estimated period between rate cases, thereby maintaining a representative cost of service for the test year.

Based on this reasoning and the well-established treatment of rate case expense, Staff asserts that the Commission should approve Staff's removal of regulatory expense as an operating expense line item in the calculation of CWC. Further, in the final Order in this proceeding, Staff states the final balance of CWC should be updated to reflect the operating revenue and expenses ultimately approved by the Commission for each rate zone. Staff Ex. 9.0 at 7.

c. AG's Position

The AG proposes adjustments to IAWC's CWC to remove the Company's rate case regulatory expense and deferred taxes. *Id*. at 16. The AG proposes to remove the regulatory expense because regulatory expenses are non-cash expenses that should not be included as part of the Company's CWC. *Id*. at 17, 19. Including the regulatory expense in the CWC "transform[s] the annual amortization of rate case expense into an investment on which ratepayers would be required to pay a return," instead of a pass-through expense, which would not result in ratepayers paying IAWC a return. AG Ex. 3.0 at 15.

IAWC argues that it "is not recommending that the unamortized rate case expense . . . be included in rate base, and [that its] recommendation does not transform its expense into an investment." IAWC IB at 34. However, the AG notes that IAWC ignored that CWC — by definition — is included in rate base and entitled to a return. In fact, IAWC explicitly stated earlier in its Initial Brief that "[c]ash working capital is the amount of funds necessary to finance day-to-day operations of the Company *and is included in the determination of the utility's rate base*." IAWC IB at 32 (emphasis added). While IAWC attempts to distinguish CWC from rate base investments, the effect is the same — if the Company's rate case expense is included in CWC, then ratepayers will pay the Company's shareholders a return on this expense.

In 2018, the Commission rejected a similar attempt by USI to include its rate case regulatory expense in rate base. In the USI rate case, the Commission held that "it is long-standing Commission practice that a utility can recover its rate case costs as an

expense, but that the unamortized rate case expense should not be included in rate base," and "Rate base should include investments in the utility that result in an asset that is used and useful, which rate case expense is clearly not." *Util. Servs. of Ill., Inc*., Docket No. 17-1106, Order at 13 (Sept. 24, 2018). For these reasons, the AG requests that the Commission remove IAWC's proposed rate case regulatory expense from its CWC.

The AG also recommends that the Commission remove IAWC's deferred taxes from its CWC because deferred taxes are a non-cash expense that should not be included in CWC. AG Ex. 1.0 at 18. This proposal is consistent with the Commission's Order in IAWC's last rate case, Docket No. 16-0093, where it held that "[i]t is standard practice that deferred income taxes are treated like a non-cash item because they are not currently paid and, therefore, do not require any funds to pay the yet-to-be paid taxes." Docket No. 16-0093, Order at 16-17. The Commission also rejected the inclusion of deferred taxes in CWC in other dockets. *See, e.g*., *N. Shore Gas Co. / The Peoples Gas Light and Coke Co*., Docket Nos. 14-0224/14-0225 (Cons.), 2nd Amendatory Order, App. A at 9-10 and App. B at 9-10 (Feb. 11, 2015); Docket No. 15-0142, Order, App. Sch. 8; *MidAmerican Energy Co*., Docket No. 14-0066, Order, App. at 9 (Nov. 5, 2014).

Further, the Illinois Supreme Court found in *City of Alton*,

> A working capital allowance is designed to provide a return on those funds which are used to pay expenses incurred before the income produced by those expenses has been received. *Such a return is not justified where payments by the utility's customers make funds available to meet current expenses without additional investment by stockholders*. Where tax accruals actually make funds available, it is error for the Commission to ignore them and fail to offset the working capital allowance.

City of Alton,19 Ill.2d 76, 85 (emphasis added). The AG requests that the Commission remove IAWC's rate case and deferred tax expenses from its CWC calculation because they are non-cash expenses and because it is unreasonable and against Commission practice to permit IAWC to recover a return on these expenses. AG Ex. 3.1, Sch. B; AG Ex. 3.2, Sch. E.

d. Commission Analysis and Conclusion

IAWC asserts that its treatment of regulatory expense should be viewed in the context of what is the appropriate level of CWC for the Company and not about the recovery of rate case expense. IAWC claims that it is not recommending that the unamortized rate case expense should be included in rate base, yet that is exactly what IAWC's proposal does. IAWC seeks to include rate case expense as an operating expense, which is then included in the determination of the Company's CWC and ultimately rate base and thus IAWC's investors would earn a return on it. The Commission agrees with Staff that rate case expenses are not representative of operating expenses that typically occur in the course of a given year and should not be included in the calculation of CWC. Rate case expense is not an investment that results in an asset that is used and useful and is therefore appropriately excluded from rate base. *See e.g.* Docket No. 17-1106, Order at 13.

The Commission's longstanding practice allows for a utility to recover its rate case expenses through specialized ratemaking treatment, but those rate case expenses are not included in rate base. The Commission finds no reason to divert from this established practice based on the arguments and evidence in this proceeding.

The Commission further adopts the AG's adjustment to remove IAWC's deferred taxes from CWC. Deferred taxes are a non-cash item that should not be included in CWC. The Commission routinely rejects inclusion of deferred taxes in CWC and IAWC did not make any compelling argument to alter from this practice.

IV. CAPITAL STRUCTURE AND RATE OF RETURN

A. Uncontested Issues

1. Cost of Long-Term Debt

IAWC states that it updated the cost of debt for the actual 2022 and proposed 2023 issuances. Staff accepts the Company's updated cost of long-term debt of 4.43%. The Commission finds the Company's updated cost of long-term debt of 4.43%, as agreed by Staff, is reasonable and should be approved.

B. Contested Issues

1. Capital Structure

a. IAWC's Position

IAWC explains that capital structure components must support long-lived assets, such as IAWC's water and wastewater infrastructure (which includes over $1 billion in investment since IAWC's last rate case). Therefore, a utility's capital structure tends to include long-term securities, such as common equity and long-term debt. IAWC manages the mix of debt and equity in its capital structure with the intent of optimizing its overall cost of capital, while maintaining financial strength and stability. Maintaining financial strength and stability also includes maintaining strong credit metrics consistent with an investment grade credit rating that would allow IAWC to attract new capital at a reasonable cost in all market conditions. IAWC must attract new capital to continue making significant investments to meet its obligation to provide safe, adequate, and reliable water and wastewater services to customers and to maintain its water and wastewater infrastructure. IAWC notes that the record demonstrates that IAWC expects to invest nearly $480 million in capital projects in 2022 and 2023.

IAWC proposes that its forecasted stand-alone capital structure be used for ratemaking purposes in this case. Specifically, IAWC proposes a capital structure using thirteen-month average balances as of December 31, 2023 and composed of 1.81% short-term debt, 46.24% long-term debt, and 51.95% common equity.

IAWC witness Selinger testified that the Company's forecasted capital structure is consistent with the way that the Company's assets are capitalized, with the Company's future test year of 2023, and with IAWC's proposed use of thirteen-month average balances for all items within the calculated rate base. IAWC's forecasted capital structure represents how IAWC finances its independent operations and capital investments. IAWC states that its recommended capital structure includes the costs incurred for both

debt and equity financing based on the risk factors relevant to IAWC and is in line with its peer utilities with similar risk profiles.

IAWC witness Bulkley explained why the Company's capital structure is an important consideration in determining the appropriate return on equity ("ROE") in this case. Assuming other factors are equal, a higher debt ratio increases the risk to investors, with a greater debt service requirement resulting in less cash flow available for common equity holders. Ms. Bulkley further explained why it is appropriate to consider the equity ratio of her group of proxy companies in assessing whether the Company's proposed equity ratio is reasonable and in line with the Proxy Group as a measure of the requisite authorized ROE to compensate investors for that risk. IAWC points out that because the proxy companies are relied upon in establishing the authorized ROE for IAWC, it is important that the financial risk of IAWC be similar to the financial risk of the proxy group. IAWC explains that this is accomplished when the equity ratio of the subject company is within the range established by the Proxy Group. According to Ms. Bulkley's analysis, the average common equity ratio for the Proxy Group at the operating subsidiary level is 53.43% and the median common equity ratio is 53.61% for the year 2020, within a range from 41.92% to 60.04%. Thus, IAWC's proposed common equity ratio of 51.95% approximates the average and median equity ratios found in Ms. Bulkley's Proxy Group albeit slightly below the Proxy Group.

IAWC witness Bulkley also explained that the credit rating agencies' response to the Tax Cuts and Jobs Act of 2017 ("TCJA") must be considered when determining the equity ratio. All three rating agencies have noted that the TCJA has negative implications for utility cash flows, with Standard and Poor's ("S&P") and Fitch Ratings Inc. specifically identifying increasing the equity ratio as one approach to ensure that utilities have sufficient cash flows following the federal income tax rate reductions and the loss of bonus depreciation. As S&P has noted "'[r]egulators must also recognize that tax reform is a strain on utility credit quality, and we expect companies to request stronger capital structures and other means to offset some of the negative impact'." IAWC Ex. 11.00 at 57 *citing* Standard & Poor's Ratings, "U.S. Tax Reform: For Utilities' Credit Quality, Challenges Abound," January 24, 2018, at 5. Furthermore, S&P has stated that it expects continued pressure on cash flows over the near-term as utilities continue to increase leverage to fund capital expenditure plans to reduce greenhouse gas emissions and improve safety and reliability, and prolonged inflation and rising interest rates could further constrain the credit metrics for utilities.

IAWC contends that the cash flow concerns raised by credit rating agencies as a result of the TCJA, inflation, COVID-19, and increased capital expenditures underscore the importance of maintaining adequate cash flow metrics for the industry, as a whole, and IAWC, particularly, in the context of this proceeding. IAWC points out that, while IIWC/CUB/FEA argue that none of these factors support adopting a higher common equity ratio here, the facts show otherwise.

IAWC states that the concerns of the credit rating agencies also demonstrate that it is reasonable to rely on a higher equity ratio in this case than IAWC may have relied on, or that the Commission may have approved, in prior rate cases. The adoption of a higher equity ratio here further is supported by the Commission's authorization of capital structures involving similar equity ratios in recent rate cases for other public utilities. *See*

Docket No. 21-0098, Order at 71 (adopting a capital structure for ratemaking purposes with 54.459% common equity); Docket No. 20-0308, Order at 130 (adopting a capital structure for ratemaking purposes with 52% common equity); *Aqua Ill., Inc.*, Docket No. 17-0259, Order at 21-22 (Mar. 7, 2018) (adopting a capital structure for ratemaking purposes with 53.22% common equity).

IAWC concludes that, for these reasons, its proposed capital structure for the test year ending December 31, 2023 is reasonable and appropriate and should be adopted by the Commission for ratemaking purposes in this proceeding.

IAWC observes that Staff and IIWC/CUB/FEA recommend that the Commission disregard IAWC's proposed capital structure and impute to it a structure that includes more debt and less common equity. Staff proposes an imputed capital structure with 1.81% short-term debt, 49.19% long-term debt, and 49.00% common equity, while IIWC/CUB/FEA propose the use of an imputed capital structure in which the common equity ratio would be no higher than 50%. IAWC states that Staff witness Kight-Garlisch argued that the Company's proposed capital structure contains more common equity than needed to support a financially strong water utility. She based this assertion on the Company's proposed equity ratio being higher than the 2021 common equity ratio of its parent company (approximately 40%) and the alleged average 2021 equity ratios for the Proxy Group and water industry (43.70% and 47.45%, respectively). She also argued that the Company's proposed capital structure would produce a rate of return that appears to violate Section 9-230 of the Act.

IAWC contends that it does not appear that IIWC/CUB/FEA witness Walters performed any quantitative analysis or correlated his proposed capital structure with any actual number. Instead, IAWC notes, Mr. Walters pointed to the Company's currently authorized equity ratio of 49.80%, the common equity ratios the Commission previously has approved for IAWC, and IAWC's reliance on its parent as well as American Water Capital Corporation ("AWCC") to fund its external capital.

IAWC points out that the Commission has refused to adopt an imputed capital structure absent any material facts that a utility's capital structure was manipulated. *GTE N. Inc.*, Docket No. 93-0301, Order (Oct. 11, 1994); 1994 WL 711847. IAWC further points out that the Commission also has concluded that "imputing a hypothetical capital structure to determine a utility's rates is a serious adjustment," and a utility's capital structure should not be disturbed unless it is found to be unreasonable or imprudent. *N. Ill. Gas Co. d/b/a Nicor Gas Co.*, Docket No. 87-0032, Order (Jan. 20, 1988).

IAWC argues that merely concluding that because the capital structure of a utility contains more common equity than its parent, it must have been manipulated, is not, by itself, evidence of manipulation. In this case, IAWC points out, neither Staff nor IIWC/FEA/CUB have even suggested, much less provided evidence, that American Water is manipulating IAWC's capital structure. Moreover, as demonstrated below, Staff and Intervenors failed to present evidence in support of their imputed capital structures and to refute IAWC's showing that its proposed capital structure is consistent with how the Company's rate base has been financed and is reasonable and in line with its peer utilities. IAWC maintains that the Commission should reject Staff's and Intervenors' imputed capital structures.

IAWC states that in response to Staff witness Kight-Garlisch's contention that IAWC has higher financial strength than the Proxy Group and the water industry, IAWC presented evidence showing that the peer group capitalization ratios utilized by Ms. Kight-Garlisch are not comparable to IAWC's proposed ratemaking capital structure, resulting in an "apples to oranges" comparison. For example, Ms. Kight-Garlisch included as part of the debt component in her capitalization ratios the full amount of short-term debt for each utility. Pursuant to 83 Ill. Adm. Code 285.4020, for ratemaking purposes, IAWC reduced its short-term debt balance by the amount of construction work in progress ("CWIP") accruing an allowance for funds used during construction ("AFUDC"). IAWC explains that this adjustment impacts the other components of IAWC's ratemaking capital structure as that reduction shifts some of the short-term capitalization balance to the other components, primarily common equity. IAWC notes that Ms. Kight-Garlisch did not make a comparable reduction, so the total debt ratios included within the peer group capitalization ratios that she utilized are overstated and the common equity ratios are understated.

In particular, IAWC points out, that the three-year average equity ratios for the Proxy Group described by Ms. Kight-Garlisch likely would look different if they had been subject to the adjustment to short-term debt detailed in Section 285.4020 (which reduced IAWC's short-term debt balance by approximately 75%). IAWC points out, by way of illustration, the three-year average capitalization ratios for California Water Service Group are 9.68% short-term debt, 43.84% long-term debt, and 46.48% common equity. Applying the same hypothetical 75% adjustment to the short-term debt balance results in three-year average capitalization ratios of 2.71% short-term debt, 49.91% long-term debt, and 50.09% common equity. The impact of this adjustment results in a common equity ratio 3.61% higher than what is reflected in the three-year average common equity ratio included within Ms. Kight-Garlisch's analysis. While the exact adjustment for each company will vary on the amount of CWIP accruing AFUDC, this example illustrates that, to varying degrees, making the short-term debt adjustment required by Section 285.4020 would result in higher common equity ratios for each company included within the analysis and, therefore, for the Proxy Group.

Further, IAWC states, the Moody's Investors Service ("Moody's") Rating Methodology Scorecard relied upon by Ms. Kight-Garlisch to support her suggestion for lower equity ratios involves multiple scoring categories in addition to a variety of other factors when contemplating its ratings. IAWC notes that her direct testimony, however, admittedly only presented a subset of those methodologies, namely the financial ratios. IAWC notes that, as Mr. Selinger explained, the Moody's report also states that it "does not include an exhaustive treatment of all factors that are reflected in our ratings and further states that the scorecard is a summary that does not include every rating consideration and that the scorecard outcome is not expected to match the actual rating of each company." IAWC Ex. 17.0 at 17. IAWC points out that Ms. Kight-Garlisch acknowledged that the Moody's report that she relied upon "does not include an exhaustive treatment of all factors that are reflected in Moody's ratings." Staff Ex. 13.0 at 18. Nevertheless, Ms. Kight-Garlisch tried to produce what she believed Moody's might have produced in its ratings analysis for her lower equity ratios without using all of Moody's ratings criteria, both objective and subjective. As IAWC witness Bulkley explained, Staff's suggestion that IAWC would have an implied credit rating from Moody's

of A2 using Ms. Kight-Garlisch's analysis is unsubstantiated because she did not consider all the factors that Moody's evaluates to establish a credit rating.

Finally, IAWC notes, Staff's and Intervenors' proposal to use an imputed capital structure fails to sufficiently account for IAWC's operating risk. IAWC states that although omitted from her direct testimony, Staff witness Kight-Garlisch argued on rebuttal that IAWC's operating risk is similar or slightly less risky than American Water's operating risk. IAWC presented evidence showing that this is not the case. As compared to American Water, IAWC has its own unique operating risk, since the factors that impact operating risk vary across jurisdictions, including unforeseen maintenance expense, as well as the types of sharp increases in power and chemical costs that IAWC has presented evidence of here. IAWC states that if it were the only utility owned by American Water, the operating risk profile of the parent and subsidiary entities would essentially be identical. In contrast, American Water's operating risk profile reflects the risk of all its regulated subsidiaries such that if one subsidiary were to experience financial difficulty, American Water's overall loss would be mitigated as long as the other utilities remained financially viable. In this respect, American Water's ownership of multiple utilities in multiple jurisdictions is a form of diversification that allows it to mitigate its operating risk. Of course, IAWC cannot mitigate its operating risk in this fashion as it bears 100% of whatever its operating risk is. The Company explains that because IAWC cannot diversify its operating risk, its operating risk profile is greater than that of its parent.

IAWC witness Bulkley also testified that additional risk factors must be considered with respect to the overall effect on IAWC's risk profile relative to the Proxy Group. Ms. Bulkley identified at least two such risk factors at issue here: (1) the Company's substantial capital expenditure program; and (2) the Company's anticipated investment in acquired systems to ensure those systems comply with state and federal water standards.

IAWC contends that, given the flaws in Staff's analysis, including those described above, the Commission should reject Staff's and Intervenors' proposal to use an imputed capital structure in favor of adopting IAWC's stand-alone forecast capital structure. IAWC notes that, unlike Staff's imputed capital structure, IAWC's proposed capital structure is consistent with how the Company's assets and rate base will be financed, is determined by IAWC, and is in line with peer utilities of similar risk profiles.

As noted above, Staff witness Kight-Garlisch suggested that the Company's affiliations with unregulated or non-utility companies have increased its risk and thus its cost of capital in violation of Section 9-230 of the Act. IAWC points out that, according to Ms. Kight-Garlisch, the increased risk is evident "in comparing [IAWC's] implied Moody's credit rating of A2 to the Moody's Baa1 rating for American Water[,]" as can be seen in the ratings of two of IAWC's sister utility subsidiaries, as well as in the Company's proposed equity ratio that is higher than the equity ratio maintained by American Water. *See* Staff Ex. 5.0 at 9.

Section 9-230 of the Act states:

> In determining a reasonable rate of return upon investment for any public utility in any proceeding to establish rates and charges, the Commission shall not include any (i) incremental

> risk [or] (ii) increased cost of capital . . . which is the direct or indirect *result* of the public utility's affiliation with unregulated or nonutility companies.

220 ILCS 5/9-230. The plain language of Section 9-230 of the Act requires that the utility's stand-alone capital structure and risk be used as a starting point in determining its cost of capital. 220 ILCS 5/9-230. Any "incremental risk" inuring to the utility due to its affiliation with unregulated or nonutility companies must be excluded from the determination of the utility's cost of capital. *Id*. In other words, Section 9-230 precludes imputing to the utility the risk of affiliated companies. As applied here, the Commission must establish the ratemaking capital structure for IAWC, the operating company, on a stand-alone basis, as if the Company were seeking to attract capital in financial markets based on its own individual merits and risk profile.

IAWC states that Section 9-230 also requires a causal connection between the increased cost of capital and the utility's affiliation with unregulated or nonutility companies. The higher cost of capital must be "*because of* its affiliation with an unregulated or nonutility company[.]" *Ill. Bell Tel. Co. v. Ill. Commerce Comm'n*, 283 Ill. App. 3d 188, 207 (2d Dist. 1996) (emphasis added).

The simple fact that IAWC is affiliated with its parent company or that IAWC's capital structure is different from American Water's consolidated capital structure is not a sufficient basis for an adjustment to IAWC's proposed capital structure. IAWC points out that its affiliation with American Water has existed in its current form since 2007 (*see* Docket No. 06-0336) and the Commission has not found IAWC's capital structure to be in violation of Section 9-230 in any of the Company's rate proceedings filed since that time. In the Company's last rate case, Docket No. 16-0093, Staff proposed to reduce the common equity balance in IAWC's capital structure (from 51.01% common equity to 49.65% common equity) but did not point to Section 9-230 in support of that argument.

IAWC states that, in this case, Staff has not attempted to show that any "increased cost of capital" is the "result of" IAWC's affiliation with American Water. IAWC states more particularly that Staff failed to present any information showing that IAWC has incurred higher costs due to the financial decisions of American Water. IAWC further states that Staff did not identify any specific statements from analysts or actions taken by American Water that would indicate that IAWC specifically is affected by the risks of its affiliates. Instead, Ms. Kight-Garlisch's conclusion was based, in part, on a comparison of the implied Moody's credit rating of A2 for IAWC that she calculated (IAWC does not maintain separate ratings) to the Moody's Baa1 rating for American Water. As discussed above, Staff's suggestion that IAWC would have a credit rating from Moody's of A2 is unsubstantiated because Staff's analysis did not consider all the factors that Moody's evaluates to establish a credit rating.

Moreover, IAWC notes, Ms. Kight-Garlisch did not quantify any incremental risk or increased cost of capital that results from this comparison or IAWC's affiliation with American Water. IAWC points out that, in response to a data request, Ms. Kight-Garlisch admitted that she "did not perform any analyses to estimate an increase in the cost of capital for IAWC that relates to an increase in the cost of equity that relates to its obligation to the parent company." *See* IAWC Ex. 32.00 at 19. Nor did Ms. Kight-Garlisch conduct

any analysis demonstrating that IAWC's equity ratio is "more than needed." IAWC contends that, having failed to provide any analysis, Ms. Kight-Garlisch is left with unsubstantiated generalized statements concluding that a utility will often maintain a higher equity ratio than it otherwise would need, thereby increasing the cost of capital and violating Section 9-230 of the Act.

If anything, IAWC argues, it is Ms. Kight-Garlisch's analysis that violates Section 9-230. Ms. Kight-Garlisch's testimony acknowledges that utilities with higher debt ratios (and so lower common equity ratios) are riskier. Ms. Kight-Garlisch is imputing a riskier capital structure to IAWC, as can be seen in her Table 1 in direct and rebuttal testimonies, where IAWC's proposed capital structure has an implied Moody's rating of A1, while Staff's proposed capital structure has a lower implied rating of A2.

Further, IAWC states that Ms. Kight-Garlisch relies on the 2021 average equity ratio of the Proxy Group companies and water industry at the holding company level. IAWC states that by relying on the 2021 average equity ratio for her Proxy Group and the water industry at the holding company level, Ms. Kight-Garlisch is directly including the risks and capital costs of the unregulated or non-utility affiliates of the Proxy Group companies for purposes of formulating her equity ratio recommendation for IAWC.

In particular, IAWC notes that included in the 2021 average for the Proxy Group and the water industry relied upon by Ms. Kight-Garlisch is an equity ratio for 2021 for Essential Utilities ("WTRG") of 45.88% and for SJW Group ("SJW") of 39.34%. However, IAWC states, each of these companies contains long-term debt at the holding company level that was issued to fund acquisitions that are not a part of the regulated or financial capital structure of the operating utilities of either WTRG or SJW. For example, SJW funded its 2019 acquisition of Connecticut Water Service, Inc. ("CTWS") with the issuance of long-term debt totaling approximately $510 million. The debt issuances associated with the acquisition had a substantial effect on the capitalization of SJW and were the primary reason the debt ratio increased from 37.40% in 2018 to 61.52% in 2019. Because the debt used to finance the acquisition of CTWS is not a part of the regulated or financial capital structures of the operating subsidies of SJW, a review of SJW's capital structure that includes the parent company debt – as conducted by Ms. Kight-Garlisch – is inappropriate because SJW's capital structure at the holding company is not reflective of how comparable regulated water utilities are being financed. IAWC states that similar to SJW, Ms. Kight-Garlisch's consideration of WTRG's capitalization at the holding company level is inappropriate because it does not reflect how comparable regulated water utilities are being financed and would incorrectly reflect the additional risks and capital costs of WTRG in the ratemaking capital structure for IAWC.

IAWC explains that while it demonstrated that it is inappropriate to use holding company capital structure data for the Proxy Group as the benchmark for determining the reasonableness of the Company's proposed capital structure here, IAWC also demonstrated that corrections were necessary to Ms. Kight-Garlisch's analysis if such a benchmark were to be used. Specifically, IAWC points out that Ms. Bulkley adjusted Ms. Kight-Garlisch's analysis to exclude the equity ratios for SJW and WTRG since each included significant holding company level debt used to fund acquisitions that is not a part of the capital structures of the operating subsidiaries and to adjust Atmos Energy Corporation's equity to exclude the debt issued as a result of costs incurred due to Winter

Storm Uri that will not be included in the company's capitalization going forward. IAWC explains that these corrections result in a Proxy Group average equity ratio of 53.56% and a water industry average equity ratio of 51.80% for 2021, both of which are clearly in line with the Company's proposed equity ratio of 51.95%.

IAWC states that to further support her argument regarding the alleged violation of Section 9-230, Ms. Kight-Garlisch argued that the Moody's credit ratings of New Jersey-American Water and Pennsylvania-American Water reflect the effects associated with their affiliation with non-jurisdictional utility affiliates or non-utility companies similar to her contention regarding IAWC. IAWC explains that the credit ratings of New Jersey-American Water and Pennsylvania-American Water are not relevant to the question of the appropriate capital structure for IAWC in this proceeding. Each individual company is subject to its own capital needs, operating risks, and market conditions. And, even if their actual (and not implied) credit ratings somehow were relevant here, they do not support the Commission's adoption of Staff's imputed capital structure. IAWC explains that is because its proposed equity ratio is lower than the authorized common equity ratios of New Jersey-American Water and Pennsylvania-American Water of 54.56% and 55.24%, respectively. IAWC points out that it also is lower than the actual equity ratios of these affiliates for the most recent calendar year of 2021 (54.31% and 55.33%, respectively).

Finally, IAWC states, in response to Ms. Kight-Garlisch's suggestion that IAWC is not sufficiently insulated from American Water's business decisions, that IAWC is a separate legal entity that maintains an independent capital structure, approved by its Board, that supports the continued provision of safe, reliable, and affordable water and wastewater service for the benefit of its Illinois customers. IAWC states that it is a stand-alone business enterprise in all material respects including, but not limited to, its independent state operations, capital investments, management, and corporate governance. IAWC explains that its capital structure includes the costs incurred for both debt and equity financing based on the risk factors that are relevant to IAWC and, as described by Ms. Bulkley, is in line with its peer utilities with similar risk profiles.

IAWC maintains that its customers have benefitted and will continue to benefit from the independence of IAWC as a stand-alone business entity, as well as its affiliation within the larger American Water enterprise, including through IAWC's financing arrangement with AWCC. The Company explains that as a subsidiary of the larger American Water enterprise, IAWC's customers benefit from American Water's size and scale to realize cost savings, the most significant of which includes lower debt costs from the Financial Services Agreement with IAWC's affiliate, AWCC. Thus, IAWC concludes, its affiliation with American Water and AWCC decreases, not increases, IAWC's cost of capital. IAWC addresses Staff's argument that authorizing a higher equity ratio than is necessary due to a utility's association with non-regulated affiliates would increase the utility's overall cost of capital in violation of Section 9-230. IAWC maintains that the statute does not allow (much less require) reductions to equity simply to lower the equity ratio to a "necessary" level. Similarly, the statute does not allow the Commission to change debt-to-equity ratios if it wants to lower rates. Reductions in the equity ratio are only permitted if certain facts have been proved: that the higher costs were caused by affiliations with

unregulated or non-utility companies. IAWC states that Staff has not made the requisite showing here.

IAWC also addresses Staff's attempt to distinguish its position on the appropriate common equity ratio here from the position it took very recently in the last Nicor rate case, Docket No. 21-0098, where Ms. Kight-Garlisch supported a 54.459% common equity ratio for the utility. IAWC points out that Staff argues that the difference between Nicor and IAWC is that IAWC does not have the same ringfencing measures in place as Nicor does, so, according to Staff, IAWC is impacted by the decisions of its parent company in a way that Nicor is not. IAWC further points out that Staff did not identify specific ringfencing provisions that it felt should be employed, nor did Staff present any evidence that ringfencing would result in a lower equity ratio for IAWC. In addition, Ms. Bulkley testified that utility mergers often include a condition of maintaining a minimum equity ratio in order to protect the utility operating company, and that the use of a lower bound on the equity ratio as a ringfencing measure to insulate the utility operating company from the parent is the exact opposite of Staff's proposal here. Ms. Bulkley further testified that there is a strong linkage between Nicor's credit ratings and the parent company, and that Staff did not substantiate its argument that Nicor was in a better financial position than IAWC. For these reasons, IAWC maintains that Staff's attempts to distinguish its support of a higher equity ratio of 54.459% in the Nicor rate case are without merit.

IAWC notes that as demonstrated by its evidence, and described above, it is reasonable and appropriate to rely on the operating company capital structures that have been used to fund utility operations for the comparison of IAWC to the Proxy Group and other water utilities as a measure of the reasonableness IAWC's proposed capital structure here. If anything, IAWC argues, it is Ms. Kight-Garlisch's analysis, which imputes a riskier capital structure due to IAWC's affiliation with American Water and considers the increased risk associated with the non-utility and unregulated affiliates of the Proxy Group and water industry, that violates Section 9-230 of the Act, not the Company's proposed equity ratio of 51.95%.

b. Staff's Position

Staff witness Kight-Garlisch's overall cost of capital recommendation for IAWC equals 7.01%, which reflects a capital structure including 1.81% short-term debt, 49.19% long-term debt, and 49.00% common equity; her overall cost of capital recommendation for IAWC also reflects Staff witness McNally's 9.78% recommended cost of common equity. Staff Ex. 13.0 at 2, Sch. 13.1.

Ms. Kight-Garlisch testified that the overall cost of capital equals the sum of the costs of the capital structure components (i.e., short-term debt, long-term debt, preferred stock, and common equity) after weighting each by its proportion to total capital. A primary goal of regulation is to properly balance the interests of a utility's ratepayers and investors. As Ms. Kight-Garlisch explained, this is accomplished by minimizing the cost of reliable service to ratepayers while allowing utilities to earn a fair and reasonable rate of return on rate base. Staff Ex. 5.0 at 2. Under the traditional regulatory model, ratepayer and shareholder interests are balanced when the Commission authorizes a rate of return on rate base equal to the public utility's overall cost of capital, as long as that overall cost of capital is not unnecessarily expensive. When public utilities charge rates that reflect

an authorized rate of return that exceeds the cost of capital, consumers are encumbered with excessive prices. Conversely, when public utilities charge rates that reflect an authorized rate of return below the cost of capital, the financial integrity of the utility suffers, making it difficult for the utility to attract capital at a reasonable cost, and thus, impairing service quality. Consumers are best served when the authorized rate of return on rate base equals the overall cost of capital. Staff Ex. 5.0 at 3.

Staff explains that capital structure affects the value of a business and, therefore, its cost of capital, to the extent it affects the expected level of cash flows that accrue to parties other than debt and stockholders. Employing debt as a source of capital reduces a company's income taxes, thereby reducing the cost of capital. As reliance on debt as a source of capital increases, however, so does the probability of default. *Id.* at 4. As the probability of default rises, expected payments to attorneys, trustees, and other outside parties increase. Further, the expected cash flows decline as the company foregoes investment that would have been available to it had its financial condition been stronger, including the expected value of the income tax shield from debt financing. Beyond a certain point, a growing dependence on debt as a source of funds increases the overall cost of capital. Therefore, Staff states that the Commission should not determine the overall rate of return from a utility's actual capital structure if the Commission concludes that capital structure adversely affects the overall cost of capital. *Id.*

An optimal capital structure would minimize the cost of capital and maintain a utility's financial integrity. Unfortunately, Staff states, determining whether a capital structure is optimal remains problematic for a variety of reasons. Consequently, one should determine whether the capital structure is consistent with the financial strength necessary to access the capital markets under most economic conditions, and if so, whether the cost of that financial strength is reasonable. *Id.* at 5.

To evaluate the Company's proposal, Ms. Kight-Garlisch compared the Company's proposed forecasted debt ratio, along with three other financial ratios derived from data forecasted by the Company, to the actual 2021 and three-year average financial ratios for the Company, IAWC's parent company, American Water, the Proxy Group, and the Water Industry. Ms. Kight-Garlisch also compared the implied Moody's credit rating for each, based on those four ratios, using the Moody's Benchmark Ratios for regulated water utilities.

Moody's publishes ratio ranges that may generally be seen at different rating levels for regulated water utilities. In Staff's analysis, each ratio for IAWC, American Water, the Proxy Group, and the Water Industry was calculated for both 2021 and as a three-year average from 2019 through 2021. IAWC's ratios were also forecasted for 2023 based on both the Company's proposed revenue requirement and Staff's proposed revenue requirement for the Company in this case. The Moody's financial ratios imply credit ratings of A1 and A2 for the Company, Baa2, and Baa1 for American Water, A3 and A3 for the Proxy Group, and A3 and A3 for the Water Industry, based on 2021 data and 2019-2021 data, respectively. The Company has higher overall cash flow ratios and lower debt ratios (both indicative of higher financial strength) than American Water, the Proxy Group, and the Water Industry. Staff Ex. 5.0 at 7-8. Thus, Ms. Kight-Garlisch concluded that IAWC's proposed 51.95% equity ratio was unnecessarily high. Since the Company's proposed capital structure is not appropriate for determining IAWC's rate making capital

structure, Ms. Kight-Garlisch recommended using an imputed capital structure that contains 1.81% short-term debt, 49.19% long-term debt, and 49.00% common equity. Staff Ex. 5.0, Sch. 5.1.

Mr. Selinger criticizes Ms. Kight-Garlisch's Moody's credit rating analysis arguing that it was not a comprehensive analysis. IAWC Ex. 17.00 at 16-17. Staff disagrees. Moody's relies on several qualitative measures to assess a company's operating risk and to a lesser degree its financial risk. Moody's also relies on several quantitative measures, which are replicated in the ratio analysis presented by Ms. Kight-Garlisch. While Ms. Kight-Garlisch only presented the financial ratios in direct testimony, Ms. Kight-Garlisch's qualitative assessment of IAWC was provided to IAWC. Staff Ex. 13.0 at 18. Ms. Kight-Garlisch assessed IAWC's operating risk to be similar or slightly less risky than American Water's operating risk. *Id.* Thus, Staff argues that Mr. Selinger's criticism should be discarded, as it is without merit.

Staff notes that the Company's proposed equity ratio of around 52% is much higher than its riskier parent company's common equity ratio of only about 40% in 2021. In comparison to its peers, Staff argues that the Company's proposed capital structure indicates a relatively low degree of financial risk for a water utility. Specifically, the average 2021 equity ratios for the Proxy Group and Water Industry are 43.1% and 48.7%, respectively. The most recent three-year average equity ratios for the Proxy Group and Water Industry are 45.0% and 49.1%, respectively. This denotes a higher degree of financial risk than a common equity ratio of about 52%, as IAWC proposes for itself. Staff Ex. 5.0 at 8. Thus, the Company's proposed capital structure contains more common equity than needed to support a financially strong water utility.

In addition, Staff argues that the Company's proposed capital structure, which consists of approximately 48% debt and 52% equity, is not appropriate for determining the Company's capital structure. As a result, Ms. Kight-Garlisch recommended using an imputed capital structure that contains 1.81% short-term debt, 49.19% long-term debt, and 49.00% common equity. Staff Ex. 5.0, Sch. 5.1. Staff asserts that the Company's proposed capital structure would produce a rate of return that violates Section 9-230 of the Act. Section 9-230 states, "In determining a reasonable rate of return upon investment for any public utility in any proceeding to establish rates or charges, the Commission shall not include any (1) incremental risk, [or] (2) increased cost of capital…which is the direct or indirect result of the public utility's affiliation with unregulated or non-utility companies." 220 ILCS 5/9-230. The effect of the Company's affiliations with unregulated or non-utility companies on its cost of capital is evident in comparing its implied Moody's credit rating of A2 to the Moody's Baa1 rating for American Water. A similar effect can also be seen in the ratings of two of IAWC's sister water utility subsidiaries.

Staff asserts that it is essential to note that IAWC has less financial risk than American Water. IAWC's ratios imply financial strength equal to an A2 Moody's credit rating, whereas American Water's ratios imply financial strength consistent with its Baa1 credit rating. All else equal, a company with less risk can carry a lower percentage of equity on its balance sheet than a company with greater risk. Yet, the Company's forecasted equity ratio of around 52% is much higher than its riskier parent company's common equity ratio of only about 40%. Staff Ex. 5.0 at 11. Both the Company's implied credit ratings and financial ratios indicate that its affiliation with unregulated or non-utility

companies has increased its risk. Pursuant to Section 9-230 of the Act, the cost associated with that increased risk cannot be reflected in the Company's rates.

Staff notes that IAWC witness Selinger argues that IAWC's stand-alone capital structure should be used for setting rates in this case and that Staff has not demonstrated that Section 9-230 of the Act applies. IAWC Ex. 17.00 at 14. Similarly, IAWC witness Bulkley argues that under Section 9-230 of the Act, the Commission must establish the rate making capital structure on a stand-alone basis. IAWC Ex. 21.00 at 64-66. Staff contends that Mr. Selinger and Ms. Bulkley's arguments are without merit. Indeed, Section 9-230, by its very nature, requires a utility's affiliations to be considered when evaluating its capital structure. It is clear that corporations have incentive to maintain relatively low equity ratios (i.e., high debt levels) at the holding company level while maintaining relatively high equity ratios at the utility operating company level. This is detailed by the court in *Citizens Util. Bd. v. Ill. Commerce Comm'n*:

> When a larger corporation owns a utility, the corporation is generally motivated not to establish an optimal, lowest cost capital structure for the utility, but to use instead a structure with a greater percentage of equity than is optimal, thereby allowing the corporation to realize a greater return. The assured profits from the regulated utility can then bolster the security of the corporation, allowing it to sell its own debt instruments at lower cost and use the debt capital to finance riskier, unregulated and competitive ventures. Thus, the corporation maintains an overall capital structure with a higher proportion of low-cost debt, while reporting the capital structure of the owned utility with a higher proportion of high-cost equity.

Citizens Util. Bd. v. Ill. Commerce Comm'n, 276 Ill. App. 3d 730, 746 (1st Dist. 1995).

Thus, to service its parent's obligations, the utility subsidiary will often maintain a higher equity ratio than it otherwise would have needed, thereby increasing the utility's cost of capital, while leaving ratepayers with the costs. The legislature, through Section 9-230, has directed the Commission to protect ratepayers against the increased cost of capital sought by a utility with such an inflated level of equity. Specifically, in Illinois, "if a utility's exposure to risk is one iota greater, or it pays one dollar more for capital because of its affiliation with an unregulated or nonutility company, the Commission must take steps to ensure that such increases do not enter in its [rate of return] calculation." *Ill. Bell Tel. Co. v. Ill. Commerce Comm'n*, 283 Ill. App. 3d 188, 207 (2nd Dist. 1996).

Further, contrary to Ms. Bulkley's assertion, Staff argues that Section 9-230 of the Act does not state that rate making capital structures must be established on a stand-alone basis; rather, it states that no increased cost of capital resulting from a utility's association with non-utility affiliates can be reflected in the utility's rates. That is, the purpose of Section 9-230 of the Act is not to remove positive effects of a utility's unregulated affiliations from the utility's rates, but rather to protect Illinois utility ratepayers from any negative effects of those affiliations. Since common equity is a utility's most expensive form of capital, authorizing a higher equity ratio than is necessary due to a

utility's association with non-regulated affiliates would increase the utility's overall cost of capital, in violation of Section 9-230 of the Act. Conversely, reducing that equity ratio to remove the effects of risk resulting directly or indirectly from non-regulated affiliates would lower the utility's cost of capital and is, therefore, not a violation of Section 9-230 of the Act, but rather, a correction necessary to prevent such a violation.

Additionally, Mr. Selinger attempts to make a comparison to Ms. Kight-Garlisch's analysis in a Docket No. 21-0098, and her analysis in the instant proceeding. However, Staff states that Mr. Selinger fails to acknowledge that the facts and timing of Docket No. 21-0098 are distinguishable from this docket. Specifically, the most notable difference between Nicor and IAWC is that the rating agencies noted ringfencing measures in place at Nicor that insulated the company from its parent and resulted in higher stand-alone credit ratings for Nicor than its parent company from both Moody's and S&P. *S&P Global Ratings*, N. Ill. Gas Co. d/b/a Nicor Gas Co., April 9, 2020. IAWC does not have the same ringfencing measures in place and therefore, is impacted by the decisions of its parent company, American Water. Mr. Selinger also notes that in Docket No. 21-0098, Ms. Kight-Garlisch compared Nicor's proposed equity ratio to the three-year average equity ratios for the Gas Sample used to estimate the ROE for Nicor and Atmos Energy ("ATO"). IAWC Ex. 17.00 at 18-19. Mr. Selinger fails to acknowledge that ATO was the only company in the Gas Sample that, like Nicor, had credit ratings in the A range from both Moody's and S&P or that ATO's 3-year average common equity ratio was 58.59%. Docket No. 21-0098, Staff Ex. 3.0 (Cor.) at 9. These factors imply that Nicor's common equity ratio in Docket No. 21-0098 was reasonable at the time of Ms. Kight-Garlisch's analysis. Further, Staff witness Phipps testified that "[t]he Gas Sample serves as a proxy for the target company, Nicor [], and should therefore reflect the risk of Nicor []. If the proxy does not accurately reflect the risk level of the target company, an adjustment should be made." Docket No. 21-0098, Staff Ex. 4.0 (Cor.) at 24. Ms. Phipps determined that Nicor had lower risk than the Gas Sample and thus, adjusted the ROE estimate derived from the Gas Sample downward to reflect the lower risk of Nicor. *Id.* Thus, both the capital structure and the cost of equity for Nicor reflected its A2/A credit rating, and Staff contends that Mr. Selinger's comparison should be disregarded in its entirety.

Furthermore, Staff states that the Company's proposed capital structure indicates a relatively low degree of financial risk for a water distribution utility. In comparison, the average capital structures of the Proxy Group or the Water Industry are not nearly as conservative. The average 2021 equity ratios for the Proxy Group and Water Industry are 43.10% and 48.74%, respectively. Staff Ex. 5.0 at 11. The most recent three-year average equity ratios for the Proxy Group and Water Industry are 45.04% and 49.08%, respectively. Thus, the Company's 51.95% requested common equity ratio is much higher than those of the Proxy Group and Water Industry, which indicates a higher degree of financial risk for the Proxy Group and Water Industry relative to the Company. The Proxy Group's cost of common equity is a fair rate of return on common equity for the Company only if the total risk (business risk plus financial risk) for the Proxy Group and the Company are similar. However, given the Proxy Group's greater overall risk (A3), its cost of common equity would be too high to apply to a company with lower overall risk as implied in the Moody's ratios for the Company based on its proposed forecasted capital structure. Stated differently, if the Proxy Group's average capital structure were equal to the Company's proposed capital structure, the Proxy Group's cost of common equity

would be lower than the 9.78% value Mr. McNally estimated. Accordingly, Ms. Kight-Garlisch recommended imputing a capital structure for the Company.

The imputed capital structure that Ms. Kight-Garlisch recommended for IAWC in direct testimony was selected based on a comparison to the 2021 common equity ratios for three groups of companies. Ms. Kight-Garlisch's analysis was a three-pronged approach: 1) Ms. Kight-Garlisch considered the average equity ratio for the Proxy Group that forms the basis of both Ms. Bulkley's and Mr. McNally's cost of equity estimates; 2) Ms. Kight-Garlisch considered the average equity ratio for the Water Industry; and 3) Ms. Kight-Garlisch considered the Proxy Group's average equity ratio after removing any individual equity ratio for which the corresponding debt ratio exceeded the maximum Moody's Benchmark debt ratio for an investment grade credit rating. Since a number of individual equity ratios for the Proxy Group companies were noticeably low, and the Water Industry and modified Proxy Group equity ratios are very similar, Ms. Kight-Garlisch relied on the latter two groups and determined an equity ratio of 49.0% was reasonable for IAWC in this proceeding.

IAWC argues that Staff's and Intervenors' proposal to use an imputed capital structure fails to sufficiently account for IAWC's operating risk. Staff addresses IAWC's operating risk throughout its analysis. Ms. Kight-Garlisch's Moody's credit rating analysis was a comprehensive analysis; specifically, Moody's assesses a company's operating risk and financial risk. Ms. Kight-Garlisch assessed IAWC's operating risk and determined it to be similar or slightly less risky than American Water's operating risk. Since the Company's proposed capital structure was unnecessarily high and not appropriate for determining IAWC's rate making capital structure, Ms. Kight-Garlisch recommended using an imputed capital structure that contains 1.81% short-term debt, 49.19% long-term debt, and 49.00% common equity. Therefore, Staff states that the evidentiary record supports its assessment of IAWC's operating risk.

In her direct testimony, Ms. Kight-Garlisch testified that the proportion of short-term debt in her imputed capital structure equals the proportion of short-term debt in the Company's forecasted average 2023 capital structure. To calculate the Company's respective long-term debt ratio, Ms. Kight-Garlisch subtracted the Company's forecasted average 2023 short-term debt ratio from the imputed 51.0% (100% total capital - 49% common equity ratio) total debt ratio. Staff Ex. 5.0 at 13.

In rebuttal testimony, Ms. Kight-Garlisch had two corrections to her ratio analysis that resulted in 2021 and three-year average equity ratios for the Water Industry of 47.45% and 47.58%, respectively. Staff Ex. 13.0 at 3. Ms. Kight-Garlisch also revised her ratio analysis of the Proxy Group to reflect a $2.2 billion reduction in debt for ATO. The adjustment to ATO's debt results in the following revised 2021 ratios: 1) debt ratio of 40.4%; 2) equity ratio of 59.6%; 3) funds from operations ("FFO") to debt ratio of 24.15%, and FFO minus dividends to debt ratio of 18.11%. In addition, the adjustment to ATO's debt balance produced a corresponding adjustment to its equity ratio, which results in a 2021 and three-year average equity ratio for the Proxy Group of 43.7% and 45.2%, respectively. Ms. Kight-Garlisch adjusted the benchmark ratios for the Proxy Group accordingly to reflect the adjustment to ATO's debt balance. Additionally, she also updated IAWC's proposed capital structure ratios to reflect the Company's rebuttal testimony position and updated Staff's Proposed Capital Structure ratios to reflect Staff's

rebuttal testimony position. Staff Ex. 13.0 at 4. Although the ratios were updated from Ms. Kight-Garlisch's direct testimony, the updated ratios did not change her conclusions. Therefore, Ms. Kight-Garlisch's recommended an equity ratio of 49.0% and determined that it is reasonable for IAWC.

Ms. Bulkley argues that Ms. Kight-Garlisch's equity ratio analysis is flawed because it relies on the capital structures of the companies in the Proxy Group from which both Staff and the Company derive their ROE recommendations. Instead, Ms. Bulkley incorrectly compares the equity ratios proposed to equity ratios for the operating subsidiaries of the companies in the Proxy Group, which are substantially higher. IAWC Ex. 21.00 at 55. Additionally, Ms. Bulkley suggests that the equity ratios for three Proxy Group companies – ATO, WTRG, and SJW – need to be adjusted upward.

With regard to the Proxy Group, upon which both Staff's and Ms. Bulkley's ROE estimates were derived, Ms. Bulkley states, "[t]he proxy companies used in my analyses all possess a set of operating and financial risk characteristics that are substantially comparable to IAWC, and, therefore, provide a reasonable basis for deriving the appropriate ROE." IAWC Ex. 11.00 at 27. Thus, the Proxy Group Ms. Bulkley used in her cost of equity analysis was selected because she believed the Proxy Group to be a good proxy for, and similar in risk to, IAWC.

However, in comparing the operating subsidiaries of the fourteen Proxy Group companies, Ms. Bulkley effectively created a distinct sixty-seven company proxy group, which she has not demonstrated to be similar in risk to IAWC. The risk of an operating subsidiary can be different than its parent company. Staff Ex. 13.0 at 23-24. Thus, any analysis of the equity ratio based on a proxy sample should be based on the same proxy sample used to derive the ROE. To do otherwise might violate Section 9-230 of the Act since utility operating companies often have lower risk (i.e., higher credit ratings and higher equity ratios) than their parents, as is the case with IAWC's sister subsidiaries Pennsylvania-American Water Company and New Jersey-American Water Company compared to American Water. Further, contrary to Ms. Bulkley's assertions, no adjustments are necessary to the equity ratios of WTRG or SJW. The "comparable regulated water utilities" Ms. Bulkley is referring to in her statement are the operating subsidiaries that she has not shown are comparable to IAWC. The proper comparison is to the actual companies in the Proxy Group, which is the analysis presented by Staff. To adjust both WTRG's and SJW's capital structures would result in capital structures that would not reflect each company's actual equity ratio. Staff notes that Ms. Bulkley fails to acknowledge that acquisitions are not unusual occurrences – it is what occurred with ATO – but are well thought out plans and the capital structures of WTRG and SJW and reflect how the companies actually financed the acquisitions. Thus, no adjustment is needed to WTRG's or SJW's capital structure.

IAWC argues that there is no evidentiary basis for using the imputed capital structures proposed by Staff and Intervenors. IAWC relies on a past Commission Order, Docket No. 93-0301, to claim that an imputed capital structure cannot be used without proof of manipulation and argues that Staff has not provided any evidence that American Water is manipulating IAWC's capital structure. IAWC also contends that Staff failed to present evidence in support of its imputed capital structure and failed to refute IAWC's showing that its proposed capital structure is reasonable. In response, Staff states that

IAWC's proposed capital structure is fatally flawed because it reflects the increased risk of its affiliated parent corporation, American Water. Further, Staff argues the Company's proposed capital structure is unreasonable because it contains more common equity than needed to support a financially strong water utility. The Company's forecasted equity ratio of around 52% is much higher than its riskier parent company's common equity ratio of only about 40%. Staff Ex. 5.0 at 11. Staff notes that this is a fundamental flaw in the Company's proposed capital structure. As the Illinois courts have explained, "equity is a more expensive form of capital than debt." *Ill. Bell Tel. Co. v. Ill. Commerce Comm'n*, 283 Ill. App. 3d 188, 204 (2nd Dist. 1996). Subsequently, the "more equity in a utility's capital structure, the higher the ROR must be to recover the cost of capital." *Id*. *See also Citizens Util. Bd.,* 276 Ill. App. 3d at 744 ("[S]ince equity always costs more than debt, as a corporation increases its proportion of equity, its total cost of capital generally increases, although the cost of debt and the cost of equity both decrease."). It is clear that corporations have an incentive to maintain relatively low equity ratios (i.e., high debt levels) at the holding company level while maintaining relatively high equity ratios at the utility operating company level.

Thus, as Staff notes, to service its parent's obligations, the utility subsidiary will often maintain a higher equity ratio than it otherwise would have needed, thereby increasing the utility's cost of capital, while leaving ratepayers with the costs. The legislature, through Section 9-230, has directed the Commission to protect ratepayers against the increased cost of capital sought by a utility with such an inflated level of equity. Specifically, in Illinois, "if a utility's exposure to risk is one iota greater, or it pays one dollar more for capital because of its affiliation with an unregulated or nonutility company, the Commission must take steps to ensure that such increases do not enter in its [rate of return] calculation." *Ill. Bell Tel. Co.*, 283 Ill. App. 3d at 207. Since the Company's proposed capital structure is not appropriate for determining IAWC's rate making capital structure and reflects the incentives prohibited by Section 9-230 (harmful to ratepayers and beneficial to shareholders), Ms. Kight-Garlisch recommended using an imputed capital structure to correct the fatal flaws in the Company's proposal. Staff Ex. 5.0, Sch. 5.1.

Staff notes that the Commission has previously approved an imputed capital structure in similar circumstances. In Docket Nos. 11-0280/11-0281 (Cons.), the Commission determined that Staff's proposed imputed capital structure was reasonable and adhered to statutory requirements. *N. Shore Gas Co.,* Dockets No. 11-0280/0281 (Cons.), Order at 108-109 (Jan. 10, 2012). In Docket Nos. 11-0280/11-0281 (Cons.), Staff proposed an imputed capital structure because the Companies' proposed capital structure reflected the increased risk of its affiliated parent corporation. In addition to the Companies' proposed capital structure being in violation of Section 9-230, Staff argued that the Companies' proposed capital structure was unreasonable since it would have resulted in a lower degree of financial risk than its peers in the gas distribution industry, which causes the Companies' overall cost of capital to be unnecessarily expensive. *Id.* at 103. The Commission agreed with Staff's analysis determining that both the Companies' credit ratings and financial ratios indicate that their affiliation with the unregulated corporate parent has increased its risk. *Id.* at 108. Thus, the Commission determined that it "is prevented by the Act and precedent from adopting a capital structure that reflects the increased risk of [the unregulated corporate parent]." *Id.* The

Commission determined that Staff's analysis was reasonable and adhered to the statutory requirements. *Id.* Staff argues that the Commission should do the same here.

Further, Staff argues that IAWC's reliance on the Order in Docket No. 93-0301 is misplaced. In *GTE North*, the Commission rejected CUB's proposed imputed capital structure because it was not reasonable. *GTE North, Inc.*, Docket No. 93-0301, Order at 107 (Oct. 11, 1994). The Commission also found that CUB's assertion that GTE North's capital structure was manipulated was not supported by evidence. *Id.* While the Commission agreed with CUB's statement that a parent company has the ability and incentive to manipulate the capital structure of its subsidiaries; ultimately, CUB did not provide evidence to support its argument. *Id.* at 108. Contrary to IAWC's claim, CUB's proposal was not rejected simply because it had an imputed capital structure, rather it was rejected because CUB's proposed imputed capital structure was unsupported and unreasonable. Specifically, CUB's proposed capital structure would have resulted in a sixteen-percentage point decrease in the Company's actual common equity ratio. *Id.*

Therefore, Staff notes that *GTE North* does not stand for the blanket assertion that an imputed capital structure is inappropriate and should not be used. Nor does it stand for the proposition that an imputed capital structure can only be used if a party proves that the capital structure was manipulated. *Id.* Rather, *GTE North* highlights that the Commission cannot legally draw a conclusion without a preponderance of the evidence supporting that finding, and CUB failed to provide evidence to support its claim. *Id*. *GTE North* also emphasizes the requirement of reasonableness associated with Section 9-230 noting that "the Commission is charged with the responsibility of establishing a reasonable rate of return...[and] must examine the various components of the rate of return calculation to determine whether the components are reasonable." *Id.* at 106.

IAWC alleges that it is Ms. Kight-Garlisch's analysis that violates Section 9-230. IAWC argues that since Ms. Kight-Garlisch's analysis imputes a riskier capital structure due to IAWC's affiliation with American Water and considers the increased risk associated with the non-utility and unregulated affiliates of the proxy group and water industry, it violates Section 9-230.

Staff disagrees with IAWC's assertion. Staff argues that Section 9-230 of the Act does not state that ratemaking capital rate structures must be established on a stand-alone basis; rather, it states that no increased cost of capital resulting from a utility's association with non-utility affiliates can be reflected in the utility's rates. That is, the purpose of Section 9-230 of the Act is not to remove positive effects of a utility's unregulated affiliations from the utility's rates, but rather to protect Illinois utility rate payers from any negative effects of those affiliations. Since common equity is a utility's most expensive form of capital, authorizing a higher equity ratio than is necessary due to a utility's association with non-regulated affiliates would increase the utility's overall cost of capital, in violation of Section 9-230 of the Act. Conversely, reducing the equity ratio to remove the effects of risk resulting directly or indirectly from non-regulated affiliates would lower the utility's cost of capital and is, therefore, not a violation of Section 9-230 of the Act, but rather, a correction necessary to prevent such a violation.

For all of the reasons set forth above, Staff recommends the Commission adopt Staff's imputed capital structure for IAWC of 1.81% short-term debt, 49.19% long-term debt, and 49.00% common equity.

c. AG's Position

The AG supports the capital structure proposed by IIWC/FEA/CUB for the reasons set forth in the testimony of Mr. Walters. *See generally,* IIWC/CUB/FEA Ex. 1.0, 2.0.

d. IIWC/FEA/CUB's Position

According to IIWC/FEA/CUB, the Commission must consider the appropriate ratemaking capital structure in light of the prevailing law, including the Act and legal precedent. The Act mandates the Commission to only approve rates that are just and reasonable. 220 ILCS 5/9-101. IIWC/FEA/CUB note that this general principle has been further articulated by Illinois courts. The Illinois Appellate Court has found, "the Act requires the Commission to establish rates which are just and reasonable for both the investors and the consumers." *Citizens Util. Bd.,* 276 Ill. App. 3d at 737. Accordingly, IIWC/FEA/CUB recommend a 50.0% common equity ratio, which appropriately balances the Company's debt and equity capital, is consistent with the average capital structure regulatory jurisdictions around the country have authorized and will not cost customers more than is needed to support the Company's financial integrity and access to capital markets.

IIWC/FEA/CUB state that the Appellate Court has found, "the Commission should disallow recovery of any cost of capital in excess of that reasonably necessary for the provision of services. If a utility has included excessive equity in its capital structure, it has inflated the rate of return and its capital cost." *Id.* at 746. Thus, the Appellate Court has been clear that the Act requires an equity ratio that is no higher than is necessary to assure the Company's financial integrity. *Id*. at 737-46. As the evidence in this proceeding demonstrates, explained below, an equity ratio higher than the 50.0% would be excessive and therefore unjust and unreasonable under the Act.

IIWC/FEA/CUB observe that IAWC's current Commission-approved common equity ratio is 49.8%, which the Company agreed to in its previous rate case. Docket No. 16-0093, Order at 67. IIWC/FEA/CUB witness Walters recommended holding this figure at roughly its current level, no more than 50.0%, using the same proxy group as Company witnesses Bulkley and Selinger, excluding South Jersey Company, which has been targeted for acquisition by JP Morgan. IIWC/CUB/FEA Ex. 1.0 at 30, 61. Mr. Walters' recommendation more closely aligns with the capital structures of the proxy companies IAWC used to estimate its cost of equity than does the Company's overstated request of 51.95%. *Id.* at 61. As Mr. Walters documented in testimony, the utility industry's common equity ratio has not deviated significantly from 50%. *Id.* at 9. Peer gas utilities in states that, like Illinois, consider only investor-supplied capital typically have experienced annual median and mean common equity ratios of roughly 50% since at least 2010, with a 2022 median approved ratio of exactly 50.0%. *Id.* at 9-10. Utility credit ratings have experienced a strong upward trend over the last decade, with 76% of utility companies now boasting bond ratings from BBB+ to A-. *Id.* at 11. These data illustrate that a 50.0% equity ratio being the industry norm has bolstered industry financial health.

It is IIWC/FEA/CUB's position that utilities also have been able to access external capital to support capital expenditure programs with equity ratios similar to what Mr. Walters recommends. S&P Global Market Intelligence's 2022 Utility Capital Expenses Update report found significant growth in investment and capital expenditures across the utilities industry, including a 7.3% increase in capital expenditures across the small investor-owned water utility industry in 2022, on top of 4.9% growth in 2021. *Id.* at 11-12. Mr. Walters concurred with S&P Global Market Intelligence's forecast that this capital expenditure growth will continue to fuel utilities' profit growth into the foreseeable future. *Id.* at 13. Market valuations of utilities remain strong, with utilities commanding high prices when selling securities. *Id.* at 14. This growth and financial health has continued while ROEs have fallen to the mid-9% range. *Id.* That this observable utility industry market data has continued to demonstrate growth through the COVID-19 pandemic is a testament to the industry's financial stability. *Id.* at 15.

IIWC/FEA/CUB point out that Mr. Walters finds recent and announced Federal Reserve Bank monetary policy actions and the outlooks of independent economists both indicate a stable capital market environment for public utilities like IAWC. *Id.* at 15-22. Mr. Walters further cited CFA Institute Research Foundation's conclusion that history of similar past armed conflicts suggest the U.S. market impacts of Russia's invasion of Ukraine and related sanctions should be transitory. *Id.* at 22-23. Throughout the pandemic, inflation, rising interest rates, and Russia's invasion of Ukraine, the S&P 500 Utilities Index has significantly outperformed the market, as measured by both the S&P 500 and the Nasdaq Composite. *Id.* at 23.

According to IIWC/FEA/CUB, taken together, all of these data support Mr. Walters' recommendation to hold IAWC's approved common equity ratio steady at no more than 50.0% and provide no basis for saddling IAWC ratepayers with the expense of a significant equity ratio hike. The Commission should reject Company witness Selinger's argument that the TCJA, the COVID-19 pandemic, the Company's capital expenditure program, and IAWC's anticipated investment in acquired systems necessitate a higher common equity ratio. *See* Selinger, IAWC Ex. 17.00 at 24. TCJA went into effect over four years ago, yet none of the market data suggests TCJA negatively impacted the Company's ability to attract capital so as to require such intervention by the Commission. The entire country been affected by the COVID-19 pandemic, beginning in 2020, yet national utility industry data show overall credit upgrades, continued growth in capital expenditures, and a robust market for utility bonds. IAWC has maintained its A credit rating from S&P and Baa1 rating from Moody's with a "stable" outlook throughout the pandemic. IIWC/CUB/FEA Ex. 2.0 at 13. The Company's capital expenditures and system acquisitions since its last rate case have been supported by its 49.8% approved common equity ratio. Its capital program does not make IAWC unique among its peers. The Company's cash flow to capital expenditures ratio under its existing approved capital resembles that of the other proxy group utilities. *Id.* at 13-14.

IIWC/FEA/CUB point out that the Company already requests that ratepayers fund its capital investments and exorbitant system acquisition costs. Nothing in the record suggests ratepayers need to pay an inflated rate of return on capital expenditures, either through an increased equity ratio or an increased ROE, to support these programs.

IIWC/FEA/CUB recommend the Commission should reject the Company's attempt to pad its profit margin through an unwarranted increase in capital costs.

e. Commission Analysis and Conclusion

IAWC proposes a capital structure using thirteen-month average balances as of December 31, 2023 and composed of 1.81% short-term debt, 46.24% long-term debt, and 51.95% common equity. Staff's overall cost of capital recommendation equals 7.01%, which reflects a capital structure including 1.81% short-term debt, 49.19% long-term debt, and 49.00% common equity. IIWC/FEA/CUB recommend a 50.0% common equity ratio, based largely upon IAWC's current Commission-approved common equity ratio of 49.8%.

Generally, a utility's actual capital structure is adopted unless it is found to be unreasonable, imprudent, or unfairly burdensome. If found to be unreasonable, imprudent, or unfairly burdensome, then an imputed capital structure may be adopted. Here, as always, the objective of the Commission is to balance the interests of investors and consumers. As Staff notes, the optimal capital structure minimizes the cost of capital while maintaining the utility's financial integrity.

The Commission adopts the capital structure proposed by Staff. The Commission finds the use of actual data to be consistently more accurate than forecasted data. In that vein, Staff compared the Company's proposed forecasted debt ratio, along with three other financial ratios derived from data forecasted by the Company, to the actual 2021 and three-year average financial ratios for the Company, IAWC's parent company, the Proxy Group, and the Water Industry. The Company has higher overall cash flow ratios and lower debt ratios (both indicative of higher financial strength) than American Water, the Proxy Group, and the Water Industry; thus, Staff concluded, and the Commission agrees, that IAWC's proposed 51.95% equity ratio was unnecessarily high.

While IAWC claims that Staff's Moody's credit rating analysis is not comprehensive, the Commission agrees with Staff that Moody's relies on both qualitative and quantitative measures to assess a company's risk. The Company's requested equity ratio is much higher than those of the Proxy Group and Water Industry, which indicates a higher degree of financial risk for the Proxy Group and Water Industry relative to the Company. Further, IAWC's proposed equity ratio of around 52% is much higher than its riskier parent company's common equity ratio of approximately 40% in 2021. Staff notes that since common equity is a utility's most expensive form of capital, authorizing a higher equity ratio than is necessary would improperly increase the utility's overall cost of capital. If that increased equity ratio is due to a utility's association with non-regulated affiliates, that is a violation of Section 9-230 of the Act. Specifically, the appellate court has ruled that, in Illinois, "if a utility's exposure to risk is one iota greater, or it pays one dollar more for capital because of its affiliation with an unregulated or nonutility company, the Commission must take steps to ensure that such increases do not enter its [rate of return] calculation." Staff BOE at 4 (*quoting Ill. Bell Tele. Co. v. Ill. Commerce Comm'n*, 283 Ill. App. 3d 188, 207 (2nd Dist. 1996)).

Thus, the Company's proposed capital structure contains more common equity than needed to support a financially strong water utility due to its affiliate relationships, leaving ratepayers to pay higher costs than warranted, in contravention of Section 9-230

of the Act. For the foregoing reasons, the Commission rejects the Company's proposed capital structure and adopts Staff's proposal.

2. Cost of Short-Term Debt (Forecasted Interest Rates)

a. IAWC's Position

IAWC explains that to properly set IAWC's cost of debt, the Commission must determine the interest rates that will apply to the debt the Company will issue in the 2023 test year. IAWC proposes that its cost of short-term debt in this proceeding be set at a forecast interest rate of 3.198%. IAWC explains that this figure reflects IAWC's revised projections in rebuttal testimony to reflect ongoing market conditions and recent projected rates provided by Bloomberg Online. IAWC notes that Staff is the only other party to address this issue, and Staff proposed a cost of short-term debt of 2.07% based on July 18, 2022 interest rates for commercial paper. While Staff updated its proposal in rebuttal testimony to rely on July 2022 rates instead of May 2022 rates, Staff's recommendation does not reflect market expectations for short-term borrowing rates in the 2023 test year. IAWC urges the Commission to reject Staff's proposal.

IAWC notes that it presented evidence showing that all current information from the market signals that rates are rising and will continue to rise. IAWC explains that as of the time of IAWC's surrebuttal testimony filing on August 5, 2022, the Fed Funds Rate was at 2.5%. However, just one month prior to that date, this rate was 1.75%. Further, as of August 5, 2022, the Federal Reserve was expected to raise rates at least an additional 1% by the end of 2022, putting the Fed Funds rate above IAWC's forecasted short-term debt rate proposed here. IAWC also demonstrated that its actual short-term debt rate increased 175% from April 2022 to June 2022, and 87% from May 2022 to June 2022. IAWC states that the Secured Overnight Financing Rate, which is the benchmark based on the rates U.S. financial institutions pay each other for overnight loans, increased by 436% during that same period and by 714% from April 29, 2022 to August 1, 2022.

IAWC maintains that Staff's argument that the Commission should use current market interest rates in its cost of capital analysis is problematic for at least two reasons. First, IAWC observes that Staff's proposed short-term interest rate of 2.07% unquestionably is no longer "current." Second, IAWC points out that Staff's contention that only current market interest rates should be relied upon in a cost of capital analysis is inconsistent with Staff's own use of forecast data in this case. For example, Staff's Discounted Cash Flow ("DCF") analysis presented in connection with its cost of common equity proposal relied on growth rates forecasted by analysts.

In short, IAWC states, there is no indication as the 2023 test year draws closer that rates will not continue to rise; therefore, the Commission should set IAWC's cost of short-term debt at 3.198% as it is based upon reliable forecasts of short-term interest rates for the 2023 test year and reject Staff's proposal.

b. Staff's Position

Staff witness Kight-Garlisch recommended a cost of short-term debt of 1.04% in her direct testimony. Staff Ex. 5.0 at 13. However, in rebuttal testimony, Ms. Kight-Garlisch revised her recommendation and recommended a cost of short-term debt of 2.07%. Staff Ex. 13.0 at 7.

Ms. Kight-Garlisch noted that IAWC obtains short-term debt through a line of credit from AWCC, American Water's financing subsidiary. AWCC's commercial paper rating is P-2 from Moody's. Staff Ex. 13.0 at 7. The average term for IAWC's short-term debt is 15 days. *Id.* Thus, to estimate IAWC's cost of short-term debt using AWCC's cost of commercial paper, Ms. Kight-Garlisch converted the July 18, 2022, 15-day P-2 commercial paper discount rate of 2.04% into an annual yield of 2.07% using the formula discussed in her testimony. *See* Staff Ex. 13.0 at 7.

IAWC argues for the use of forecasted interest rate for the cost of short-term debt; specifically, Mr. Selinger proposes using a 3.198% forecasted short-term debt rate derived from Bloomberg Online for the year 2023. IAWC Ex. 17.00 at 26. However, as noted by Staff witness McNally, accurately forecasting interest rates is problematic. Staff Ex. 14.0 at 3. The difficulty in forecasting interest rates is further emphasized in IAWC's own one-month forecasts, which IAWC failed to address. IAWC presented a forecasted short-term debt interest rate for May 2022 of 1.11% based on information from Bloomberg online from April 2022. Staff Ex. 13.0 at 11. IAWC's actual cost of short-term debt was only 0.69% for May 2022. IAWC rebuttal testimony, Workpaper WPD-2b. IAWC's forecasted short-term debt interest rate for June 2022 was 1.70%, but IAWC's actual cost of short-term debt was 1.30%. Staff Ex. 13.0 at 11. Further, the Commission has previously concluded that:

> predicting the direction, magnitude, or timing of future interest rate changes with accuracy is not possible. The Commission observes that the record demonstrates that professional forecasting services relied on by the Companies have consistently over estimated future rates in recent years. Current interest rates have proven to be better predictors of future interest rates than professional forecasters.

Docket Nos. 14-0224/14-0225 (Cons.), Order at 111.

For this reason, the Commission has repeatedly rejected the use of forecasted interest rates and, instead, relied on current, observable market interest rates. Staff notes that IAWC failed to address the Commission's past practices of rejecting the use of forecasted interested rates due to the problematic nature of accurately forecasting interest rates. Staff argues that, significantly, actual, observable yields reflect market forces and investors' expectations for the future, while forecasts do not. Those factors are reflected in the return that investors are willing to accept in the market. As of July 18, 2022, investors were willing to accept a 2.07% return on 15-day P2 non-financial commercial paper. Staff Ex. 13.0 at 12. Staff notes that IAWC would like for the Commission to use forecasted interest rates not based on evidence, but rather based on the mere "indication as the 2023 test year draws closer that rates will continue to rise[.]" IAWC IB at 53.

Further, the use of current, observable market interest rates renders the use of forecasted interest rates unnecessary because actual yields reflect all relevant, available information, including investor appraisals of the value of current expectations for the future. In other words, if investors believe that the forecasts are valuable, that belief would be reflected in current market interest rates. Conversely, if investors believe the forecasts

are not valuable, that belief would also be reflected in current market interest rates. In sum, if one uses current market interest rates in a cost of capital analysis, speculation of whether investor expectations of future interest rates equal those from a particular forecasting service is unnecessary. Therefore, Staff states that the Commission should adopt a cost of short-term debt of 2.07% for IAWC, consistent with its previous decisions on this subject.

c. Commission Analysis and Conclusion

The Company and Staff dispute the interest rate on short term debt. Staff recommends the use of actual current market interest rates, and the Company uses a forecast based on Bloomberg Online. The Commission notes that interest rates on P-2 commercial paper were volatile, even during the three months when testimony was filed.

The Commission agrees with Staff that the Company's proposal of 3.198% is arbitrary. On the contrary, Staff uses the actual market interest rate as of July 2022, when Staff filed its rebuttal testimony. As the Commission has noted, "current interest rates have proven to be better predictors of future interest rates than professional forecasters." Docket Nos. 14-0224/14-0225 (Cons.), Order at 111. While the Commission agrees with the Company that interest rates increased significantly between May and September of 2022, the Commission finds that Staff's number is a more reasonable assessment of future interest rates.

3. Cost of Common Equity

a. IAWC's Position

IAWC observes that, arguably, the most difficult and highly contested issue in every rate case is the ROE — the return that the Commission authorizes a utility to earn on the equity invested in its property dedicated to the provision of public utility service. IAWC points out that the law requires the Commission to authorize a utility to earn a rate of return that is reasonably comparable to returns associated with competing investments of comparable risk.

IAWC explains that the issue is so difficult because, unlike other elements of a utility's cost of service, where reasonableness might be determined by a competitive bidding process or comparison to a (relatively) easily determined prevailing market price, the cost of equity analysis involves extensive financial modeling, which, in effect, is a type of reverse engineering, using forecasts, projections, and estimates to reveal an invisible investor-expected return embedded in, or implied by, verifiable market data, such as stock prices and interest rates.

IAWC states that this might sound like an academic exercise, but the implications are not academic at all — the returns the Commission authorizes have real world consequences for both regulated utilities and their customers. IAWC contends that a utility's ability to achieve and maintain financial stability, finance construction, and meet its service obligations depends to a great degree on its authorized return.

IAWC states that this case has proved no easier than other rate cases. The Company, Staff, and IIWC/FEA/CUB present the Commission with three ROE recommendations that cover a wide range: from 9.35% (IIWC/FEA/CUB) to 9.78% (Staff) to 10.25% (IAWC). IAWC notes, however, that only the Company's recommendation

reflects the reality in which the Company operates. Only the Company's analysis reflects current market conditions — an inflationary environment and rising interest rates that cause investors to expect higher returns from regulated utilities. IAWC argues that the analyses of Staff and IIWC/CUB/FEA are based on stale, irrelevant, and inapt data that does not capture the conditions expected to be present when the rates set in this proceeding go into effect, and their recommendations should not be relied on by the Commission. Accordingly, IAWC concludes, the Commission should set the Company's ROE at 10.25%.

i. Legal Standard

IAWC explains that the United States Supreme Court's decisions in *FPC v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) ("*Hope*") and *Bluefield Waterworks & Imp. Co. vs. Pub. Serv. Commn. of W. Va.*, 262 U.S. 679 (1923) (*"Bluefield"*), established the standards for determining the fairness or reasonableness of a utility's authorized ROE. IAWC explains that among the standards established by the Court in those cases are: (1) consistency of the return with other businesses having similar or comparable risks; (2) adequacy of the return to support credit quality and access to capital; and (3) the principle that the specific means of arriving at a fair return are not important, only that the result leads to just and reasonable rates. As noted in *Bluefield*, a proper rate of return not only assures "confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit [but also] enable[s the utility] to raise the money necessary for the proper discharge of its public duties." *Bluefield*, 262 U.S. at 693. As the Court later explained in *Hope*, "[t]the rate-making process ... involves balancing of the investor and consumer interests." *Hope*, 320 U.S. at 603.

IAWC states that this Commission recognizes the *Hope* and *Bluefield* standards. Recently, in Docket No. 20-0308, involving the gas base rates of Ameren, the Commission stated that:

> As the Commission set out in Docket [No.] 16-0093, "In estimating the cost of common equity, the Commission must consider not only the outputs of the financial models, but whether the authorized ROE satisfies the standards set forth in *Bluefield*, 262 U.S. 679 and *Hope*, 320 U.S. 591." See Docket [No.] 16-0093, . . . Order at 65. "These decisions established that a regulatory body such as the Commission must consider whether an authorized return is sufficient to maintain the utility's financial integrity and to attract capital at reasonable terms, while ensuring that customers do not pay an excessive or unreasonable return on those rates". *Id*. at 65 (*citing Bluefield*, 262 U.S. at 692-93; Hope, 320 U.S. 591 at 603). *Bluefield* and *Hope* also dictate that the Company provide safe, reliable service at just and reasonable rates. *Bluefield*, 262 U.S. at 693; *Hope*, 320 U.S. 591 at 603; see also Docket 16-0093 at 65. The cases further state that the return on investment should be commensurate with returns investors could earn by investing in other companies of

> comparable risk. *Bluefield*, 262 U.S. at 692; *Hope*, 320 U.S. 591 at 603; *see also* Docket [No.] 16-0093 at 65.

Docket No. 20-0308, Order at 168. IAWC notes that the Commission has further explained that:

> The Commission understands that an authorized rate of return that is not competitive will deter continued investment in the State of Illinois. The Commission also appreciates that a reasonable authorized ROE helps ensure that the Company can attract capital in order to meet the Commission required infrastructure repair and replacement needs of the State. Notwithstanding, the Commission recognizes too that it should protect customers against bearing the cost of unreasonable returns through higher rates.

Docket No. 18-1775, Order at 119.

IAWC explains that utilities compete directly for capital with other investments of similar risk, which include other water, natural gas, and electric utilities. Therefore, IAWC maintains, the ROE awarded to a utility sends an important signal to investors regarding whether there is regulatory support for financial integrity, dividends, growth, and fair compensation for business and financial risk. IAWC contends that the cost of capital represents an opportunity cost to investors. IAWC states that if higher returns are available elsewhere for other investments of comparable risk, investors have an incentive to direct their capital to those investments. Thus, IAWC states, an authorized ROE significantly below authorized ROEs for other water, natural gas, and electric utilities can inhibit a utility's ability to attract capital for investment.

ii. Significance of Current Market Conditions

IAWC notes that the ROE estimation models rely on market data. IAWC states that it should not be surprising then that the results of the ROE estimation models can be affected by prevailing market conditions at the time the analysis is performed. While the ROE established in a rate proceeding is intended to be forward-looking, the analyst uses current and projected market data, specifically stock prices, dividends, growth rates, and interest rates, in the ROE estimation models to estimate the required return for the subject company.

IAWC states that the cost of equity for regulated utility companies is being affected by several factors in the current and prospective capital markets, including: (1) the dramatic shifts in market conditions during 2020, the economic recovery in 2021, the expectations for 2022, and the effect of these changes on the assumptions used in the ROE estimation models; and (2) effects of Federal tax reform on utility cash flows. In particular, IAWC points out, the Commission must take into account the increases in the Federal funds rate, the fact that inflation is at a 40-year high and increases in the yield on the 30-year Treasury bond ("T-bond"). IAWC argues that it is unreasonable to ignore the effects of current monetary policy intended to restore more normal inflation and to assume that it does not affect the cost of capital today.

IAWC states that the economy is currently in the recovery phase of the business cycle. Utilities, which are a defensive sector, have historically underperformed the market during periods of economic expansion. Therefore, IAWC states, investors are currently expecting utilities to underperform over the near-term, which means the share prices of utilities will likely decline. IAWC explains that a decline in share prices will increase the dividend yields of utilities and thus the cost of equity for utilities is expected to increase over the near-term. IAWC contends that this is important because the cost of equity in this proceeding is being estimated for the period that IAWC's rates will be in effect. Since the cost of equity is expected to increase over the near-term for utilities, ROE estimates based on current market conditions will understate the ROE during the period that the Company's rates will be in effect. The Commission should not compound that problem by basing the ROE determination on market conditions that are not up to date.

IAWC explains that these conditions have verifiable impacts on the financial modeling used to estimate ROE that should be addressed when choosing which inputs to use and how to weight the outcome of the models. IAWC further explains that the effect of the low interest rate environment can be seen in the low dividend yields for utilities, which result in DCF cost of equity estimates that are understating the forward-looking cost of equity. The Capital Asset Pricing Model ("CAPM") and Empirical CAPM ("ECAPM") offer some balance to the sensitivity of the DCF model to low Treasury yields. But low interest rates also affect the CAPM in two ways: (1) the risk-free rate is lower; and (2) because the market risk premium is a function of interest rates (i.e., it is the return on the broad stock market less the risk-free interest rate), the risk premium should move higher when interest rates are lower. Therefore, IAWC maintains, it is important to consider using projected market data in the models to estimate the return for the forward-looking period.

Additionally, IAWC states that relying exclusively on historical assumptions in these models, without considering whether these assumptions are consistent with investors' future expectations, will underestimate the cost of equity that investors would require over the period that the rates in this case are to be in effect. In this instance, IAWC states that relying on the historically low dividend yields that are not expected to continue over the period that the new rates will be in effect will underestimate the ROE for IAWC.

Furthermore, IAWC contends that the use of current averages of T-bond yields as the estimate of the risk-free rate in the CAPM is not appropriate since recent market conditions are not expected to continue over the long-term. Instead, IAWC proposes, analysts should rely on projected yields of T-bonds in the CAPM. The projected T-bond yields result in CAPM estimates that are more reflective of the market conditions that investors expect during the period that the Company's rates will be in effect.

iii. Financial Modeling

IAWC states that because the cost of equity is not directly observable, it must be estimated based on both quantitative and qualitative information. When faced with the task of estimating the cost of equity, analysts and investors gather and evaluate as much relevant data as reasonably can be analyzed. IAWC notes that several models have been developed to estimate the cost of equity, and Ms. Bulkley used multiple approaches

to estimate the cost of equity. As a practical matter, however, all of the models available for estimating the cost of equity are subject to limiting assumptions or other methodological constraints. Consequently, IAWC states that many well-regarded finance texts recommend using multiple approaches when estimating the cost of equity.

IAWC explains that the quantitative models then produce a range of reasonable results from which the market-required ROE is selected. That selection must be based on a comprehensive review of relevant data and information and does not necessarily lend itself to a strict mathematical solution. IAWC states that the key consideration in determining the cost of equity is to ensure that the methodologies employed reasonably reflect investors' views of the financial markets in general and of the subject company (in the context of the Proxy Group) in particular.

IAWC states that in a recent rate case, the Commission emphasized that it has traditionally considered the ROE estimates produced by several "financial analysis tools" in determining the reasonable cost of equity for a company. IAWC points out that the Commission considered the results of each of the models presented by the ROE witnesses. Specifically, the Commission noted that:

> each of the proposed models has arguable flaws. CAPM measures systemic risk, beta, for which the cost of equity must compensate investors, but parameters are measured against historical data. This creates a model that adjusts slowly to changes in the industry. In contrast, DCF models incorporate current market prices in the most recent dividends and growth outlook, thereby making DCF modeling, arguably, too sensitive to short-term market phenomena, which may not be representative of capital market conditions and the required investor returns that will prevail in the future. The bond yield plus risk premium models contain proxy sample flaws and can use outdated data. The expected earnings method incorrectly posits that earned returns on book common equity are the same as investor-required returns on common equity. The Commission has in the past rejected the use of bond yield plus risk premium models as well as the expected earnings analysis. While historically the Commission has focused on the DCF and CAPM models, the Commission acknowledges that there may be a value in exploring additional models presented by the parties, specifically the Risk Premium and Expected Earnings, to bring our methodology into closer alignment with how investors inform their investment decisions. The Commission is cognizant that other regulatory agencies are also considering this approach to ensure that the chosen return on equity is based on substantial evidence and does not overvalue any one model.

Docket No. 18-1775, Order at 119.

Ultimately, IAWC notes that the Commission authorized Nicor an ROE of 9.73%, which was based on the results of the DCF, CAPM, and risk premium models. Thus, IAWC states that the Commission recognizes the importance of considering the results of each model presented in the rate case to more accurately reflect the approach employed by investors in determining investment decisions.

iv. Proxy Group

IAWC explains that because the Company is not publicly traded, Ms. Bulkley used a Proxy Group of publicly traded companies that possess a set of operating and financial risk characteristics that are substantially comparable to IAWC in order to derive the Company's ROE. She began with the group of U.S. utilities that Value Line classifies as "Water Utilities" and "Natural Gas Distribution Companies". That combined group includes 17 domestic U.S. utilities. She simultaneously applied the following screening criteria to select companies that:

- pay consistent quarterly cash dividends because companies that do not cannot be analyzed using the Constant Growth DCF model;
- have investment grade long-term issuer ratings from S&P and/or Moody's;
- are covered by at least two utility industry analysts;
- have positive long-term earnings growth forecasts from at least two utility industry equity analysts;
- derive more than 60.00% of their total operating income from regulated operations; and
- were not parties to a merger or transformative transaction during the analytical periods relied upon.

IAWC explains that due to consolidation in the water utility industry, there is only a small group of water companies that can be included in the Proxy Group. Accordingly, IAWC states that Ms. Bulkley also considered the group of 36 companies that Value Line classifies as "Electric Utilities". In determining which electric utilities would qualify for inclusion in her Proxy Group, she relied first on the criteria used to screen the water and natural gas utilities. She then applied two additional screening criteria to only include electric utilities that would be considered risk comparable to IAWC. The Company explains that the Electric Utilities must have owned generation making up less than 10% of the company's MW-hours sales to ultimate customers to ensure that the Electric Utilities included did not own a substantial amount of generation, and therefore, had operations that were primarily transmission and distribution; and they must own water and wastewater operations.

v. Discounted Cash Flow Model ("DCF")

IAWC explains that the DCF approach is based on the theory that a stock's current price represents the present value of all expected future cash flows. IAWC notes that Ms. Bulkley employed the Constant Growth DCF model, which requires the following assumptions: (1) a constant growth rate for earnings and dividends; (2) a stable dividend payout ratio; (3) a P/E ratio; and (4) a discount rate greater than the expected growth rate.

IAWC contends that, to the extent any of these assumptions is violated, considered judgment and/or specific adjustments should be applied to the results.

IAWC notes that the dividend yield in Ms. Bulkley's Constant Growth DCF model was based on the proxy companies' current annual dividend and average closing stock prices over the 30-, 90-, and 180-trading days as of January 31, 2022. She used an average of recent trading days to calculate the price term in the DCF model to ensure that the ROE is not skewed by anomalous events that may affect stock prices on any given trading day. She explained that the averaging period should also be reasonably representative of expected capital market conditions over the long-term. However, the averaging periods that she used rely on historical data that are not consistent with the forward-looking market expectations. She cautioned, therefore, that the results of her Constant Growth DCF model using historical data may underestimate the forward-looking cost of equity. As a result, IAWC explains, Ms. Bulkley placed more weight on the mean to mean-high results produced by her Constant Growth DCF model.

IAWC notes that she also adjusted the dividend yield to account for periodic growth in dividends. Since utility companies tend to increase their quarterly dividends at different times throughout the year, it is reasonable to assume that dividend increases will be evenly distributed over calendar quarters. Given that assumption, it is reasonable to apply one-half of the expected annual dividend growth rate for purposes of calculating the expected dividend yield component of the DCF model. IAWC explains that this adjustment ensures that the expected first year dividend yield is, on average, representative of the coming twelve-month period, and does not overstate the aggregated dividends to be paid during that time.

IAWC explains that in its Constant Growth form, the DCF model assumes a single long-term growth rate in perpetuity. IAWC notes that in order to reduce the long-term growth rate to a single measure, one must assume that the dividend payout ratio remains constant and that EPS, dividends per share, and book value per share all grow at the same constant rate. IAWC points out that over the long run, however, dividend growth can only be sustained by earnings growth. For example, earnings growth rates tend to be least influenced by capital allocation decisions that companies may make in response to near-term changes in the business environment. Since such decisions may directly affect near-term dividend payout ratios, estimates of earnings growth are more indicative of long-term investor expectations than are dividend or book value growth estimates.

IAWC states that Ms. Bulkley's Constant Growth DCF model incorporates the following sources of long-term growth rates: (1) consensus long-term earnings growth estimates from Zacks Investment Research ("Zacks"); (2) consensus long-term earnings growth estimates from Thomson First Call (provided by Yahoo! Finance) ("First Call"); and (3) long-term earnings growth estimates from Value Line. She adjusted the dividend yield to reflect the growth rate that was being used in that particular scenario to ensure internal consistency in the calculations.

IAWC explains that Ms. Bulkley calculated a range of results for her DCF modelling. She calculated the low result for her DCF model using the minimum growth rate (i.e., the lowest of the First Call, Zacks, and Value Line earnings growth rates) for each of the Proxy Group companies. Thus, the low result reflects the minimum DCF

result for the Proxy Group. She used a similar approach to calculate the high results, using the highest growth rate for each Proxy Group company. The mean results were calculated using the average growth rates from all sources.

IAWC notes that in this inflationary environment, with rising interest rates, utility stocks are expected to underperform. Ms. Bulkley explained that, accordingly, it is important to consider the DCF results with caution because the DCF tends to understate the cost of equity in rising interest rate and higher inflationary environments. Accordingly, IAWC points out, she also gave weight to other ROE models.

vi. Capital Asset Pricing Model ("CAPM")

IAWC explains that the CAPM is a risk premium approach that estimates the cost of equity for a given security as a function of a risk-free return plus a risk premium to compensate investors for the non-diversifiable or "systematic" risk of that security. IAWC states that systematic risk is the risk inherent in the entire market or market segment. This form of risk cannot be diversified away using a portfolio of assets. Non-systematic risk is the risk of a specific company that can be mitigated through portfolio diversification.

IAWC explains that Ms. Bulkley relied on three sources for her estimate of the risk-free rate used in the CAPM: (1) the current 30-day average yield on 30-year U.S. T-bonds (i.e., 2.03%); (2) the projected 30-year U.S. T-bond yield for Q1 2022 through Q1 2023 (i.e., 2.42%); and (3) the projected 30-year U.S. T-bond yield for 2023 through 2027 (i.e., 3.40%). Based on current market conditions, she placed more weight on the results of the projected yields on the 30-year T-bonds. IAWC notes that, as discussed previously, the estimation of the cost of equity in this case should be forward-looking because it is the return that investors would receive over the future rate period. Therefore, IAWC concludes, the inputs and assumptions used in the CAPM analysis should reflect the expectations of the market at that time. IAWC notes that while she included the results of a CAPM analysis that relies on the then current average risk-free rate, this analysis fails to take into consideration the effect of the market's expectations for interest rate increases on the cost of equity.

IAWC points out that she used the beta coefficients for the Proxy Group as reported by Bloomberg and Value Line. The beta coefficients reported by Bloomberg were calculated using ten years of weekly returns relative to the S&P 500 Index. Value Line's calculation is based on five years of weekly returns relative to the New York Stock Exchange Composite Index.

IAWC notes that she considered an additional CAPM analysis which relies on the long-term average utility beta coefficient for the companies in her Proxy Group. IAWC explains that the long-term average utility beta coefficient was calculated as an average of the Value Line beta coefficients for the companies in her Proxy Group from 2016 through 2021.

IAWC states that Ms. Bulkley estimated the market risk premium as the difference between the implied expected equity market return and the risk-free rate. The expected return on the S&P 500 Index is calculated using the Constant Growth DCF model for the companies in the S&P 500 Index. In her calculation of the market return, Ms. Bulkley included companies in the S&P 500 Index that: (1) had either a dividend yield or Value

Line long-term earnings projection; and (2) had a Value Line long-term earnings growth rate that was greater than 0% and less than or equal to 20%. Based on an estimated market capitalization-weighted dividend yield of 1.62% and a weighted long-term growth rate of 11.28%, the estimated required market return for the S&P 500 Index is 12.99%. IAWC maintains that given the range of annual equity returns that have been observed over the past 95 years, a current expected return of 12.99% is not unreasonable. In 49 of the past 95 years (i.e., in approximately half of all observations), the realized total equity return was at least 12.99% or greater.

IAWC explains that Ms. Bulkley's traditional CAPM analyses produced a range of returns from 10.07% to 11.36%.

vii. Empirical CAPM ("ECAPM")

IAWC notes that Ms. Bulkley also considered the results of an Empirical CAPM ("ECAPM") in estimating the cost of equity for IAWC. In essence, IAWC explains, the ECAPM addresses the tendency of the traditional CAPM to underestimate the cost of equity for companies with low beta coefficients, such as regulated utilities. In that regard, the ECAPM is not redundant to the use of adjusted betas; rather, it recognizes the results of academic research indicating that the risk-return relationship is different (in essence, flatter) than estimated by the CAPM, and that the CAPM underestimates the "alpha," or the constant return term.

As with the CAPM, IAWC notes that Ms. Bulkley's application of the ECAPM uses the forward-looking market risk premium estimates, the three yields on 30-year Treasury securities noted earlier as the risk-free rate, and the Bloomberg, Value Line, and long-term average beta coefficients.

The ECAPM analysis results range from 10.77% to 11.74%.

viii. Recommended ROE

IAWC states that based on the results from these methodologies and the qualitative analyses presented in her testimony, Ms. Bulkley concluded that a reasonable range of ROE results for IAWC is from 9.90% to 11.25%. IAWC notes that Ms. Bulkley specifically recommended, however, that the Commission set the Company's rate of return on common equity at 10.25%. The recommended return of 10.25% considers current and prospective capital market conditions, as well as IAWC's company-specific risks relative to the Proxy Group, discussed below.

ix. Company-specific Risks

IAWC explains that the results discussed above provide only a range of the appropriate estimate of the cost of equity for a Proxy Group of comparable companies. IAWC argues that additional risk factors must be considered when determining where IAWC's cost of equity falls within the range of results. There are at least two: the Company's substantial capital expenditure program and, relatedly, its anticipated investment in acquired systems to ensure those systems comply with state and federal water standards. IAWC maintains that these factors should be considered with respect to their overall effect on IAWC's risk profile relative to the Proxy Group.

IAWC states that although there are several positive aspects of Illinois regulation that render IAWC somewhat less risky than the Proxy Group as a whole, the Company is not without unique risks as compared to the Proxy Group that suggest that the ROE should be within the range established by the average to the high end of the range of returns estimated for the Proxy Group companies. IAWC projects that the Company will spend approximately $1.063 billion on capital investments for the period from 2022-2026, including significant investment to replace aging infrastructure necessary to continue to meet the needs of its customers and to comply with various regulations. IAWC notes that this is a substantial increase in investment over the year-end 2020 net plant in IAWC of $1.77 billion.

IAWC states that from a credit perspective, the additional pressure on cash flows associated with high levels of capital expenditures exerts corresponding pressure on credit metrics and, therefore, credit ratings. An S&P 500 Index report explains this point in the context of the electric industry:

> We believe the higher capital spending and subsequent rise in debt levels could strain these companies' financial measures, resulting in an almost consistent negative discretionary cash flow throughout this higher construction period. To meet the higher capital spending requirements, companies will require ongoing and steady access to the capital markets, necessitating that the industry maintains its high credit quality. We expect that utilities will continue to effectively manage their regulatory risk by using various creative means to recover their costs and to finance their necessary higher spending.

IAWC Ex. 11.00 at 53.

IAWC explains that although this report refers to electric utilities, the same analysis applies to water utilities. Further, in an August 2016 report, S&P explained the importance of regulatory support for large capital projects:

> Broad support for all capital spending is the most credit-sustaining. Support for only specific types of capital spending, such as specific environmental projects or system integrity plans, is less so, but still favorable for creditors. Allowance of a cash return on construction work-in-progress or similar ratemaking methods historically were extraordinary measures for use in unusual circumstances, but when construction costs are rising, cash flow support could be crucial to maintain credit quality through the spending program. Even more favorable are those jurisdictions that present an opportunity for a higher return on capital projects as an incentive to investors.

S&P Global Ratings, "Assessing U.S. Investor-Owned Utility Regulatory Environments," August 10, 2016 at 7. Further, IAWC faces risk associated with the acquisitions of water and wastewater systems. IAWC has acquired, or currently has pending at the Commission the acquisition of 37 water and wastewater systems. IAWC states that it

must operate in compliance with state and federal laws and regulations, many of which are included in the Clean Water Act of 1972, the Safe Drinking Water Act of 1974, and many U.S. Environmental Protection Agency ("EPA") regulations related to these Acts. IAWC explains that some of the acquired systems were not in compliance with state and federal laws and regulations and thus require significant investment and increased maintenance expense to meet and sustain compliance with federal and state laws and regulations. IAWC notes that these increased costs create additional risk for IAWC and require continued regulatory support. IAWC points out that in its most recent report on American Water, Value Line recognized the Company's commitment to the acquisition of small fragmented systems and the incremental investment required in these systems. IAWC notes that Value Line also noted that regulatory treatment remains a key factor in the Company's performance.

Accordingly, IAWC states, there would be no basis for concluding that IAWC's risk is lower than that of the Proxy Group, and the Company needs the full support of the Commission to sustain its financial performance and condition.

x. Response to other parties

As discussed, IAWC states that interest rates have increased and are expected to continue to increase to combat inflation. The Company explains that since utility stock prices are inversely correlated with the yields on long-term government bonds, rising interest rates are projected to result in declining utility stock prices and increasing utility dividend yields. IAWC states that this means ROE models that rely on current and historical market data (i.e., current share prices in the DCF model and current yields on T-bonds in the CAPM) will likely underestimate the cost of equity over the near-term.

IAWC notes that Ms. Bulkley explained that neither of the other ROE witnesses in this proceeding has fully considered the effect of a rising interest rate environment or the effects of inflation on the cost of equity for IAWC when developing their respective ROE recommendations. Since interest rates are expected to increase, it is reasonable to conclude that the DCF and CAPM results presented by Mr. McNally and Mr. Walters are likely understating the cost of equity for IAWC. Moreover, IAWC states that the expected increase in interest rates warrants consideration of other ROE estimation models such as the CAPM and ECAPM analyses, which may better reflect expected market conditions.

(a) Response to Staff

Ms. Bulkley explained that when Staff's analysis is adjusted to correct problems with the inputs, it produces reasonable results. IAWC states that although Staff witness McNally recommends an ROE for IAWC of 9.78% based on the average of his Constant Growth DCF result of 9.19% and his CAPM result of 10.38%, reasonable adjustments to his CAPM analyses to reflect more appropriate inputs would result in an adjusted ROE estimate that is consistent with Ms. Bulkley's recommended ROE of 10.25%.

IAWC notes that Mr. McNally relies on the spot yield on the 30-year T-bond as of May 12, 2022 which was 3.02% as the estimate of the risk-free rate in his CAPM; however, as of June 14, 2022, the spot yield on the 30-year T-bond was 3.45%, an increase of 43 basis points. IAWC contends that given that interest rates are expected to continue to increase, it is reasonable to rely on projected yields on the 30-year T-bond

as the risk-free rate assumption in the CAPM. Adjusting Mr. McNally's CAPM analysis to rely on the near-term projected 30-year T-bond yield from *Blue Chip Financial Forecasts* ("*Blue Chip*") results in an updated CAPM result of 10.50% which, when combined with his DCF result of 9.19%, results in an updated ROE for IAWC of 9.84% as opposed to Mr. McNally's 9.78% ROE recommendation.

Furthermore, IAWC states, adjusting Mr. McNally's CAPM analysis to rely on the near-term projected 30-year T-bond yield from *Blue Chip* and Value Line beta coefficients calculated using weekly returns as opposed to an average of beta coefficients calculated using weekly and monthly returns, results in an updated CAPM result of 11.24%. IAWC notes that the average of this CAPM result and the result from Mr. McNally's DCF analysis is an ROE of 10.22%, 44 basis points higher than Mr. McNally's recommended ROE.

And, IAWC states, while the adjusted ROE result of 10.22% is consistent with Ms. Bulkley's recommended ROE of 10.25%, it is important to note that the DCF model result Mr. McNally used to calculate his average ROE result is likely understating the forward-looking cost of equity. As Ms. Bulkley explained, the results of the DCF model are likely to increase during the period that IAWC's rates will be in effect given that interest rates are expected to increase.

Staff contends that IAWC witness Bulkley's ROE estimate is a "meaningless amalgam of data for multiple time periods" and that therefore Staff's conclusion is Ms. Bulkley's analysis is "unusable" for setting IAWC's rates." Staff IB at 34. The Company states that the flaw, however, is not in Ms. Bulkley's analysis, but in Staff witness McNally's analysis. The Company explains that Ms. Bulkley, unlike Mr. McNally, considered current and prospective market conditions, including the expectation that interest rates will increase over the near-term in response to increased inflation and the Federal Reserve's normalization of monetary policy. Her conclusion, in the exercise of her judgment as an experienced financial analyst, was that her recommendation of 10.25% was reasonable and appropriate.

The Company contends that Mr. McNally, on the other hand, offered a recommendation that was effectively frozen in time on May 12, 2022. As Ms. Bulkley observed, the use of spot market data, particularly the use of stale, historical data in an environment where monetary policy has been changing and is expected to continue to change, is likely to misrepresent market expectations. The Company states that Mr. McNally's failure to consider that interest rates were increasing at the time that he prepared his analysis, and have continued to increase since that time, results in an understatement of the cost of equity.

According to the Company, the record shows the following, all of which undercut Staff's analysis and recommendation:

- The data that has been presented in this case demonstrates that the Company is operating in a rising interest rate environment, which will increase the investor required ROE.
- In the weeks after Mr. McNally produced his ROE estimate, the Federal Funds rate increased by 150 basis points, inflation remained at a 40 year high of 9.0 percent and the yield on the 30-year T-bond was increasing.

- Staff's suggestion that changes in the market conditions should not be considered over the duration of a case violates the comparable return standard of the seminal *Bluefield* and *Hope* cases.
- The rates that will be set in this proceeding will need to be able to attract capital over a forward-looking period. Therefore, it is necessary that the most up to date information, including investors' expectations, be considered in the development of the ROE.
- Recent authorized ROEs provide a range of historical returns; however, in the current rising interest rate environment, it should be expected that ROEs will be at the higher end of the range, and even increase the high end of the range that was established based on lower interest rate and lower inflationary market conditions.

Additionally, Ms. Bulkley proposed two adjustments to Mr. McNally's CAPM analysis: (1) rely on the near-term projection of the 30-year T-bond yield published by *Blue Chip* as the estimate of the risk-free rate; and (2) rely on Value Line beta coefficients calculated using weekly returns as opposed to an average of beta coefficients calculated using weekly and monthly returns. These adjustments result in an updated CAPM result of 11.40% and an updated DCF and CAPM average of 10.22%—which is consistent with Ms. Bulkley's recommendation of 10.25%.

Staff notes that Ms. Bulkley cited a 30-year T-bond yield of 3.21% from June to support her argument that the 3.02% yield employed by Mr. McNally was too low. Staff then argues that "if one accepts Ms. Bulkley's argument that updates should be provided 'over the duration of the proceeding' and that a higher interest rate indicates that Staff's ROE estimate is understated, then the lower August 4, 2022, T-bond yield indicates that, if anything, Staff's ROE estimate is slightly overstated." Staff IB at 33. Staff reports that on August 4, the yield was 2.97%, below the May 12 effective yield of 3.02% that was used in Mr. McNally's ROE analysis.

The Company states that Staff relies on a scatter plot of authorized ROE data from January 2018 through May 2022 to argue that the Company's requested ROE is inconsistent "with prevailing capital costs." Staff IB at 35. The Company explains, however, that the record shows that the return that is authorized in this proceeding should be higher than the average authorized ROEs in the period from 2018 through the first half of 2022 because the cost of capital is now undeniably higher. The ROEs that were established over the time period cited by Staff were, according to the Company, likely based on data prior to the current rapid increase in interest rates and the persistent high inflation that has been experienced in much of 2022. Therefore, the Company concludes, it is reasonable to expect that decisions made using data from market conditions that were not characterized by 40-year high inflation, significant changes in monetary policy, and rising interest rates in response to these conditions, would be lower than the current investor-required return.

Lastly, the Company addresses Staff's proposed adjustments to the ROE, which the Company says are unwarranted. Staff proposes that the Commission make three conditional, downward adjustments to ROE: 10 basis points if the Commission adopts the Company's proposed capital structure; 5 basis points if the Commission approves

proposed Environmental Surcharge Rider ("Rider ESR"); and 4 basis points if the Commission permanently adopts the Bad Debt Expense Rider ("Rider BDE").

The Company explains that its proposed capital structure does not warrant a reduction in ROE. The Company states Staff's adjustment is based on a flawed comparison of average equity ratios of the proxy companies used to set the ROE at the holding company level rather than at the operating company level. IAWC says that its proposed equity ratio of 51.95% is below the average and well within the range of equity ratios for the utility operating subsidiaries of the Proxy Group companies. The Company contends that, given that the ROE is determined by, *inter alia*, the relative financial risk of the Proxy Group to IAWC, if IAWC's equity ratio is consistent with that of the Proxy Group – and it is, albeit slightly lower – then no adjustment is necessary. The Company further states that Staff provided no evidence as to the relative risk of IAWC compared to the operating subsidiaries of the Proxy Group companies.

The Company states that, moreover, ROE should not be reduced simply because the Company implements a cost recovery mechanism. Staff proposed additional reductions of 4 basis points for making Rider BDE permanent and 5 basis points for the approval of Rider ESR, or a total of 9 basis points: nearly the same, the Company points out, as Mr. McNally's proposed adjustment for the risk differential with the Proxy Group. Ms. Bulkley testified that Staff presented no convincing analysis to support its proposed adjustments for Rider BDE or Rider ESR. While Mr. McNally claimed the closer a company's pattern of recovery matches its pattern of cost incurrence, the lower the risk, the Company argues that he presented no specific identification of any changes in credit ratings that IAWC can expect as a result of approval of the riders in this docket. Rather, the Company explains, his adjustments were based entirely on his calculation of the generic spread between utility bonds rated A and Baa by Moody's. He then attributed a portion of the spread to each of the riders. The Company contends that he did not and could not demonstrate that approval of the riders would result in any change in IAWC's cost of equity, cost of debt or credit ratings, or that if such a change occurred, that his calculations accurately reflect the consequences. The Company states that his calculations offer only a veneer of reliability: they are in fact calculations, but Staff has not demonstrated that they represent what is likely to happen in the real world.

(b) Response to IIWC/FEA/CUB

IAWC states that Mr. Walters recommends an ROE of 9.35% for IAWC, which is the midpoint of his estimated range of 8.90% to 9.80%. Mr. Walters' DCF result sets the low end of this range, and his risk premium sets the high end of the range. The Company contends that the 9.35% ROE recommended by IIWC/FEA/CUB is simply too low to be adopted as—or even to be factored into—the ROE authorized in this proceeding.

The Company explains that Ms. Bulkley proposed three adjustments to Mr. Walters' ROE analyses to improve their reasonableness. These reasonable adjustments alone would increase Mr. Walters' ROE recommendation by nearly 50 basis points, from 9.35% to 9.83%. Even that adjusted amount likely understates the cost of equity during the period the rates will be in effect due to the reasonable expectation that interest rates will increase.

Before describing Ms. Bulkley's adjustments, the Company first points out that, in establishing his recommended ROE, Mr. Walters has not provided any analytical basis for assuming that the Company has less risk than comparable water and natural gas utilities. IAWC notes that this is particularly important as current market conditions demonstrate greater risk resulting from rising interest rates and persistent inflation that is higher than has been experienced in 40 years. IAWC states that considering these factors, Mr. Walters' recommendation, which is well below the historical average authorized ROEs, would not meet the comparable return standard of *Hope* and *Bluefield*.

The Company notes that Mr. Walters presents three DCF models — however, the only DCF model that Mr. Walters developed that produces results that are close to the 8.90% ROE that defines the bottom end of his range is the Constant Growth DCF model, which relies on projected earnings growth rates. The results of this model are a mean ROE of 8.69% and a median ROE of 9.00%. IAWC explains that excluding the DCF result for Middlesex Water Company, which was 3.90%, and is below Moody's utility bond yields, increases the average and median DCF result to 9.08% and 9.04%, respectively.

IAWC states that adjusting Mr. Walters' risk premium analysis to rely on the most recent *Blue Chip* report as of the date of Mr. Walters' analysis (April 29, 2022) and projected utility bond yields to be consistent with his use of projected T-bond yields, his risk premium would result in an ROE range of 10.29% to 10.95%. IAWC explains that the average of these adjusted risk premium results is 10.60% which is 80 basis points higher than the 9.80% ROE that Mr. Walters indicates his risk premium supports.

Additionally, IAWC explains, the results of Mr. Walters' CAPM analyses that are based on S&P Global market intelligence betas and the Kroll (formerly Duff & Phelps) market risk premium (which does not reflect the inverse relationship between interest rates and the risk premium) do not appear to be included in Mr. Walters' reconciled CAPM result and should not be considered. The remainder of Mr. Walters' CAPM analysis produce a range of results from 9.70% to 11.66%. The midpoint of the adjusted CAPM range is 10.68%.

IAWC points out that Mr. Walters relies on the midpoint of his range to determine his recommendation. IAWC explains that using the DCF, CAPM, and risk premium analyses, as adjusted, results in a midpoint ROE estimate of 9.83% (i.e., average of 9.05% and 10.60%). However, IAWC notes, if greater weight is placed on the results of the CAPM and risk premium to better approximate the market conditions expected during the period that IAWC's rates will be in effect than the adjusted ROE model results would produce an ROE that is generally consistent with Ms. Bulkley's recommended ROE of 10.25% and well above Mr. Walters' recommendation of 9.35%.

The Company contends that Ms. Bulkley's adjustments to Mr. Walters' analysis are reasonable because they reflect the reality in which the Company operates. As the Commission observed in Docket No. 18-1775, its determination of ROE has real world consequences:

> An authorized rate of return that is not competitive will deter continued investment in the State of Illinois. A reasonable ROE helps ensure that the company can attract capital in order to meet the Commission required infrastructure needs.

Docket No. 18-1775, Order at 119. In that proceeding, the Commission averaged the results of various financial models to calculate the required ROE. It excluded from consideration every result below 9.5% as being inadequate to be considered competitive. *Id*.

The Company states that, under the approach used by the Commission in Docket No. 18-1775, the intervenors' DCF result of 8.9%, CAPM result of 9.3%, and overall recommendation of 9.35% would be disregarded. The Company contends that the Commission should not gamble, as IIWC/FEA/CUB would, that the markets will fix themselves quickly and that a low ROE will somehow prove to be enough to encourage and support the continued investment that Illinois utilities require. The Company asks the Commission to see the intervenors' recommendation for what it is: a backward-looking analysis that does not rely on current monetary policy.

b. Staff's Position

Staff argues that the Commission should adopt Mr. McNally's cost of equity analysis. As discussed below, Staff notes that the models and inputs he relied upon have been repeatedly tested through litigation and found by the Commission, and the Appellate Court, to be financially sound. Staff demonstrates that this approach produces a reasonable estimate that maintains IAWC's financial strength and is consistent with the types of returns available to other utilities. In contrast, Ms. Bulkley's analysis relies on approaches rejected by the Commission and produces a cost of equity estimate that would unfairly burden ratepayers, in violation of the *Hope* and *Bluefield* standards.

The Company asserts that "[o]nly the Company's analysis reflects current market conditions — an inflationary environment and rising interest rates that cause investors to expect higher returns from regulated utilities." IAWC IB at 54. The Company further argues that Staff and IIWC/CUB/FEA analyses are "based on stale, irrelevant, and inapt data that does not capture the conditions expected to be present when the rates set in this proceeding go into effect" and that the Commission should not rely upon their recommendations. *Id.* Staff argues that the Company's assertions are meritless and lack support. Staff asserts that its ROE analysis produces a reasonable and fair ROE recommendation for IAWC and is based on reliable, current data. Contrary to the Company's claim, Staff states that its proper reliance on current market data does reflect current market conditions and is consistent with the data that this Commission has repeatedly endorsed and accepted in prior rate cases. In contrast, Staff argues that the Company seems to suggest that the Commission should endeavor to predict the future, repeatedly suggesting that the ROE the Commission adopts should reflect the ROE for the period over which the rates set in this case are to be in effect. As Staff explained, not only is that an impossibility, but the Company's analysis does not even attempt to do so. Rather, Staff argues that the Company cobbled together a meaningless amalgam of data for multiple time periods, combining speculation as to the interest rate in 2027 – the only input in its analysis that was actually projected – with stock prices from as far back as May of 2021 and beta estimates from as far back as 2016. Thus, unlike Staff's analysis, Staff argues that it is the Company's analysis that does not reflect current market conditions.

The Company further argues that neither Staff's nor IIWC/FEA/CUB's witness has "fully considered the effect of a rising interest rate environment or the effects of inflation on the cost of equity for IAWC when developing their respective ROE recommendations." IAWC IB at 72. The Company states that "ROE models that rely on current and historical market data (*i.e.*, current share prices in the DCF model and current yields on T-bonds in the CAPM) will likely underestimate the cost of equity over the near-term." *Id.* The Company continues to focus on the proposition that rising interest rates warrant a reliance on forecasts and updated analyses during the proceeding. According to Staff, the Company's attempt to argue that Staff did not properly consider the effect of a rising interest rate environment is unequivocally wrong. Staff explains in detail why its DCF model and use of current yields on T-bonds in the CAPM is reasonable and more reliable than the Company's models. Thus, Staff argues that the Commission should adopt Staff's ROE estimate of 9.78% and reject the Company's inflated ROE estimate of 10.25%.

i. Staff's Analysis

Mr. McNally estimated IAWC's investor-required rate of return on common equity to be 9.78%. Staff Ex. 6.0 at 18. Mr. McNally measured the investor-required rate of return on common equity with DCF and CAPM analyses. IAWC is a wholly-owned subsidiary of American Water and does not have market-traded common stock. Thus, to reduce measurement error, Mr. McNally applied those models to a sample of fourteen water utility and public utility companies (the "Proxy Group"). The Proxy Group was the same sample used by Company witness Bulkley in her analysis. Staff Ex. 6.0 at 2. The fourteen companies that compose the Proxy Group are: American States Water, Atmos Energy, California Water, Essential Utilities, Eversource Energy, Middlesex Water, NiSource, New Jersey Resources, Northwest Natural Gas, One Gas, SJW Group, South Jersey Industries, Spire, and York Water. IAWC Ex. 11.00 at 27-29.

(a) DCF Analysis

DCF analysis assumes that the market value of common stock equals the present value of the expected stream of future dividend payments. Since a DCF model incorporates time-sensitive valuation factors, it must correctly reflect the timing of the dividend payments that stock prices embody. The companies in the Proxy Group pay dividends quarterly. Therefore, Mr. McNally applied a quarterly DCF model. Staff Ex. 6.0 at 2-3.

DCF methodology requires a growth rate that reflects the expectations of investors. Mr. McNally used a constant growth DCF model in which he measured the market-consensus expected growth rates with 3- to 5-year growth rate forecasts published by Zacks, S&P's Market Intelligence, and Value Line. For each company in the Proxy Group, the average growth rate estimate was combined with the closing stock price and dividend data as of May 12, 2022. Based on this growth, stock price, and dividend data, Mr. McNally's DCF estimate of the cost of common equity was 9.19% for the Proxy Group. Staff Ex. 6.0 at 3-7.

(b) CAPM Analysis

According to financial theory, the required rate of return for a given security equals the risk-free rate of return plus a risk premium associated with that security. The risk

premium methodology is consistent with the theory that investors are risk-averse and that, in equilibrium, two securities with equal quantities of risk have equal required rates of return. Mr. McNally used a one-factor risk premium model, the CAPM, to estimate the cost of common equity. In the CAPM, the risk factor is market risk, which cannot be eliminated through portfolio diversification. Staff Ex. 6.0 at 7-8.

The CAPM requires the estimation of three parameters: the risk-free rate, the required rate of return on the market, and beta. For the risk-free rate parameter, Mr. McNally considered the 0.61% yield on four-week U.S. Treasury bills and the 3.02% yield on thirty-year U.S. T-bonds. Both estimates were measured as of May 12, 2022. Forecasts of long-term inflation and the real risk-free rate imply that the long-term risk-free rate is between 4.5% and 4.6%. Thus, Mr. McNally concluded that the U.S. T-bond yield is currently the superior proxy for the long-term risk-free rate. Staff Ex. 6.0 at 8-12. For the expected rate of return on the market parameter, Mr. McNally conducted a DCF analysis on the firms composing the S&P 500 Index. That analysis estimated that the expected rate of return on the market equals 12.97%. Staff Ex. 6.0 at 12-13. Finally, for the beta parameter, Mr. McNally combined adjusted betas from Value Line, Zacks, and a regression analysis. The Proxy Group's average Value Line, Zacks, and regression beta estimates were 0.82, 0.66, and 0.66, respectively. The Value Line regression employs 259 weekly observations of stock return data regressed against the New York Stock Exchange ("NYSE") Composite Index. Both the regression beta and Zacks betas employ sixty monthly observations; however, while Zacks betas regress stock returns against the S&P 500 Index, the regression beta regresses stock returns against the NYSE Index. Since the Zacks beta estimate and the regression beta estimate are calculated using monthly data rather than weekly data (as Value Line uses), Mr. McNally averaged the Zacks and regression results to avoid over-weighting monthly return betas. He then averaged that result with the Value Line beta, which produced a beta for the Proxy Group of 0.74. Staff Ex. 6.0 at 13-17. Inputting those three parameters into the CAPM, Mr. McNally calculated a cost of common equity estimate of 10.38% for the Proxy Group. Staff Ex. 6.0 at 17.

(c) Recommended ROE

Mr. McNally recommends a cost of common equity for IAWC of 9.78%, based on a simple average of the mean sample estimates from his DCF and risk premium models for the Proxy Group. Mr. McNally, however, noted that the Proxy Group Staff and the Company used to estimate IAWC's ROE serves only as a surrogate for IAWC. If IAWC is less risky than the Proxy Group, the ROE estimate derived from the riskier Proxy Group will be too high for IAWC. Conversely, if IAWC is riskier than the Proxy Group, the ROE estimate derived from the Proxy Group will be too low for IAWC. Therefore, Mr. McNally performed an analysis to assess IAWC's risk relative to that of the Proxy Group. That analysis indicated that the risk of IAWC is appreciably lower than the overall risk of the Proxy Group. Specifically, he found that IAWC's three-year averages (2019-2021) for the four ratios that Moody's focuses on to assess financial strength are consistent with a strong A2 rating, when weighted in accordance with the Moody's rating methodology for regulated water utilities. In contrast, the average credit rating for the Proxy Group was a weak A3.

Although his analysis indicates that the risk of IAWC is appreciably lower than the overall risk of the Proxy Group, Mr. McNally does not recommend a reduction to his ROE estimate, as Staff witness Kight-Garlisch recommended an adjustment be made to IAWC's capital structure to put it more in line with the risk profile of the Proxy Group. However, if the Commission rejects Staff's proposed capital structure in favor of the Company's proposed capital structure, Mr. McNally recommends adjusting his ROE estimate downward to align IAWC's authorized ROE with its lower relative risk profile. Staff Ex. 6.0 at 19-20. Mr. McNally estimated that conditional adjustment from the 31-basis point spread between long-term utility bonds rated A and Baa by Moody's, as of May 12, 2022. Because there are three sub-grades within each letter ratings (i.e., A1, A2, and A3 within the Moody's A rating range), he divided the spread between A and Baa utility bond yields by three to estimate a spread between the A2 and A3 ratings of 10 basis points, to estimate the adjustment. Thus, if the Commission rejects Staff's proposed capital structure in favor of the Company's proposed capital structure, Mr. McNally recommends adjusting the Proxy Group's ROE downward by 10 basis points (or 0.10%), producing an ROE estimate for IAWC of 9.68%. Staff Ex. 6.0 at 20-21.

Mr. McNally further advised that, if the Commission adopts the Company's Rider BDE and Rider ESR proposals, additional downward adjustments to the Company's ROE would be necessary to recognize the reduction in risk associated with those riders. Specifically, Mr. McNally explained that the closer a company's pattern of recovery matches its pattern of cost incurrence, the lower the operating risk. The purpose of both of the proposed riders is to help match IAWC's cost and recovery. Thus, downward ROE adjustments are necessary for each, if they are adopted. Staff Ex. 6.0 at 21, 23.

Mr. McNally estimated those adjustments based on the Moody's approach to water utility rating analysis. Among the various subfactors considered in its analysis, Moody's assigns 15% weighting to the cost and investment recovery sub-factor. Mr. McNally concluded that this sub-factor would improve by one credit rating for each the proposed riders. Since the sub-factor affected by the riders is assigned 15% weighting, Mr. McNally multiplied the previously noted 31-basis point spread between A and Baa long-term utility bonds by 15% to estimate the full incremental effect of each rider of 0.05%. Thus, he recommends an adjustment of 5 basis points, for the risk-reduction associated with Rider ESR. However, recognizing that Rider BDE was approved on a temporary basis in the Spring of 2021 and, thus, was in place for approximately 25% of the period over which Mr. McNally performed his relative risk assessment of IAWC vis-à-vis the Proxy Group, he recommends that the full 5 basis point adjustment be multiplied by 75%, to avoid duplicating the previously reflected effect of that rider. This results in a final adjustment of 4 basis points if the Commission grants the adoption of Rider BDE on a permanent basis. Staff Ex. 6.0 at 21-24.

ii. Analysis

(a) Overall Results

The Company's testimony regarding Staff's ROE analysis focuses largely on the proposition that rising interest rates warrant a reliance on forecasts and updated analyses during the proceeding. Ms. Bulkley objects that Mr. McNally relied on 30-year U.S. T-bond spot rate rather than forecasts and did not update his analysis after the May 12,

2022, analysis put forth in his direct testimony, which she concludes causes his results to understate IAWC's ROE. She claims that if updated, his results would be higher. IAWC Ex. 32.00 at 10-11. However, Staff argues that Ms. Bulkley did not demonstrate as much. In fact, she cannot know that to be true, as she never fully updated Mr. McNally's analysis. Ms. Bulkley merely noted that the T-bond yield, from which Mr. McNally drew the risk-free rate estimate used in his CAPM analysis, had risen after his analysis was performed. However, as Mr. McNally explained, even if an update to certain inputs would have an upward effect on the models, other components may have changed that would have a downward effect on the models. Thus, Staff asserts that a partial update will not produce an accurate estimate of the cost of common equity. Staff Ex. 14.0 at 7-8.

Moreover, Mr. McNally explained that updating an ROE analysis in the middle of a rate case is problematic for a number of reasons, particularly as it introduces the potential for gamesmanship, as parties will likely call for updates only when (and only to the inputs for which) doing so favors the outcome they seek. Staff Ex. 14.0 at 7-8. Nonetheless, Ms. Bulkley persisted, stating in her surrebuttal testimony that "it is necessary that the most up to date information … be considered" and that updates should be provided "over the duration of the proceeding." IAWC Ex. 32.00 at 4, 11. Yet, Staff notes that in that same surrebuttal testimony, filed August 5, 2022, she cited back more than a month prior, to the 3.21% yield from June 23, 2022, to claim that the 3.02% T-bond yield Mr. McNally employed was too low. IAWC Ex. 32.00 at 4, 11. However, if Ms. Bulkley had followed her own directive and reviewed the most up-to-date interest rates as of her surrebuttal testimony filing date, she would have come to a different conclusion. As indicated in her own testimony, by June 23, 2022, the 30-year T-bond rate was falling. IAWC Ex. 21.00 at 35. The interest rate continued to fall from that time, such that, by August 4, 2022, the 30-year T-bond yield had fallen below the yield relied on by Staff.[1] Thus, if one accepts Ms. Bulkley's argument that updates should be provided "over the duration of the proceeding" and that a higher interest rate indicates that Staff's ROE estimate is understated, then the lower August 4, 2022, T-bond yield indicates that, if anything, Staff's ROE estimate is slightly overstated. As indicated above, Staff does not agree with Ms. Bulkley's argument. Nonetheless, the fact the interest rates have fallen below the yield Mr. McNally employed undermines the thrust of the Company's position and validates the arguments Mr. McNally put forth with respect to forecasting interest rates and use of updates.

Ms. Bulkley repeatedly asserts that Staff's objective on this subject should be to estimate the cost of equity for the period over which the rates established in this case will be in effect and claims that her estimate accomplishes that objective. IAWC Ex. 21.00 at 5, 6, 11, 13, 25, 27, 34, 35, 37, 38, 44-46, 47, 78, 79, 85, 86, 87, 90, 100, 101-102, 111; IAWC Ex. 32.00 at 10, 22. Staff asserts that she is wrong on both counts. Staff states that the objective in this proceeding is to estimate the current investor-required rate of return, not to estimate what the cost of equity will be at some future time. In fact, the precise period over which the rates set in this proceeding will be in effect is unknown.

[1] Specifically, the 3.02% effective yield used in Staff's analysis was derived from bond equivalent yield of 3.00% as of May 12, 2022, for the 30-year T-bond. Staff Ex. 6.0, Sch. 6.5. As of August 4, 2022, the bond equivalent yield on that same security was 2.97%. Staff Cross Ex. 1.0.

Staff states that it is difficult enough to estimate the current investor-required return when actual data is available, but to attempt to project what investors will demand at some period in the future is pure speculation. Staff Ex. 14.0 at 4. Regardless, according to Staff, Ms. Bulkley's estimate does not represent a future cost of capital. In fact, it does not represent the investor-required rate of return at any given time, but rather, a meaningless amalgam of data for multiple time periods. Despite Ms. Bulkley's emphasis on developing an ROE for the period rates will be in effect, other than forecasted interest rates, no input in her analysis is projected. Staff states she did not forecast the market return; she did not forecast betas; she did not forecast future growth rate expectations; she did not forecast dividends; and she did not forecast stock prices. Most of the data inputs Ms. Bulkley employed are from January 2022. However, she used stock prices from as far back as May 2021 and beta estimates from as far back as 2016. IAWC Ex. 11.00 at 40; IAWC Ex. 11.06. In contrast, she used forecasted interest rates for as far forward as 2027. IAWC Ex. 11.00 at 45. As Mr. McNally explained, it is important to synchronize the inputs in an ROE analysis, as mismatching data from different time periods will not produce an accurate estimate of the market-required rate of return on common equity. Staff Ex. 6.0 at 6. Ms. Bulkley's mismatching of data renders her analysis unusable for setting IAWC's rates.

In contrast, Staff asserts that its analysis is based on the sound application of models and approaches repeatedly accepted by the Commission. Staff demonstrated that its recommendations result in financial ratios that maintain IAWC's financial health. Staff Ex. 14.0 at 14. Moreover, Staff also showed that its ROE recommendation is consistent with prevailing capital costs, while showing Ms. Bulkley's recommendation to be far from mainstream. Ms. Bulkley's 10.25% recommendation is higher than 90% of authorized ROEs since January 2018, with not one authorized ROE greater than her recommendation issued in the last three years. Indeed, her recommendation would have been well above average even in 2018, when the trend line was at its highest at proximately 9.75%, and the average has continued to fall through May of this year, with the trend line indicating the most recent outcome would typically be below 9.50%. In contrast, Mr. McNally's 9.78% recommendation is much more moderate, falling in the upper end of the middle third of authorized returns during that period.

As Ms. Bulkley noted in her testimony, the fair return standard established by the *Hope* and *Bluefield* decisions requires that the authorized return be consistent with the returns for other companies with similar or comparable risk. IAWC Ex. 11.00 at 9-10; IAWC Ex. 21.00 at 6-7. Mr. McNally's recommendation is consistent with that standard, while Ms. Bulkley's recommendation is unnecessarily high.

(b) DCF Analysis

Staff argues that the Value Line growth rates that Ms. Bulkley used in her DCF analysis are inflated and should be averaged with the Value Line growth rates for the Proxy Group. Doing so would decrease her recent Value Line growth estimate by approximately 100 basis points. This accounts for nearly the entire difference between her 9.51% DCF average and Mr. McNally's 9.19% DCF average. Staff Ex. 6.0 at 25-26. She also used 30-, 60-, and 180-day average stock prices; as discussed above, mismatching historical stock prices with current growth expectations increases the

inaccuracy of the estimate. In addition, Ms. Bulkley utilized an annual DCF model, which fails to account for the quarterly payment of dividends.

In contrast, to provide a true cost of equity estimate, Staff utilized a correctly specified quarterly DCF model with data properly synchronized as of its May 12, 2022, measurement date, using inputs and approaches consistently adopted by the Commission. Staff Ex. 6.0 at 3-7.

(c) CAPM Analysis

Staff notes that the primary differences between Staff's and the Company's CAPM analyses are the use of a spot or forecasted interest rate to estimate the risk-free rate and the use of beta estimates derived only from weekly observations or from both weekly and monthly observations. With respect to interest rate forecasts, Mr. McNally explained that it is preferable to rely on the recent spot rate, as the Commission has repeatedly done in prior rate proceedings. Staff argues that interest rate forecasts do not directly reflect investors' expectations but are merely analysts' proxies for the expectations of those actually investing their money. In contrast, and contrary to Ms. Bulkley's implications, Staff argues that current interest rates do reflect investors' current expectations regarding prospective market conditions. Actual current interest rates reflect all publicly available information, including any influence forecasts may have on investor expectations. Thus, Staff asserts that it is not only unnecessary, but inappropriate to employ proxies that do not reflect market forces to speculate regarding what investors' expectations will be in the future, as Ms. Bulkley repeatedly suggests, when current market data is available. Moreover, interest rate forecasts are notoriously inaccurate and, therefore cannot be relied upon, as Ms. Bulkley implicitly acknowledged. Staff Ex. 6.0 at 27-28; Staff Ex. 14.0 at 2-4. As she herself noted, the June 14, 2022, spot yield on the 30-year T-bond was more than a full percent off from the near-term projected yield she relied on in her CAPM, demonstrating the inaccuracy of her forecasts. IAWC Ex. 21.00 at 12-13. Indeed, in a prior proceeding, the Commission found:

> predicting the direction, magnitude, or timing of future interest rate changes with accuracy is not possible. The Commission observes that the record demonstrates that professional forecasting services relied on by the Companies have consistently over estimated future rates in recent years. Current interest rates have proven to be better predictors of future interest rates than professional forecasters.

Staff Ex. 6.0 at 27-28, *citing* Docket Nos. 14-0224/14-0225 (Cons.), Order at 111. For the foregoing reasons, the Commission has repeatedly rejected the use of forecasted interest rates in favor of spot yield.

Ms. Bulkley noted that interest rates rose after Staff's analysis was performed. She suggests that that validates her use of higher forecasted interested rates and shows that reliance on the current Treasury yield is likely to understate the cost of equity over the period that IAWC's rates will be in effect. IAWC Ex. 21.00 at 12-13; IAWC Ex. 32.00 at 10-11. Because Mr. McNally did not reconsider his analysis on that basis, Ms. Bulkley went so far as to state that "Mr. McNally appears determined to ignore financial reality." IAWC Ex. 32.00 at 10. Staff asserts that Ms. Bulkley's claims are unequivocally wrong.

The financial reality is that interest rates are volatile and accurately predicting them is impossible. Another financial reality is that the most recent 30-year T-bond yield in the record is below the rate from the date of Staff's analysis. Staff argues that by Ms. Bulkley's reasoning, if a higher ex post interest rate indicates Staff's risk-free rate estimate is understated, then a lower ex post interest rate would indicate Staff's risk-free rate estimate is overstated. None of that makes speculation as to the level of future interest rates any more accurate or reliable.

Ms. Bulkley claims that the use of spot yields can "bias" results downward due to potentially inefficient pricing. IAWC Ex. 21.00 at 12, 31. According to Staff, she did not, however, provide any evidence that May 12, 2022, was in any way an anomalous day in the markets or that spot yields on that date would lead to a biased ROE estimate. In contrast, Mr. McNally repeated his analysis once a week for three weeks to determine whether or not his proposed cost of common equity reflects anomalous data. The results of those three analyses are all within 16 basis points of one another, with the first result slightly lower than his recommended ROE of 9.78% and the second slightly higher. Staff states that this demonstrates that Mr. McNally's May 12th result was clearly not an anomaly, as the market was reasonably stable and not exhibiting any particular trend in one direction or the other at the time of his analysis. Thus, Staff argues, those results do not warrant the abandonment of the traditional Commission practice of relying on spot data, from which the Commission has stated it is reluctant to deviate. Staff Ex. 14.0 at 8; *see also N. Shore Gas Co. and Peoples Gas Light and Coke Co.*, Docket Nos. 07-0241/07-0242 (Cons.), Order at 92 (Feb. 5, 2008). Moreover, Staff states that Ms. Bulkley's argument in defense of the use of forecasts over spot yields is circular, as it is premised on the "expectation" that interest rates will continue to increase, for which the only evidence is her forecasts, the use of which is unnecessary and inappropriate, as discussed above.

With respect to beta estimation, Ms. Bulkley claimed that betas derived from weekly observations are superior to betas derived from both weekly and monthly observations, as Mr. McNally employed. IAWC Ex. 21.00 at 42. As Mr. McNally explained, the betas Ms. Bulkley and Mr. McNally employed are merely estimates of the true beta, which is unobservable. Consequently, which beta estimates are more accurate is unknown. The Value Line methodology is not inherently superior to Staff's or Zacks' beta methodology. In fact, different beta estimation methodologies can produce different betas when those methodologies employ different samples of stock return data. Thus, just as the analysts in this proceeding used multiple models to determine the cost of equity, Mr. McNally used multiple approaches to estimate beta. In contrast, Ms. Bulkley proposes to exclude monthly betas and rely solely upon weekly betas, a proposal which has been repeatedly rejected by the Commission. In adopting Staff's multiple-source approach to estimating beta, the Commission has stated:

> We agree that, in the same way we rely on multiple models to determine the cost equity, Staff's well-considered use of multiple beta sources is beneficial to reduce measurement error from any individual estimate. Moreover, we find that Staff's beta estimate appropriately weights the beta estimates from those three sources.

Docket Nos. 09-0166/09-0167 (Cons.), Order at 126-27. Further, the Commission's repeated conclusion that the use of both weekly and monthly betas is superior to the use of one or the other was upheld by the Illinois Appellate Court in Docket No. 13-0192. Staff Ex. 14.0 at 9.

(d) ECAPM Analysis

Ms. Bulkley's analysis includes the results of an ECAPM to which she applied adjusted betas. She argued that an adjustment to beta coefficients and an adjustment to the CAPM model are discrete, unrelated adjustments and that both adjustments are warranted. IAWC Ex. 21.00 at 47-51. Staff asserts that Ms. Bulkley's argument is misguided. Ms. Bulkley's ECAPM ostensibly attempts to adjust the CAPM for the flatness of the empirically measured security market line ("SML") relative to the predicted SML. Staff cited research by Litzenberger *et al.* that studied various ways to alter the CAPM itself or beta to address this discrepancy and, thus, bring the resulting predicted return more in line with actual results. Staff Ex. 6.0 at 28-29. Significantly, Litzenberger never combines adjusted betas, as both Ms. Bulkley and Mr. McNally employ, with alternative versions of the CAPM. In fact, Litzenberger observes that if the raw betas are adjusted, as Ms. Bulkley's are, then the cost of equity estimates using the resulting adjusted betas would be identical to those using unadjusted betas in an empirically-derived CAPM. Consistent with that finding, Mr. McNally demonstrated that the mathematical effect of either adjustment (to beta or to the CAPM model) is equivalent – it raises the returns for securities with raw betas below one and lowers returns for securities with raw betas greater than one. Thus, the beta adjustment does correct for the observed flatness in the linear relationship between risk and return, making the use of an adjusted beta when employing an ECAPM unnecessary, and vice versa. Staff Ex. 14.0 at 10. Ms. Bulkley, however, combined both adjustments. By using adjusted betas in the ECAPM model, she effectively adjusted twice for the flatness of the empirical SML and, thus, inflated the estimate of her sample's cost of common equity.

Staff argues that a review of recently authorized utility ROEs supports the conclusion that Ms. Bulkley's ECAPM estimates are inflated. The vast majority of recently authorized utility ROEs fall between 9.35% and 10.25% (with none above 10.25% in the last three years), indicating a central tendency in the mid to upper 9% range (the downward trend in those observations notwithstanding). Ms. Bulkley's average CAPM model result of 10.72% is already approximately 50 basis points higher than the high end of that range. Her average ECAPM result is significantly higher still, at 11.26%, a full percentage point above the high end of that range and approximately 150 basis points above its central tendency (again, ignoring the downward trend of those ROEs). This indicates that, contrary to Ms. Bulkley's conclusion, the CAPM is not understating returns for companies with betas less than 1.00, but rather, her ECAPM (using adjusted betas) is overstating them. That is consistent Mr. McNally's explanation that, by using adjusted betas in the ECAPM model, Ms. Bulkley effectively adjusted twice for the flatness of the empirically measured security market line and, thus, inflated the estimate of her sample's cost of common equity. Staff Ex. 14.0 at 11-12.

The Commission has consistently rejected the use of the ECAPM to determine the cost of common equity in several prior proceedings, stating in a previous IAWC rate case:

> The Commission cannot recall a proceeding in which it relied upon the ECAPM in establishing the cost of common equity for a utility. In the instant proceeding, the record supports a finding that use of adjusted betas in the ECAPM is inappropriate. As Staff witness Ms. Freetly explained, by using adjusted betas she already effectively transformed her Traditional CAPM into an ECAPM. Therefore, including an additional beta adjustment in the ECAPM model would result in inflated estimates of the samples' cost of common equity.

Docket No. 11-0767, Order at 109. Staff's position is that the Commission should likewise reject Ms. Bulkley's ECAPM in this proceeding.

(e) Staff's Conditional ROE Adjustments

As noted previously, Mr. McNally performed an analysis that indicated that the risk of IAWC is appreciably lower than the overall risk of the Proxy Group. Specifically, he estimated IAWC's implied credit rating to a strong A2, compared to a weak A3 average credit rating for the Proxy Group. Thus, he concluded that, if the Commission rejects Staff's proposed capital structure in favor of the Company's proposed capital structure, his recommended ROE for IAWC should be adjusted downward by 10 basis points. Staff Ex. 6.0 at 19-20. Ms. Bulkley dismissed that finding, arguing that his analysis does not take into consideration the regulatory and business risks that Moody's considers. IAWC Ex. 21.00 at 51-52. Staff states that she is wrong. As Mr. McNally explained, his analysis is based on the reasonable assumption that the regulatory and business risks of the sample companies, which are all regulated water and utility companies, are reasonably similar to those of IAWC. In fact, Ms. Bulkley concluded that the operating characteristics of the companies that compose the Proxy Group are "substantially comparable" to IAWC. Moreover, of the six supportive cost recovery mechanisms available in the states in which IAWC's parent, American Water, operates, Illinois is the only state to offer all of them, indicating that IAWC faces, if anything, less operating risk than water utilities operating in those other states. Further, the reasonableness of Mr. McNally's approach is corroborated by his application of the same credit rating estimation procedure to American Water and to Essential Utilities, which is one of the Proxy Group companies. Both of those companies have assigned credit ratings from Moody's that match the credit ratings he estimated for those companies. Moreover, Mr. McNally's one-notch adjustment was conservative, given that, not only did his analysis indicate an approximate 1.5 notch difference in ratings between IAWC and the Proxy Group, but the difference in risk between IAWC and the Proxy Group grew throughout the period studied. Staff Ex. 14.0 at 14-15.

Ms. Bulkley also suggested that the use of credit ratings in Mr. McNally's relative risk assessment is not appropriate because credit ratings do not relate to equity. IAWC Ex. 21.00 at 52. Again, Staff argues she is wrong. The risk/return tradeoff (i.e., investors require higher returns to accept greater exposure to risk) is a fundamental principle of finance. That concept forms the basis of Mr. McNally's adjustment. Issuer credit ratings reflect the general financial health of a company. In fact, Ms. Bulkley identifies long-term issuer credit ratings as one of the criteria she used to select the Proxy Sample, which she employed to estimate IAWC's ROE. While the relationship between credit ratings and

common equity risk is not perfect, credit ratings and common equity risk are certainly related. Common equity costs are affected by debt leverage; likewise, credit ratings are affected by debt leverage. That is, as debt leverage rises the cost of common equity rises and credit ratings fall, and vice versa. Thus, there is an inverse relationship between credit ratings and common equity costs, which is precisely the relationship Mr. McNally modeled. While there is no way to directly measure that relationship, to ignore the risk differential between IAWC and the Proxy Group, as Ms. Bulkley espouses, would clearly be inappropriate. Staff asserts that the approach Mr. McNally adopted is consistent with the approach Staff has taken, and the Commission has accepted, under similar circumstances in previous proceedings. Staff Ex. 14.0 at 15-16.

Ms. Bulkley's final argument against Mr. McNally's 10 basis point downward ROE estimate is that, while the development of an ROE from a Proxy Group of risk-comparable companies is based on relative risk, a comparative analysis is not part of a credit rating analysis. IAWC Ex. 21.00 at 53. Staff argues that this is a straw man argument and mischaracterizes Mr. McNally's performed analysis. Mr. McNally did not use a comparison to the Proxy Group to estimate IAWC's implied credit rating; rather, he completed an absolute assessment of IAWC's financial ratios. Mr. McNally concluded that those ratios are consistent with a strong A2 rating in accordance with the Moody's rating methodology for regulated water utilities. Only after establishing IAWC's risk profile did he compare that risk profile to that of the proxy sample to determine the relative ROE based on those risk profiles. Staff Ex. 6.0 at 19-20. Thus, Staff asserts that Ms. Bulkley's argument should be rejected.

Ms. Bulkley claims that Mr. McNally provided no support for his 4 basis point ROE adjustment for the Company's proposed Rider BDE or his 5 basis point ROE adjustment for the Company's proposed Rider ESR. IAWC Ex. 21.00 at 55. Staff argues that is inaccurate. In addition to the quantitative analysis that Mr. McNally provided for deriving the specific adjustments he proposes, he also provided a qualitative analysis of the need for the adjustment: Rider BDE addresses fluctuations in bad debt while Rider ESR ensures the recovery of capital investments related to new environmental regulations, both of which would draw IAWC's pattern of cost recovery closer to its pattern of cost incurrence, and thus, lower its operating risk. Staff Ex. 6.0 at 21-24. Ms. Bulkley does not deny that those riders would reduce IAWC's risk and, unlike Mr. McNally, did not provide any qualitative counterargument, much less present any quantitative analysis to refute his conclusion. Thus, according to Staff, his argument regarding the need for such adjustments stands unrefuted. Given that fact, it would be improper to not make an adjustment. Since, Ms. Bulkley provides no alternative for consideration, it is Staff's position that the Commission must adopt Mr. McNally's adjustments if the Commission approves Rider BDE and/or Rider ESR.

c. AG's Position

The AG supports the ROE recommendations proposed by IIWC/FEA/CUB for the reasons set forth in the testimony of Mr. Walters. *See generally,* IIWC/CUB/FEA Ex. 1.0, 2.0.

d. IIWC/FEA/CUB's Position

IIWC/FEA/CUB take the position that the Act tasks the Commission with determining the market-required cost of equity for IAWC and authorizing an equivalent ROE for the Company. A utility's cost of common equity is the expected return that investors require on an investment in the utility. IIWC/CUB/FEA Ex. 1.0 at 24. Investors expect to earn their required return through dividends and stock price appreciation. *Id.* at 24. The return is to be commensurate with the return investors could earn by investing in other companies of comparable risk. *Bluefield*, 262 U.S. 679, 692-693; *Hope*, 320 U.S. 591, 603. Under these precedents, a utility is allowed to earn a return sufficient to maintain its financial integrity and to attract capital at reasonable terms.

The Act requires that the Commission set just and reasonable rates. 220 ILCS 5/9-201(c). The purpose of this statutory provision is to "prevent exorbitant rates and unjust discrimination and undue preferences in rates" and to enable consumers to protect themselves. *Springfield Gas & Electric Co. v. Springfield*, 292 Ill. 236, 247, 126 N.E. 739, 744 (1920). Thus, the Act calls on the Commission to ensure IAWC's ROE is no higher than necessary to satisfy *Hope* and *Bluefield.* As the *Hope* decision noted: "fixing just and reasonable rates involves a balancing of investor and consumer interests." *Hope*, 320 U.S. 591, 603. IIWC/FEA/CUB's recommended ROE meets that standard.

Furthermore, according to IIWC/FEA/CUB, other jurisdictions have observed that regulation is not intended to allow a utility a ROE that is higher than necessary to meet the standards set in *Hope* and *Bluefield*. Regulation is intended to protect consumers from exorbitant prices and unfair business practices, as the provisions of the statutes establishing the regulation of utilities show. *See Pub. Sys. v. FERC*, 606 F. 2d 973, 979 n.27 (1979). IAWC's requested 10.25% ROE is higher than necessary to meet the standards set forth in *Hope* and *Bluefield* and therefore should be rejected.

IIWC/FEA/CUB note that in light of the lack of peer water utilities, IIWC witness Walters used the same Proxy Group of investor-owned gas utilities as Company witness Bulkley, excluding South Jersey Company, which has been targeted for acquisition by JP Morgan. IIWC/CUB/FEA Ex. 1.0 at 30. Mr. Walters observed that authorized utility ROEs have declined over the last 10 years, with industry averages consistently below 10% since 2011 for gas utilities and 2013 for electric utilities. *Id.* at 6-7. Since 2016, the majority of authorized gas utility ROEs have been below 9.7%, often below 9.5%. *Id.* at 8. There are fewer examples of authorized water utility ROEs to draw upon, but Mr. Walters cited S&P Capital IQ's analysis showing a range of 9.0% to 9.8% over the 12 months ending April 30, 2022. *Id.* at 8-9. As discussed above, the utilities sector has enjoyed financial stability and growth throughout this time period. *Id.* at 11-23. These trends illustrate that a decade of declining authorized ROEs, including the recent norm of ROEs in the mid-to-low 9% range, have supported utilities' financial strength.

IIWC/FEA/CUB point out that Mr. Walters observed that while IAWC does not receive credit ratings of its own, its parent company, American Water, and its financing entity, AWCC, both have A ratings from S&P and Baa1 ratings from Moody's. *Id.* at 26-27. S&P gives American Water an "Excellent" business risk rating and a "Significant" financial risk. *Id.* at 27. S&P stated in its most recent report concerning IAWC's parent company that American Water "will reduce its business risk by selling its [Homeowners

Services Group] business," which S&P believes "will almost certainly close." *Id.* at 27. In light of the Homeowners Services Group business sale and other factors, the report concluded, "[g]iven the company's relative positioning within its business risk profile and financial risk profile categories, we apply a positive comparable ratings analysis modifier," meaning the company's financial standing is even stronger than current statistics indicate. *Id.* at 27.

IIWC/FEA/CUB state that to determine IAWC's cost of equity, Mr. Walters utilized five financial projection models: (1) a constant growth DCF model using a consensus of analysts' growth rate projections; (2) a constant growth DCF model using sustainable growth rate estimates; (3) a multi-stage growth DCF model; (4) a risk premium model; and (5) a CAPM. *Id.* at 26. Mr. Walters input Proxy Group data through these models to calculate a range of reasonable cost of equity estimates. *Id.* at 26.

i. Constant Growth DCF Model

It is the IIWC/FEA/CUB position that the DCF model infers that a stock price equals the sum of the present value of expected future cash flows discounted at the investor's required rate of return or cost of capital. *Id.* at 31. For the constant growth DCF model, Mr. Walters input the average of the weekly high and low stock prices of Proxy Group utilities over the thirteen-week period ending April 29, 2022 and the most recently paid quarterly dividends reported in *Value Line*. *Id.* at 32-33. Mr. Walters found that securities analysts' growth estimates have been shown to be more accurate than historical data in predicting future returns. *Id.* at 33. Accordingly, Mr. Walters used the mean of professional securities analysts' earnings growth estimates as a proxy for investors' dividend growth rate expectations. *Id.* at 34. The mean growth rate for the Proxy Group was 5.99%; the median, 6.10%. *Id.* at 34-35. Using these inputs, Mr. Walters' constant growth DCF model calculated a mean return of 8.69% and a median return of 9.00%. *Id.* at 34. However, Mr. Walters found that the three- to five-year growth rates this model assumes are nearly 40% higher than the projected long-term gross domestic product ("GDP") growth rate of 4.10% and are therefore unsustainable. *Id.* at 35-36. Mr. Walters based this 4.10% figure and his finding that a utility's earnings and dividends cannot sustain long-term growth exceeding that of the U.S. GDP on his review of historical data and academic literature on the subject. *Id.* at 39-43.

ii. Sustainable Growth DCF Model

IIWC/FEA/CUB observe that Mr. Walters then conducted a sustainable growth DCF model analysis. A sustainable growth rate is based on the percentage of the utility's earnings that is retained and reinvested in utility plant and equipment (*i.e.*, rate base). *Id.* at 36. The model calculates the sustainable, or "internal," growth rate by subtracting the dividend payout ratio from one, reflecting the inverse relationship between payout and retention of funds. *Id.* at 36. Mr. Walters calculated the Proxy Group's long-term sustainable growth rate as an average of 6.05% and median of 5.59%. *Id.* at 37. Plugging these sustainable growth rates into the DCF model produced average and median cost of equity estimates of 8.74% an 8.11%, respectively. *Id.*

iii. Multi-Stage Growth DCF Model

IIWC/FEA/CUB point out that growth rates are not necessarily constant over time. *Id.* at 37-38. Accordingly, IIWC/FEA/CUB witness Walters also conducted multi-stage DCF model analysis applying different growth rates to short-term (first five years), transition period (next five years), and long-term (beyond ten years) time periods. *Id.* at 39. Mr. Walters applied the consensus analysts' growth rate (8.74% and 8.11%) to the short-term, the maximum sustainable growth rate (4.10%) for the long-term, and a linear interpolation between those two points for the transition period. *Id.* at 39, 43. The resulting estimates from his multi-stage DCF model analysis was a mean cost of equity of 7.08% and a median of 7.19%. *Id.* at 43.

Based on these six (three medians, three means) DCF model estimates, Mr. Walters concluded that a reasonable ROE based on his DCF analyses was 8.9%. *Id.* at 44. This figure was higher than all but the highest one of the estimates, the 9.0% median constant growth DCF model output. *Id.* at 44, Tbl. CCW-9.

iv. Risk Premium Model

IIWC/FEA/CUB state the risk premium model is based on the principle that investors require a higher return to assume greater risk. Common equity investments carry greater risk than bonds because bonds have more security of payment in bankruptcy proceedings and the coupon payments on bonds represent actual contractual obligations. *Id.* at 44. The risk premium model uses two estimates of an equity risk premium: (1) the difference between regulatory commission-authorized ROEs and contemporary U.S. T-bond yields; and (2) the difference between regulatory commission-authorized ROEs and contemporary Moody's "A"-rated utility bond yields. *Id.* at 44-45. Mr. Walters chose the years 1986 through 2021 because public utility stocks consistently traded at a premium to book value in that time period. *Id.* at 45.

IIWC/FEA/CUB witness Walters' analysis indicated an average equity risk premium over T-bond yields of 5.70%. *Id.* To account for fluctuations over time, Mr. Walters calculated five-year rolling averages ranging from 4.17% to 7.23% and ten-year rolling averages from 4.30% to 6.93%. *Id.* at 45-46, 47. Using the same method, Mr. Walters calculated an average risk premium over contemporary Moody's "A"-rated utility bond yields of 4.30% and five-year and ten-year rolling averages ranging from 2.80% to 5.97% and from 3.11% to 5.75%, respectively. *Id.* at 46.

IIWC/FEA/CUB point out Mr. Walters also considered the average utility bond yield spreads over T-bonds for utility bonds rated "A" (1.48%) and "Baa" (1.91%) for the same time period. *Id.* at 47-48. These yield spreads indicate that utility bond securities have average to above average demand relative to Treasury securities over the last several years. *Id.* at 48. Mr. Walters' recommended ROE for IAWC based on his risk premium study was 9.80%. *Id.* at 48-49.

v. CAPM Model

IIWC/FEA/CUB argue that the CAPM posits that the market requires a rate of return for a security equal to the risk-free rate, plus a risk premium associated with the specific security. *Id.* at 50. This mathematical model utilizes a beta coefficient that represents the investment risk that cannot be diversified away in a portfolio ("non-

diversifiable" or "systemic" risk). *Id.* at 50-51. For the market risk-free rate, Mr. Walters used *Blue Chip's* projected thirty-year bond yield of 3.30%, which Mr. Walters notes is higher (and therefore a more generous assumption to the Company) than the current thirty-year T-bond yield of 2.51%. *Id.* at 51-52.

IIWC/FEA/CUB observe that in selecting a beta, Mr. Walters rejected the current Proxy Group average and median *Value Line* beta estimates because, in his experience, these estimates have been abnormally high and therefore unlikely to be sustained long-term. *Id.* at 53. Instead, Mr. Walters relies on Market Intelligence's beta Generator model, which derives 0.57 average and 0.59 median betas from S&P 500 market data. *Id.* at 53-54.

According to IIWC/FEA/CUB, Mr. Walters derived his market risk premium estimates via two methods: risk premium and DCF. *Id.* at 54. He also considered the normalized market risk premium of 5.50% with the normalized risk-free rate of 3.00% published by Kroll. *Id.* at 54. Mr. Walters derived his forward-looking risk premium-based estimate by estimating the expected return on the market (via the S&P 500) and subtracting the risk-free rate. *Id.* at 54. He calculated the expected return on the S&P 500 by adding an expected inflation rate to the long-term historical mean real return on the market (achieved return above inflation). *Id.* Kroll estimates the historical mean real market return from 1926 to 2021 to be 9.20%. *Id.* at 55. A current consensus for projected inflation using Consumer Price Index is 2.60%. Taken together, the expected market return is 12.04%, which after subtracting the 3.30% projected risk-free rate yields a 8.74% market risk premium. *Id*.

IIWC/FEA/CUB state Mr. Walter's first constant growth DCF model estimate, using the FERC's method using the dividend-paying companies of the S&P 500 index, to estimate expected market return, produced an expected market return of 13.51%. *Id.* at 55-56. Subtracting the 3.30% projected risk-free rate brings the risk market risk premium to 10.20%. *Id.* Mr. Walters' second DCF-based estimate used all companies in the S&P 500 index rather than just the dividend-paying companies. *Id.* at 56. This method produced a 13.61% expected market return and therefore a 10.30% market risk premium (13.61% - 3.3% risk free rate = 10.30%). *Id.* Collectively, the DCF-based method produced an average expected market return of 13.56% and an average market risk premium of 10.25%.

IIWC/FEA/CUB indicate the three methods used to estimate the expected market return (*i.e.* risk premium method – 12.04% DCF method – 13.56% and Kroll's normalized method – 8.50%) produce an average expected market return of 11.37%. Mr. Walters' 11.37% average estimated expected market return exceeded the long-term market expectations of several financial institutions, in all but one case by more than double. *Id.* This comparison illustrated that, if anything, Mr. Walters' estimated market risk premiums were toward the higher end. *Id.* at 57. This characterization is further bolstered by Kroll's analysis, which finds the same low-end estimate (5.50%) but a significantly lower high-end estimate (7.46% compared to 10.25%). *Id.* at 58.

IIWC/FEA/CUB report that based on the nine different versions of the CAPM Mr. Walters applied, Mr. Walters estimated an average ROE of 8.97% and a median of 9.18%. *Id.* at 59-60. Accordingly, he recommends a CAPM ROE estimate of 9.3%. *Id.* at 60.

vi. ROE Summary

Taken together, Mr. Walters calculated recommended ROEs of 8.9% (DCF), 9.8% (risk premium), and 9.3% (CAPM). *Id.* at 61. Mr. Walters recommends as an ROE for the Company the midpoint of this range, 9.35%. *Id.* However, Mr. Walters based his recommendation on the assumption that the Company's approved common equity ratio not exceed 50.0%. *Id.* IIWC/FEA/CUB state that if the Commission approves an equity ratio greater than 50.0%, an ROE in the lower half of Mr. Walters' range would be more appropriate. *Id*.

(a) Response to IAWC

Mr. Walters testified that Ms. Bulkley's constant growth rate DCF results are based on unsustainably high growth rates, she relies on her "Mean High" DCF results produced using only proxy companies' highest growth rates, her CAPM uses inflated market risk premiums, and her ECAPM inappropriately relies on adjusted betas. *Id.* at 62. A conspicuous pattern one cannot help but notice in Ms. Bulkley's analysis is that every one of these suspect methodological choices points in the same direction of increasing the estimated cost of equity. Ms. Bulkley's analysis supports the reasonableness of Mr. Walters' recommendations once these inflationary flaws are corrected. *Id.* at 63. The corrected average ranges are 8.75% to 8.96% for DCF and an average of 9.55% for CAPM. *Id.* at 64. Mr. Walters' recommended 9.35% ROE falls squarely in the middle of this range. *Id.*

IIWC/FEA/CUB observe that for her constant growth DCF analysis, Ms. Bulkley assumes a 6.71% growth rate, which is dramatically higher than the 4.10% maximum long-term sustainable growth rate described above. *Id.* at 65-66. Ms. Bulkley could have corrected this unreasonable assumption by adopting a multi-stage DCF with an empirically-supported long-term growth figure, such as the long-term GDP growth rate Mr. Walters used. *Id*. Rather than correct for the inflationary impact of unreasonably high long-term growth rate estimates, Ms. Bulkley doubled down by affording particular weight to her Proxy Group's average high growth rate of 8.44%, which is more than double expected GDP growth. *Id.* at 66-67. Even her Proxy Group's average low growth rate of 5.09% exceeded the 4.10% estimated long-term growth rate of the U.S. economy; 8.44% is entirely implausible. *Id.* IIWC/FEA/CUB state that a more reasonable DCF estimate would fall between the average of Ms. Bulkley's mean and mean-low DCF results (8.75%) and the average of her median and median-low CDF results (8.96%). *Id.* at 67. Mr. Walters' constant growth DCF results of 8.69% (average) and 9.00% (median) provide an almost identical range. *Id.* at 67.

According to IIWC/FEA/CUB, Ms. Bulkley's CAPM analysis errs by relying entirely on a single DCF-derived expected market return, which overestimates the cost of equity. *Id.* at 68, 69. Mr. Bulkley's own testimony elsewhere recognizes the need to consider multiple analytical methods. *Id.* at 69 *quoting* IAWC Ex. 11.00 at 34. Academic literature on the subject stresses the importance of considering the results of multiple methods as well. *Id.* at 69-70. However, IIWC/FEA/CUB note that Ms. Bulkley fails to heed her own sound advice, conducting only one CAPM analysis, using only inputs that result in an unusually favorable number for her client. Mr. Walters recommends a simple fix. He takes no issue with Ms. Bulkley's risk-free rate estimates or her historical beta estimates.

Specifically, Mr. Walters recommends replacing Ms. Bulkley's inflated average return on the market with his estimate of 11.37%. *Id.* at 70. This results in a reasonable CAPM range of 8.95% to 10.09%, with an average of 9.55%. *Id.*

Mr. Walters takes issue with Ms. Bulkley's reliance on an ECAPM analysis with an adjusted beta coefficient. *Id.* at 71. Mr. Walters explains that the ECAPM method itself already applies weighting adjustments that are the mathematical equivalent of using the adjusted beta. *Id.* Performing both of these redundant adjustments inflates the estimated cost of equity by flattening the expected security market return line twice. *Id.* at 72-74. Academic research supporting the development of the ECAPM does not support using the method in this way. *Id.* at 73 (citing several published studies). Further, IIWC/FEA/CUB state that regulatory commissions have widely rejected the use of the ECAPM, particularly when it incorporates an adjusted beta. *Id.* at 74. Accordingly, Mr. Walters recommends the Commission reject Ms. Bulkley's ECAPM altogether. IIWC/CUB/FEA Ex. 1.0 at 74.

For the reasons stated above, IIWC/FEA/CUB urge the Commission to adopt Mr. Walters' recommended ROE of 9.35% and reject Company witness Bulkley's excessive request of 10.25%. IIWC/FEA/CUB note this recommendation is contingent on the adoption of an equity ratio equal to or less than 50.0%. If the Commission adopts a capital structure with more than 50.0% equity, IIWC/FEA/CUB request that the Commission approve an ROE lower than 9.35%.

e. Commission Analysis and Conclusion

Return on equity is the return that the Commission authorizes a public utility to earn on the equity invested in its property used in its provision of utility service. As has become typical, the three parties in this docket who addressed the cost of common equity have presented the Commission with three proposals, with three significantly different results. The Company proposes 10.25%; Staff proposes 9.78%; and IIWC/FEA/CUB propose 9.35%. The AG supports IIWC/FEA/CUB's analysis and proposed ROE.

As all parties repeatedly mention, the *Hope*/*Bluefield* body of caselaw dictates the goals of determining a reasonable rate of return. "An authorized ROE that is too low restricts the utility's access to capital at a reasonable cost. Conversely, an ROE that is too high will result in rates that are neither just nor reasonable." *N. Shore Gas Co.*, Docket No. 20-0810, Order at 85 (Sept. 8, 2021), *citing Bluefield*, 262 U.S. at 692; *Hope*, 320 U.S. at 603.

The crux of the Company's argument for an ROE that is higher than Staff/Intervenors is that the models are affected by the data at the time of the analysis, and there has been such a large market shift since 2020 as well as Federal tax reform that results in understated cost of common equity. For this reason, IAWC claims that using the DCF model understates ROE and must be balanced by the higher results from the CAPM and the ECAPM models. The Commission agrees with Staff that using its DCF model and the use of current yields on T-bonds in the CAPM is reasonable and more reliable than the Company's models. The Commission has always demonstrated a preference for current, accurate data in modeling for just that reason – it is current and accurate. The Company repeatedly complains that Staff uses data at the time it filed its testimony, versus repeatedly updating it, and the Company appears to pick and choose

what components of its analysis will consist of current data, past data, or forecasted data. The Commission agrees that not only is such a method not analytically sound, it appears only to produce the highest possible number. Moreover, the Company has total discretion as to when it decides to file a rate case and could choose to file a rate case when the financial data is not volatile.

Staff applied a quarterly DCF model that reflects the expectations of investors. Mr. McNally used a constant growth DCF model in which he measured the market-consensus expected growth rates with three- to five-year growth rate forecasts published by Zacks, S&P's Market Intelligence, and Value Line. The Commission finds this reasonable and consistent with a reasoned ROE analysis.

IIWC/FEA/CUB modeled three types of DCF analyses - Constant Growth, Sustainable Growth, and Multi-Stage Growth. IAWC critiques IIWC/FEA/CUB for their use of three different DCF models and claims that only the Constant Growth method produces an estimate close to their bottom range of ROE. IIWC/FEA/CUB counter that independent academic research on the subject has concluded that growth beyond the growth rate of the economy in which the Company operates cannot be sustained indefinitely and that this approach would assume annual growth rates 40% higher than the projected long-term gross domestic product growth rate. However, IIWC/FEA/CUB include an outlier utility with an ROE below 5%, which is atypical and should be removed. The Commission agrees with Staff and the Company that the Constant Growth method is the most accurate in this circumstance.

IAWC also criticizes Mr. Walters' use of old data for the Risk Premium model. IAWC claims Mr. Walters should have used a recent *Blue Chip* report and projected utility bond yields to be consistent with his use of projected T-bond yields. The Commission agrees that Mr. Walters' use of historical data (from 1986-2021) is flawed, although it disagrees with the Company's alternative proposal to rely on forecasted interest rates, as discussed below.

Staff notes that the primary differences between Staff's and the Company's CAPM analyses are the use of a spot or forecasted interest rate to estimate the risk-free rate and the use of beta estimates derived only from weekly observations or from both weekly and monthly observations. With respect to interest rate forecasts, Mr. McNally explained that it is preferable to rely on the recent spot rate, as the Commission has repeatedly done in prior rate proceedings. The Commission has also expressed its preference for using a combination of weekly and monthly beta estimates. Therefore, consistent with prior rate case proceedings, the Commission once again rejects the use of forecasted interest rates in favor of the recent spot rate and adopts Staff's use of a combination of weekly and monthly beta estimates.

To supplement its ROE proposal, IAWC uses the ECAPM, which produces an ROE that is consistently higher than the other proven methods. Specifically, IAWC's ECAPM analysis results range from 10.77% to 11.74%, which the Commission notes is not reasonably comparable to authorized ROEs for any Illinois water utilities in the last several years. The Commission agrees with Staff that the use of the ECAPM model as a component of ROE analysis has been continually proposed by utilities and rejected by the Commission. *See* Docket No. 11-0767, Order at 109. Staff, however, critiques other

specific aspects of IAWC's ECAPM method, such as Ms. Bulkley's use of weekly data in its beta adjustments. For these reasons, the Commission again foregoes the use of ECAPM.

The Commission has consistently approved the use of DCF and CAPM in modeling the cost of common equity. "Historically, the Commission has given substantial weight to the results of the DCF and CAPM analyses' of the parties' expert witnesses." *N. Shore Gas Co.,* Docket No. 20-0810, Order at 47-48 (Sept. 8, 2021). The Commission will again approve that modeling in this docket. The Commission finds that the DCF and CAPM models meet the goals of *Hope* and *Bluefield* in allowing the Company to attract capital yet charge reasonable rates. Therefore, the Commission adopts Staff's proposed ROE.

With the exception of South Jersey Industries, which Mr. Walters excluded from his analysis, the parties all use the same Proxy Group, a sample of fourteen water utility and public utility companies. The Commission agrees the Proxy Group is a reasonable sample upon which to apply the various models, since IAWC is wholly-owned by a parent and does not have its own market traded common stock.

The Company argues that its substantial capital expenditure program as well as its investment in acquired water systems to ensure those systems comply with state and federal water standards renders IAWC riskier than its cohorts in the Proxy Group such that no downward ROE adjustment should be made. However, Staff points out that based on credit ratings, IAWC is far less risky than its cohorts in the Proxy Group. As Mr. McNally explained, his analysis is based on the reasonable assumption that the regulatory and business risks of the sample companies, which are all regulated water and utility companies, are reasonably similar to those of IAWC. Since the Commission agrees with Staff's proposed capital structure, Staff's proposed 10 basis point reduction is not adopted.

The Commission declines to adopt Rider ESR or make Rider BDE permanent. *See* Section VI., below. Therefore, Staff's additional proposed downward adjustments for ROE need not be considered.

In its BOE, IIWC/FEA/CUB argue that if the Commission does not adopt its recommended ROE of 9.35%, the Commission should use an averaging approach. IIWC/FEA/CUB recommend the Commission instead average the DCF and CAPM results of Staff (9.79%) and IIWC/FEA/CUB (9.1%). This results in an ROE of 9.44%. IIWC/FEA/CUB BOE at 12.

IAWC asks the Commission to adopt a higher ROE than the 9.78% adopted in the Proposed Order, arguing that the Commission is not bound by Staff's decision to weight its DCF and CAPM results equally. Instead, in light of the record evidence regarding the substantial turbulence in the capital markets and current inflationary conditions, and their effects on the cost of capital, the Commission should employ its technical expertise and exercise its substantial discretion to weight Staff's DCF and CAPM results in a manner the Commission believes will produce a fair and reasonable ROE. IAWC suggests that the Commission use a weighted average, weighing the DCF 33% and the CAPM 67% in the average. The resulting ROE is 9.98%. IAWC BOE at 34-35.

The Commission declines to consider an averaging approach. Both IIWC/FEA/CUB's and IAWC's suggested alternatives seem to be means to an end result, rather than a reasoned basis for calculating ROE. The Commission has recently expressed that the averaging method is not precedent and on the two occasions where it used averaging, the Commission did not approve any of the underlying components of each party's method. Docket. No. 21-0198, Order at 83.

4. Recommended Cost of Capital

Having considered the conclusions above concerning the Company's capital structure and costs of debt and equity, the Commission finds that the Company should be authorized to earn a rate of return of 7.01%. The rate of return incorporates an ROE of 9.78%. The Company's rate of return was derived as follows:

Capital Component	Percent of Total Capital	Cost	Weighted Cost
Short-term Debt	1.81%	2.07%	0.04%
Long-term Debt	49.19%	4.43%	2.18%
Common Equity	49.00%	9.78%	4.79%
Total	100.00%		7.01%

V. RATE DESIGN

A. Uncontested Issues

IAWC states that it accepts Staff's recommendations regarding wastewater rate design for Jerseyville and Mount Pulaski pricing zones, where rates are dictated by the respective Asset Purchase Agreements.

1. Central Zone Collection-Only Rate

IAWC states that Staff recommended that the Commission approve the Company's proposal to place all current acquisitions that take service under individual tariffs on Central Zone wastewater rates, approve the Company's proposal to create a Collection Only rate option for the Central Zone wastewater tariff, and approve the Company's proposal to move Piasa wastewater service territory from its Chicago Metro rates tariff to the proposed Central Zone Collection Only tariff. The Company agrees with these recommendations. The Commission finds these recommendations are reasonable and they are approved.

2. Chicago Metro Rate Increase

IAWC notes that Staff recommended that the Commission approve the Company's proposal to increase rates in the Chicago Metro service territory sufficient to recover the full cost to serve the Chicago Metro customers (Recommendation #13). The Company agrees. The Commission finds this recommendation is reasonable, and it is approved.

3. Increase to Competitive Service Customers

IIWC/FEA recommend a minimum increase of 10% for Competitive Service customers. IAWC states that in the interest of narrowing the issues in this proceeding, the Company agrees to a 10% increase for Competitive Service customers. The Commission finds this recommendation is reasonable, and it is approved.

B. Contested Issues

1. Wastewater Revenue Requirement Reallocation

a. IAWC's Position

IAWC explains that treating wastewater to meet ever more stringent Illinois public health and environmental requirements requires significant investment and operational expertise. IAWC notes that this is particularly true for smaller or municipal systems that have experienced underinvestment over many years. IAWC states that many municipal and private water and wastewater systems, particularly in economically challenged regions of Illinois, are unable to afford adequate levels of investment, ongoing maintenance, and retention of operational expertise to ensure safe and clean drinking water and wastewater systems that protect the health and safety of the local communities, rivers, streams, and groundwater. The Company notes that investor-owned utilities such as IAWC, however, are well positioned to make significant ongoing investments in water and wastewater systems, and they have the required expertise to support investments.

IAWC notes that since the Company's last rate case, the Commission has approved the Company's assumption of responsibility for numerous such wastewater systems that require substantial investment. Certain of these systems have been included in IAWC's Central Wastewater tariff district. IAWC explains that if the revenue requirement for the Central Wastewater district – which includes investment that no party has contested – were recovered only from Central Wastewater customers, those customers would experience a rate increase of approximately 100%, or an increase of $31 over current bills, which would result in a monthly charge of approximately $61. IAWC asserts that to mitigate this rate increase, while continuing to advance Illinois clean water and environmental policy, IAWC is proposing to recover approximately $11.8 million of Central Wastewater revenue requirement from IAWC's water customers. IAWC explains that the result of this partial reallocation is that Central Wastewater customer rates would increase by $9.79 for the average wastewater customer, while IAWC water customers would pay on average only an additional $2.72 per month. IAWC explains that this reallocation ensures that rates remain affordable for all customers while avoiding rate shock for Central Wastewater customers and advances the critical policy goal of providing much needed investment and expertise to Illinois wastewater systems.

IAWC states that the Commission is not prohibited from making an allocation of wastewater revenue requirements to water customers when designing rates. IAWC asserts that there is clear and long-standing caselaw confirming the role of the Commission in ratemaking decisions. In fact, IAWC maintains, rate design is uniquely a matter for the Commission's discretion. The courts defer to the Commission's ratemaking authority, which is guided by discretion and sound judgment rather than strict formulaic analyses and does not require enabling legislation to guide its decisions.

IAWC asserts that the Staff and Intervenor claims that the Company's wastewater reallocation proposal is somehow unlawful or in violation of the Act are wrong. Both Staff and the Company agree that the Act contemplates the consideration of factors other than cost of service in regulatory decisions, and IAWC asserts that no party points to statutory language that states otherwise. Further, IAWC argues, regardless of how many bills have been introduced in the General Assembly regarding this ratemaking approach, the fact that those bills never made it through the legislative process does not mean that the approach is somehow now prohibited. No law prohibiting the Company's proposed reallocation exists. IAWC also states that despite the AG's mischaracterization of the legislative process, the Company's proposed reallocation is not proscribed by any legal authority, and the Commission does not require any enabling legislation to authorize its consideration of the Company's ratemaking proposal – it has the authority to exercise ratemaking discretion and adopt the Company's proposal.

IAWC explains that the U.S. Supreme Court case cited by the AG in support of its claim that the Commission's authority is restricted is irrelevant and easily distinguishable. In that case, the U.S. Supreme Court considered whether Congress had granted the U.S. EPA the authority to devise emissions caps based on a generation shifting approach that "restructur[es] the Nation's overall mix of electricity generation." *West Virginia v. EPA*, 142 S. Ct. 2587, 2595 (2022). The Court decided that issue under the major questions doctrine, which evaluates whether there is "clear congressional authorization" for the authority the agency claims. *Id*. That clear authorization is required because, as the Court explains, there are "'extraordinary cases' in which the 'history and the breadth of the authority that [the agency] has asserted,' and the 'economic and political significance' of that assertion, provide a 'reason to hesitate before concluding that Congress' meant to confer such authority." *Id*. (*citing FDA v. Brown & Williamson Tobacco Corp*., 529 US 120, 159-160, 120 S. Ct. 1291 (2000)). IAWC avers that such extraordinary circumstances are not present in this proceeding, where the Commission's authority to exercise ratemaking discretion is clear and long-standing and unequivocally authorized by the Act. And, while the EPA "admitted that issues of electricity transmission, distribution, and storage are not within its traditional expertise," *see West Virginia*, 142 S. Ct. at 2596, IAWC argues that the AG cannot reasonably claim that the Commission's authority is similarly limited here.

IAWC's proposed partial reallocation of wastewater revenue requirements to water customers asks the Commission to exercise its rate design discretion to further important policy goals for the water and wastewater industry, including the need to address water sector fragmentation, distressed and deteriorating systems, bill affordability, and water equity. This is consistent with the intent of the Act: "that the health, welfare and prosperity of all Illinois citizens require the provision of adequate, efficient, reliable, environmentally safe and least-cost public utility services at prices which accurately reflect the long-term cost of such services and which are equitable to all citizens." 220 ILCS 5/1-102. IAWC states that key goals and objectives include equity, affordability, and the fair treatment of customers and investors. 220 ILCS 5/1-102(d); *Util. Servs. of Ill., Inc*., Docket No. 14-0741, Order at 29 (Sept. 22, 2015), aff'd at *Lake Holiday Prop. Owners Assoc., Inc., v. Ill. Commerce Comm'n*, Case No. 3-15-0816 (3d. Dist. 2015) ("*USI 2014 Rate Order*").

IAWC asserts that these goals cannot be achieved through a strict reliance on cost causation principles alone – as the National Association of Regulatory Utility Commissioners ("NARUC") acknowledged in its 2022 Winter Policy Summit, "helping struggling customers pay their water and wastewater bills takes the combined efforts of utilities, regulators, policy leaders, and communities." IAWC Ex. 12.02 at 2. In fact, IAWC states, NARUC advocates "exploring whether consolidated pricing and/or consolidated water and wastewater revenue requirements assist utilities in leveraging economies of scale to achieve price stability by spreading costs across a broader customer base." *Id*. Thus, to "successfully balance safety, reliability, and affordability", utilities and regulators must critically consider regulatory mechanisms and competing principles of rate design to evolve modern ratemaking and address the real and significant concerns facing the industry today. *Id*.

IAWC explains that its proposed wastewater service rate design does just that. It calculates rates based on reasonable and well-supported cost of service studies that incorporate cost causation principles and relies on other principles of rate design – including but not limited to gradualism and affordability – to re-allocate a portion of the Central Zone wastewater revenue requirement to the Company's water customers. IAWC maintains that this proposal enables the Company to make continued and prudent investment in deteriorating systems while also ensuring that rates remain affordable for all of the Company's customers.

IAWC states that as explained in the 2022 Report Card for Illinois Infrastructure issued by the Illinois Section of the Society of Civil Engineers ("2022 Report Card"), "approximately 85% of Illinois' residents [10.9 million people] are served by more than 800 wastewater treatment facilities and 690 wastewater collection systems; the remaining [2 million] residents rely on septic systems." IAWC Ex. 22.01 at 20. The report finds:

> Far too often, the approach toward public infrastructure is to build and operate systems with minimal maintenance until the infrastructure wears out. Water systems need to fully account for the costs to manage their assets accounting for the life cycle of the system … agencies should be able to put together a maintenance and replacement plan for their water systems, similar to the way transportation agencies rate and schedule roadways for improvements. Thus, by appropriately managing all assets, a system's overall investment needs and operating costs can be reduced.
>
> Aging infrastructure and new wastewater discharge limits [also pose] challenges to Illinois' municipal wastewater utilities.
>
> Adequate prioritization of Illinois' water infrastructure is vital to protecting our abundant water resources and providing a safe and clean resource for all users. Unfortunately, deficiencies in Illinois' wastewater infrastructure poses a threat to our water resources.

Id. IAWC explains that the 2022 Report Card noted that Illinois needs $6.5 billion to meet the water quality and water-related public health goals of the Clean Water Act, according to survey results published in 2012. *Id*. at 22. IAWC notes that state and federal programs to help municipalities upgrade their aging water and wastewater systems, however, are inadequate to meet this significant need. The 2022 Report Card provides an example:

> The state of Illinois operates a Water Pollution Control Loan Program. Under this program, Illinois aids in construction and improvement of wastewater treatment facilities. Since 2018, Illinois has maintained a priority project list (PPL) with needed assistance that exceeds available funds. As such, Illinois continues to help as many applicants as possible with the existing resources. *For the Fiscal Year 2022, Illinois EPA has identified $1.7 billion in projects, of which only $350 million can be funded with available resources*. An examination of the PPL reveals many projects are for facility upgrades, including phosphorus removal to meet new permit limits, disinfection, and collection system repair.

Id. at 20-21 (emphasis added).

IAWC contends that as a result and because "federal funding cannot be used to pay for operations and maintenance… the burden falls on the rate payers." *Id*. at 21. These increased rates are "often insufficient to address the needs of an aging wastewater system" (*id*.) and the increased costs and decreased water quality often "perpetuat[es] environmental problems and caus[es] disproportionate harm to low-income communities." IAWC Ex. 12.01 at 2. IAWC notes that no witness in this proceeding challenges the underlying need for significant investments in water or wastewater infrastructure or disputes the level of investment required.

IAWC explains that municipal water and wastewater infrastructure in Illinois is specifically in distress, with potential adverse consequences for the health and safety of Illinois residents. As the 2022 Report Card explains, aging infrastructure and new wastewater discharge limits pose challenges to Illinois' municipal wastewater utilities, and many municipal systems face sewer overflow events that affect local waterways and pose risks to public safety, new groundwater quality standards regulating per- and polyfluoroalkyl substances ("PFAS"), and major operations and maintenance expense to improve deteriorating infrastructure. IAWC notes that systems are experiencing historic flooding in the midst of deteriorating infrastructure. Illinois citizens are faced with drinking water that fails EPA safety standards. Deteriorating wastewater infrastructure adversely impacts, and in fact endangers, drinking water quality as well. State and national policy, analyses, engineering reports, and legislation all come to the same conclusion – the water and wastewater industry is troubled and requires investment by large utilities with expertise and financial ability.

IAWC states that ESL illustrates this need for investment at the specific, municipal level. IAWC explains that the ESL sewer system has about 6,600 customer connections, serving the City's population of 25,000. ESL Ex. 1.0 at 2. ESL residents face numerous

economic challenges, with a poverty level of about 30%. *Id*. at 2-3. About two-thirds of the ESL system is a combined sanitary/stormwater system, with significant inflow and infiltration into the system, which results in regular combined sewer overflows and basement backups. *Id*. at 2. But with an uncollectible rate of about 30%, ESL lacks the funds to properly operate and maintain the system or make necessary investments. *Id*. IAWC contends that, as discussed below, it would be in a position to address these problems if it could purchase the system. But, IAWC maintains, approval of its wastewater revenue requirement reallocation proposal is needed to make that happen.

IAWC states that in February 2022, the NARUC Board of Directors published Resolutions on Water Equity that were passed by the Committee on Water. IAWC states that these Resolutions identified many of the pervasive concerns facing the water industry today, and concluded:

> Resolved that the Board of Directors of the National Association of Regulatory Utility Commissioners, convened at its 2022 Winter Policy Summit in Washington, DC, supports and encourages regulators, utilities, and policymakers to consider the paths to water equity identified herein; and be it further
>
> *Resolved*, that NARUC recommends that economic regulators consider and adopt as many as appropriate of the regulatory mechanisms identified herein as a means to achieving water equity; *and be it further*
>
> *Resolved*, that the Committee on Water stands ready to assist economic regulators with implementation of any of the paths to water equity set forth within this resolution.

See IAWC Ex. 12.01 at 2-3; https://www.naruc.org/resolutions-index/2022-winter-policy-summit-resolutions/.

IAWC states that the NARUC Resolutions are unequivocal. IAWC notes that they urge regulators and utilities to "advance water equity to ensure customers of all income levels have access to high-quality water," to "encourage and incentivize prudent, incremental, and consistent investment in water and wastewater infrastructure," and to ensure that "customers are able to pay for these essential services." *Id*. As part of this effort, the Resolutions ask utilities, regulators, policy leaders, and communities to consider alternative ratemaking mechanisms, including "exploring whether consolidated pricing and/or consolidated water and wastewater revenue requirements assist utilities in leveraging economies of scale to achieve price stability by spreading costs across a broader customer base." *Id*. at 2. IAWC points out that this approach is not novel – in July 2013, NARUC advised regulators to consider certain practices that were identified as "means to improve sustainable and continued investment in small water system infrastructure at cost-effective rates." One of the best practices identified was:

> …combining water and wastewater revenue requirements for purposes of rate cases, as appropriate, if the water and wastewater utilities are under the same ownership, which will

> reduce rate case expense and offer rate increase mitigation options driven by economies of scale that would be unavailable otherwise.

https://pubs.naruc.org/pub.cfm?id=53A0D971-2354-D714-51EB-8A01C0909879.

IAWC contends that this shows that its rate design proposal has, for many years, been considered to be fair, just, and a best practice to ensure water safety, reliability, and affordability for all customers – not just those who can afford to pay for consistent investment in their systems.

IAWC notes that Illinois already recognizes the need to assist small, struggling utilities that are unable to invest in and maintain infrastructure, with the passage of the Systems Viability Act ("SVA") in 2013 and its renewal in 2018. 220 ILCS 5/9-210.5. The SVA recognizes the value of giving municipalities and other water and wastewater systems the option to apply the financial and managerial resources of regulated public utilities to meet the challenge of providing safe water and sanitary services for their residents. The SVA provided a streamlined mechanism through which utilities with the financial, technical, and managerial expertise can acquire smaller systems and invest in their water and wastewater infrastructure, enhancing the adequacy, reliability, efficiency, and safety of service that is provided to water and wastewater customers in Illinois. IAWC explains that pursuant to this law, systems acquired pursuant to the SVA are subject to review in a docketed proceeding before the Commission. This review includes an analysis of rate base, current rates, future rates, and investment needs. The Company notes that, consistent with the policy intent of the SVA, IAWC has acquired and invested in smaller systems throughout Illinois; as discussed above, this has already improved water safety, reliability, and affordability throughout the state.

IAWC points out that no party disputes that IAWC has demonstrated the financial capability to make significant ongoing investments in water and wastewater systems, and has the managerial expertise needed to improve water and wastewater operations in the communities it serves. IAWC states that when permitted to do so, the Company can take advantage of significant economies of scale and spread a portion of needed investments over its broad customer base – approximately 375,000 customers, or a population of 1.3 million – at a time of historically high inflation when affordability concerns are paramount, to mitigate rate increases for the communities it serves.

IAWC contends that the benefits of these economies of scale are evident in the compliance costs of water quality mandates, as recognized by the EPA. For example, the cost of complying with the Safe Drinking Water Act was estimated by the Congressional Budget Office to be $4 per customer with systems servicing more than 500,000 people, but $300 per person in systems only serving up to 100 people. IAWC explains that it serves a population of approximately 1.3 million. The cost of complying with the Arsenic Rule provides a similar example. IAWC notes that cost of compliance depends on system size and ranges from $38 to $327 per household annually for small systems (less than 10,000) to $0.86 to $32 per household for larger systems. According to the EPA the disparity is "due to economies of scale" – larger systems are able to spread the costs of compliance over a larger customer base.

IAWC states that, as indicated, many water and wastewater systems in Illinois have neither the economies of scale nor the technical expertise needed to affordably meet increasingly stringent water and wastewater quality standards, from both capital investment and operational perspectives. As a result, investments and maintenance are deferred and the quality of water and wastewater service suffers. Acquisitions by a large water and wastewater utility such as IAWC, however, can facilitate the necessary investment and achieve these economies of scale. As discussed, the SVA is intended to support such acquisitions. But the SVA mechanism is not enough, by itself. IAWC maintains that the consolidation of water and wastewater systems, called for by NARUC and enabled by the SVA, is needed to fully allow infrastructure investments and operating costs to be spread over a larger customer base, thus dampening the effects of rate increases associated with these costs and investments on any single cluster of customers and providing long-term rate stability for all customers.

IAWC explains that its proposed revenue requirement reflects the acquisition of 14 wastewater systems since its last case - of these 14 systems, six were incorporated into the Central Wastewater tariff district. IAWC argues that these systems need substantial investment to address legacy infrastructure needs, in order to improve resiliency and protect the health and safety of customers. IAWC explains that this investment is underway: IAWC is working to improve the systems' ability to handle heavy rainfall, to protect against uncontrolled overflows of partially treated or untreated wastewater entering local water bodies and backing up within residential areas. IAWC asserts that examples of major investments include required improvements in the Village of Godfrey ("Godfrey") to address discharge permit requirements, administrative orders of consent, or Long-Term Control Plans to reduce Combined Sewer Overflows and Sanitary Sewer Overflows that could impact the health and safety of the communities and environment during large rain events.

IAWC notes that its investments have already provided specific and tangible benefits to those systems and to the State, as a whole. For example, prior to IAWC's acquisition of Godfrey's sewer system (approximately 6,200 connections) in November 2019, Godfrey had over 5.4 million gallons of sanitary sewer overflows during rain events between 1.5 to 5 inches during a 24-hour period. IAWC states that these events significantly and adversely affected residents and the environment of the community. In fact, the EPA, Region 5, had started an enforcement action against the Village to eliminate sanitary sewer overflows in four areas that had experienced systemic overflows. IAWC explains that upon acquiring the system, the Company became party to the enforcement action and entered into an Administrative Order on Consent to eliminate the sanitary sewer overflows in the four areas between 2022 and 2023. IAWC notes that the Godfrey community has already seen the benefit of the Company's investment work – during the recent rain event on Tuesday, July 26, 2022, where nearly four inches of rain fell over a seven-hour period, there were no sanitary sewer overflows within the community.

IAWC also notes that more work is and will be needed. As a result of IAWC's acquisitions of wastewater systems, the proportion of IAWC's investment in its wastewater facilities has increased from 10% in 2017 to 21% in 2023 ($55 million of the overall investment of $258 million planned investment). IAWC states that it anticipates $139 million in investment will be required in the wastewater systems during the period

2018 through 2023. As discussed, these investments will provide (and have already provided) tangible benefits for the communities these wastewater systems serve. And by extension, IAWC explains, these investments benefit Illinois as a whole, both environmentally, in improved water quality, and economically, through jobs created by the construction activities. To secure these benefits over the long term, IAWC contends, rate design policies such as IAWC's proposed partial wastewater revenue reallocation are needed to support the recovery of these substantial investments consistent with the goals of gradualism and affordability.

IAWC explains that the Company currently provides wastewater service under the Chicago Metro tariff, the Central Zone tariff, and several individual tariffs for recently acquired systems. IAWC's Chicago Metro wastewater tariff serves customers in the Company's Chicago area service territory and in the acquired service territory of Piasa. In this proceeding, IAWC proposes to increase rates for Chicago Metro wastewater customers by the total amount of the Chicago Metro revenue requirement increase over present rate revenues, resulting in an average increase to bills of approximately $7.12 per month. IAWC notes that, as discussed further below, no party contests this proposed rate increase.

IAWC explains that the Company's Central Zone wastewater tariff serves customers in selected service territories that were not included in rates in Docket No. 16-0093. IAWC notes that in this proceeding, it proposes to increase Central Zone rates by approximately $5.8 million – this increase will bring the Central Zone closer to Chicago Metro rates and continue the Company's transition towards single tariff pricing and a single consolidated wastewater tariff. Because many of the existing and future Central Zone customers come from systems that IAWC has acquired since its last rate case and which require significant investment in order to improve water quality and safety, this proposed rate increase does not, however, recover the entirety of the Central Zone revenue requirement increase.

Instead, the Company proposes to reallocate $11.8 million (or 20% of the Central Zone wastewater revenue requirement) to IAWC's existing water customers. IAWC argues that the impact of this reallocation is significant and undeniable. As explained above, if the Company sought to increase rates for Central Zone customers based on the total amount of the Central Zone revenue requirement increase, those customers would experience significant rate shock, doubling their bills with an average increase of approximately $31.35 per month. Under the Company's proposed reallocation, however, that rate shock would be alleviated, and Central Zone wastewater customers would experience an average bill increase of approximately $9.79 per month. In contrast, IAWC notes that the corresponding impact on the Company's water customers, who would absorb that revenue requirement reallocation, would be an average increase of only approximately $2.72 per month. As IAWC's affordability analysis shows, rates remain well within affordability benchmarks for both Central Zone wastewater, and importantly, water customers, under IAWC's proposal.

IAWC states that although multiple parties object to the Company's reallocation proposal, no party disputes the affordability analyses that underlie IAWC's proposal. IAWC points out that no party disputes that water industry fragmentation is a serious concern that has led national and state leaders to encourage acquisitions of small,

troubled systems and investment in deteriorating infrastructure that independently owned systems cannot provide.

IAWC states that the Company's proposal to reallocate a portion of wastewater revenue requirements to water customers allows the Company to manage needed investment in newly acquired systems in a way that maximizes the affordability of its service for all its customers, both newly acquired and existing. IAWC notes that it is true that the Company's proposal slightly increases costs for a large group of customers, by approximately four percent, but it does so to significantly improve affordability for smaller, more vulnerable, groups of customers. IAWC explains that this reallocation will benefit all communities by creating economies of scale and spreading the cost of system improvements across a bigger base.

And crucially, IAWC states, approval of its proposal would align the Commission's regulatory policy to be constructive and consistent with the intent of state law and policy—namely in recognizing that water and wastewater consolidation is in the public interest and provides communities that otherwise are unable to invest in and manage critical infrastructure a mechanism to ensure that their residents have access to clean water.

IAWC explains that approval of its proposal would promote Illinois environmental policy goals. As discussed above, IAWC states that the SVA supports the acquisition of and investment in smaller systems throughout Illinois, thereby improving water safety, reliability, and affordability throughout the state. IAWC's proposed wastewater revenue reallocation furthers the policy objectives of the SVA, in the ratemaking context. It represents a rate design that, at its core, establishes a regulatory path towards water equity, safety, and reliability through critical investments in vulnerable water and wastewater systems across the state while providing for affordability of service for all IAWC customers.

IAWC states that the Company already considers the potential rate impact of future investments on the acquired system and the customers in the consolidated rate class the acquired system will join when the Company's acquisitions are reviewed by the Commission. IAWC explains that for those acquisitions that were approved pursuant to the SVA, the Commission evaluated and ultimately approved each system's rate base, revenue requirement, any potential revenue shortfalls, proposed rates at close, and the full consolidation of those systems into the Company's existing tariff groups. IAWC notes that the SVA expressly authorizes this approach. 220 ILCS 5/9-210.5(f). IAWC asserts that all of its acquisitions were found to be necessary for the public convenience and necessity, and in no instance has the Commission determined that the proposed rates are contrary to the public interest. IAWC argues that the AG's request that the Commission "maintain the current regulatory landscape" ignores this law, contradicts Commission acquisition approval orders, and dismisses national policy urging regulators, stakeholders, and utilities to undertake exactly what IAWC is requesting here. AG IB at 25.

IAWC states that its proposal also represents a form of "consolidated pricing" or "consolidated water and wastewater revenue requirements" that the NARUC Resolutions on Water Equity recommend as a pathway to affordability:

> Whereas helping struggling customers pay their water and wastewater bills takes the combined effort of utilities, regulators, policy leaders, and communities. Potential pathways to address affordability include: … (5) *exploring whether consolidated pricing and/or consolidated water and wastewater revenue requirements assist utilities in leveraging economies of scale to achieve price stability by spreading costs across a broader customer base*;

IAWC Ex. 22.00 at 10 (emphasis added).

The Company states that the plain language of the NARUC Resolutions on Water Equity is a clear endorsement of IAWC's acquisition activity and the Company's proposal to reallocate a portion of its wastewater revenue requirement to water customers.

IAWC maintains that its proposal is also consistent with the NARUC Resolutions on Water Equity generally, which recognize prudent investment as the best means to improve water and wastewater efficiency and the importance of addressing water and wastewater sector fragmentation. *Id*. at 9-10.

IAWC states that the example of ESL starkly illustrates how IAWC's reallocation proposal supports NARUC and Illinois policy goals, and conversely how rejection of its reallocation proposal could frustrate those goals. IAWC states that ESL, where 30% of the population lives in poverty, faces significant problems with its wastewater system. ESL sought to sell the system in early 2020, issuing a Request for Qualifications ("RFQ") and Request for Proposals ("RFP") for a sale. IAWC Ex. 12.00 at 8. IAWC was very interested in the potential sale and believed that the Company could bring its substantial experience to the table and benefit the community by acquiring the System. Consequently, IAWC spent considerable time drafting a response to the RFP. But ultimately, IAWC notes, it did not submit a bid. IAWC explains that a major issue that kept arising in developing the bid was the level of customer rates. The rates necessary to support the purchase and, more significantly, the level of investment that would enable the Company to provide safe and reliable service, were higher than IAWC believed the community could afford. As IAWC's president explained, a modification in the regulatory landscape – a reallocation of the wastewater revenue requirement to water customers – was needed to help smooth the rate structure IAWC could offer to ESL residents while allowing necessary investments in the system.

IAWC asserts that it would be prepared to submit a bid for the system if the proposed wastewater revenue requirement reallocation were granted in this case. IAWC states that ESL needs to have safe, reliable, and affordable service for its citizens. IAWC notes that if an acquisition were to occur as a result, the Company would provide the much-needed management and operational expertise, as well as required capital investment in the ESL system. IAWC contends that this would be a tremendous benefit to the residents of ESL. The Company would be able to provide the same high level of service to wastewater collection customers as it currently provides to its water customers in ESL and to its wastewater customers, generally.

IAWC explains that parties' testimony in opposition to IAWC's wastewater revenue requirement reallocation proposal falls into three main categories: that the proposal is

contrary to the cost causation principle of rate design, that IAWC's proposal is "unfair" to water customers, and that the increase to Central wastewater rates reflects "mismanagement" on IAWC's part. IAWC states that none of these arguments blunt the point of the Company's proposal.

IAWC notes that much of the objection to the Company's proposal centers around perceived violation of the cost causation rate design principle. IAWC explains that while cost causation is the foundation of the Company's rate design proposals (as demonstrated in the Company's cost of service ("COS") studies), it is almost the entirety of Staff and Intervenors' rate design proposals in this case. IAWC further states that while it does not dispute that it is a widely accepted principle of rate design that customers should pay for the costs that they cause to be incurred – however, cost causation is not the only rate design principle that the Commission should consider when establishing rates, nor can it be. Additional factors that impact the development of rate design include consideration of principles like avoidance of undue discrimination, efficiency of use, gradualism and stability, predictability of revenue for the service provider, and social objectives such as affordability and equity. IAWC emphasizes that the balancing of rate design principles is well-established in Illinois and is recognized by the Act. The language of Section 1-102 of the Act clearly establishes that equitable rates can and should be based on more than cost causation alone. IAWC notes that Staff acknowledges that the Act contemplates the consideration of "factors other than cost of service in regulatory decisions." Staff IB at 46, *citing* 220 ILCS 5/1-102(d)(iv). Rather than prohibit or constrain the use of those additional rate design factors, the Act simply requires that, in the interest of the "fair treatment of consumers and investors … the rationale for [the consideration of factors other than cost of service] should be set forth." 220 ILCS 5/1-102(d)(iv).

IAWC contends that it is undisputed that strict adherence to cost causation does not guide every element of traditional rate design. For example, within districts and customer classes, IAWC argues that nobody would suggest that rates for customers served by a more expensive new main should be higher than those in a neighborhood served by an existing main. As IAWC has pointed out, the Company's proposal is analogous to other widely accepted practices that spread costs over a broader customer base in order to improve affordability for a smaller group of customers, even when one customer's actual cost of service varies from the cost to serve his or her neighbor. These practices include single tariff pricing, the use of energy efficiency and rebate programs by energy utilities, and the low-income tariff programs that are currently gaining traction in Illinois.

IAWC notes that while each opposing party dismisses out of hand the similarities between the Company's reallocation proposal here, and the widely accepted use of single tariff pricing, rebate programs, and – increasingly – low-income programs, no party is able to articulate how those approaches are functionally different. The Company's proposal to reallocate a portion of wastewater revenue requirement to water customers is in the public interest because it is in the long-term best interest of all customers, supporting necessary and critical investments in vulnerable water and wastewater systems across the state and ensuring that investments will continue to be made in these communities in a way that does not expose customers to rate shock while maintaining the affordability of water and wastewater services for all customers. IAWC argues that it is in the public

interest to charge larger groups of customers a little more in order to reduce costs for smaller groups of vulnerable customers, greatly improve affordability of service for them, and improve affordability for all customers.

IAWC notes that its proposed low-income tariff accomplishes the same goal. It moves costs away from a relatively small group of customers in order to significantly improve affordability of service for that group and moves those costs to a larger group of customers where the affordability of service is not significantly harmed. All parties in this case that have commented on the Company's proposed tariff support this effort. While the method of cost-recovery is still being litigated in this proceeding, non-low-income customers will be expected to assume increased costs to support a smaller, more vulnerable group of low-income customers. Non-low-income customers will not receive that service (the discounted volumetric rate) but will still assume costs associated with that benefit.

IAWC also explains that its proposal is analogous to designing rates for single tariff or consolidated pricing – charge larger groups of customers a little more to reduce costs for small groups of vulnerable customers, greatly improve affordability of service for them, and improve affordability for all customers. IAWC explains that single tariff pricing has long been ratemaking practice in Illinois generally and for IAWC specifically. As the Commission explained in IAWC's 2007 rate case, single tariff pricing is "the use of a unified rate structure for multiple water (or other) utility systems that are owned and operated by a single utility, but that may or may not be contiguous or physically interconnected" and noting that for the IAWC system, the Commission has approved gradual movement towards increased single tariff pricing. Docket No. 07-0507, Order at 94. And as the Commission found when approving the rate consolidation of many small water and sewer divisions for USI, consolidation "will allow the Company to spread capital costs over a larger base of customers, thus mitigating rate shock to a smaller stand-alone division's customer base when infrastructure improvements are necessary." *USI 2014 Rate Order* at 30.

IAWC believes that the same logic applies here. IAWC explains that consolidated ratemaking expands the customer base over which water and wastewater investments are made so that the cost impacts of those investments to customers can be smoothed out and ultimately minimized in the long run. IAWC explains that instead of individual communities' bearing the cost of significant investments when those investments are made in rate cases, those investments are spread over broader groups of customers to mitigate the impact of significant rate changes on everyone. All IAWC water and wastewater customers benefit from this consolidated pricing at varying times and will continue to do so in the future. The Company argues that its proposal to reallocate a portion of wastewater revenue requirements to water customers is a logical extension of that practice: it moves the immediate cost of upfront needed investment away from smaller communities where the cost impacts of those investments are significant to a larger group of water service customers, in order to mitigate the rate impacts of these needed investments for everyone.

IAWC states that parties' concerns ignore that IAWC is an integrated water and wastewater service utility. IAWC explains that water and wastewater services are - although sometimes separate - inextricably linked and often rely on the same services

related to collecting, treating, and moving water and wastewater. IAWC does all these things with the same workers, same tools and equipment, same service company, same funding and capitalization process, and the same capital structure for both water and wastewater operations. Rate design for individual services offered by a multi-service utility like IAWC necessarily involves an allocation of costs between the two services across the entire IAWC system of which all customers, including water-only customers, are a part of. More important, IAWC explains, the opposing parties ignore the indisputable fact that water and wastewater are part of one continuous cycle, from extraction from surface and groundwater resources to treatment, to distribution, to various uses, to collection, treatment and then discharge back into surface and groundwaters.

IAWC also states that its proposal is consistent with other key rate design principles as well. It supports the rate design principles of gradualism and affordability, while ensuring also that the Company is able to recover the Commission-approved revenue requirement needed in this case to effectively invest in and manage the business. In particular, IAWC notes, the reallocation supports gradualism by reducing the significant rate shock to Central Zone customers and improves affordability of service to this group of customers.

IAWC states that the proposal also supports the continued investment in communities across the state where water and wastewater investment is needed. Ultimately, the Company's proposal for reallocation of a portion of the wastewater revenue requirement to water customers takes a long-term view of rate design and its impact on continued investment and job creation in the state, and the affordability of service in communities across the state. IAWC explains that this proposal encourages and supports continued investment in water and wastewater systems and communities across the state while improving the affordability of service for customers both in the short term and in the long term.

IAWC explains that the Company's rate design proposals in this case are designed to recover targeted revenues by customer class for water customers and by tariff zone (Chicago Metro and Central) for wastewater groups. IAWC explains that the foundation for these targeted revenues is Revenue Stability and Cost Causation. IAWC explains that Revenue Stability is achieved by allocating the entire proposed revenue requirement to customer groups so that rates can be designed to recover the Company's approved revenue requirement. Targeted revenues then begin with the results of the Company's cost of service analysis, which allocates revenue requirements to customer class based on cost causation principles. IAWC explains that the class allocation of costs from the cost-of-service analysis, which reflect cost causation principles and only cost causation principles, are then adjusted to reallocate revenues from some classes to other classes to accommodate other rate design goals.

IAWC states that although COS is the foundation of IAWC's rate design, it is not the only consideration that may be used to determine whether rates are just and reasonable - the Commission is permitted under the Act to consider many factors other than costs when designing rates, including equity, which is the fair treatment of customers and investors. *USI 2014 Rate Order* at 29; 220 ILCS 5/102(d).

IAWC further states that any consideration of rate design must consider these principles too, as the testimony of the various parties on other rate design issues illustrates. For example, virtually all parties in this case have either proposed or agreed to rate design adjustments in the name of gradualism, and in some cases have argued that proposals made by the Company and other parties don't consider gradualism enough.

IAWC notes that its proposal to reallocate a portion of wastewater revenue requirement to water customers supports these other rate design principles, including gradualism and affordability, while ensuring also that the Company is able to recover the Commission-approved revenue requirement needed in this case to effectively invest in and manage the business. IAWC points out that the proposal also supports the continued investment in communities across the state where water and wastewater investment is needed.

IAWC states that as the parties' embrace of gradualism as a rate design principle in other contexts demonstrates, exclusive reliance on cost causation for rate design overlooks the complexity of measuring and allocating joint and common costs. IAWC maintains that avoidance of undue discrimination, efficiency of use, gradualism and stability and predictability of revenue for the service provider are also important rate design considerations. Social objectives, such as affordability and equity, are more recent principles that are also used by utilities and regulators to guide rate design decisions. IAWC's proposal to reallocate wastewater revenue requirements is consistent with these other rate design principles, and the fact that it is not strictly based on cost causation is not a basis to reject it.

The Company's proposal to reallocate a portion of wastewater revenue requirement to water customers is not "unfair" to water customers – it is in fact in the public interest because it is in the long-term best interests of all IAWC customers. IAWC notes that this proposal supports necessary and critical investments in vulnerable water and wastewater systems across the state and ensures that investments will continue to be made in these communities in a way that does not expose customers to rate shock, while maintaining the affordability of water and wastewater services for all customers.

IAWC points out that examples of this already exist. IAWC notes that low-income discount tariffs slightly increase costs for a large group of customers in order to significantly improve affordability for smaller, more vulnerable groups of customers. As discussed above, consolidated pricing spreads the costs of utility investments over large groups of customers so that individual groups of customers immediately benefiting from a large investment project aren't forced to absorb the entire cost of that investment as if they were making the investment on their own. IAWC also notes that consolidated pricing is now widely accepted as wise public policy because ultimately, it is in the long-term best interests of all customers. IAWC explains that water customers in one area of the Company's service territory might not get immediate direct benefit from paying for a portion of the Company's wastewater investments in another area because they receive sewer service from another provider, but they also do not immediately benefit from paying for a portion of the Company's water investments in that other area either. The Company has many water customers who today are not also wastewater customers, but the rate design that benefits all customers the most in the long-term is one that allows for making

cost-effective water and wastewater system investments without significantly impacting the affordability of service. IAWC concludes that the Company's proposal for reallocation accomplishes these goals.

IAWC argues that the Intervenors' objections to the Company's proposal are not persuasive because they look at rate design principles based on a snapshot in time. IAWC notes that there is little to no discussion from Intervenors around rate design policy and its effect on future investment in water and wastewater systems in the state, or the future affordability of service in the communities IAWC serves. But it is critical to take a long-term, not short-term view. IAWC states that the Company's proposal for reallocation of a portion of the wastewater revenue requirement to water customers takes a long-term view of rate design and its impact on continued investment, job creation, and the affordability of service in communities across the state.

IAWC also asserts that the Municipalities, which include Champaign, rely heavily on cost causation, arguing that the Company's proposed reallocation is "unjust and unreasonable…because it would make customers pay for a service they do not receive." Municipalities IB at 8. As an example, the Municipalities argue that "it is neither appropriate from a rate design or policy perspective to have Champaign customers subsidize customers in other locations through the State of Illinois by surcharging them for services that are not provided to them by IAWC." *Id* at 6. IAWC asserts that the premise of this argument – that IAWC is "surcharging" Champaign for services that are not provided to them by IAWC – is incorrect. IAWC is not charging water customers for a service it is not providing, IAWC is charging water customers for water service. The rates for that water service are higher than a strict 1:1 ratio to the cost of service. But this is not unusual – it is routine for rate design proposals to set rates that do not match the cost of service; in fact, various parties have proposed rate designs that do not exactly match the COS.

IAWC further notes that the Municipalities' opposition to the socialization of costs associated with utility services that do not confer a direct benefit is surprising, considering that in the Company's 2007 rate case, the Commission approved significant investment in Champaign, including a new production and treatment facility and six new wells. Docket No. 07-0507, Order at 49-52. The cost of those investments in Champaign totaled approximately $60 million. Docket No. 07-0507, IAWC Ex. 7.00 (Rev.) at 18. In a subsequent rate case, the Commission approved consolidation of Champaign into IAWC's Zone 1 tariff group, thereby spreading the costs of the Champaign investments over a larger customer base, sparing Champaign residents higher rates. Docket No. 09-0319, Order at 154. Champaign, a party to that proceeding, notably, did not object to having the costs of those investments allocated to other IAWC customers.

Thus, IAWC concludes, while water-only customers in Peoria and Champaign may not immediately benefit from supporting wastewater investments in Alton and Granite City, all customers on the system at one point will benefit from the ability to spread investment costs in individual communities across a large statewide customer base through. Water customers in Champaign helping to support wastewater investments in Alton is not fundamentally different than water customers in Champaign helping to support water investments in Alton, and vice versa. IAWC maintains that this

arrangement is ultimately in the long-term best interest of all customers, as it helps improve the affordability of service across the state.

IAWC states that another misguided claim in opposition to IAWC's proposal is that acquisition activity was not managed effectively given the rate shock for Central Zone wastewater customers (in the absence of reallocation), and the suggestion that if the magnitude of Central Zone wastewater costs proposed for recovery are excessive, the Company's shareholders should share this cost burden.

IAWC explains that this unsubstantiated assertion is contradicted by examples that show the opposite: IAWC is effectively managing its acquisitions to provide investment with tangible customer benefits, and so fulfilling the policy goals discussed above and reflected in mechanisms like the SVA. IAWC notes that each acquisition has been reviewed and approved by the Commission and found to be required for the public convenience and necessity. IAWC states that there are clear examples that demonstrate that IAWC's acquisitions were not only managed effectively, but they provided specific and tangible benefits to those systems and to the State, as a whole.

IAWC states that significant infrastructure investment in newly acquired systems is not a sign of mismanagement, but is expected, especially in situations where the acquired systems may have been under-invested in the past. IAWC explains that these investments affirm that IAWC is making the infrastructure improvements which are necessary to advance the public interest of Illinois and its citizens, as well as providing the environmental resources for now and into the future, in ways that were directly expected when the acquisitions were approved. In fact, because these investments and the increase in rates they often necessitate were directly anticipated, and in many cases have already been reviewed by the Commission as part of QIP reconciliation and acquisition approval dockets, the assertion that shareholders should bear the revenue shortfall is completely untenable. IAWC notes that this is especially true when the investments made in these under-capitalized systems benefit the State and its citizens in the form of cleaner water and jobs created by the construction activities.

In summary, IAWC states that it is essential that the Commission's regulatory policy be constructive and consistent with the intent of state law — namely in recognizing that water and wastewater consolidation is in the public interest and providing communities that otherwise are unable to invest in and manage critical infrastructure a mechanism to ensure that their residents have access to safe and reliable water and wastewater service. IAWC maintains that reallocation will benefit all communities by creating economies of scale and spreading the cost of system improvements across a bigger base, while at the same time supporting investment in smaller, under-invested systems and improving water quality and meeting state policy goals. Parties' objections to IAWC's proposal disregard both the long-term environmental benefits and economies of scale that the wastewater revenue requirement reallocation supports, for IAWC's recently acquired wastewater systems and for systems where IAWC's investment could make a real difference, like ESL. But IAWC urges the Commission to focus on these important policy goals and approve its wastewater revenue requirement reallocation proposal to support them.

b. Staff's Position

Staff recommends the Commission reject the Company's proposal to reallocate approximately $11.8 million of IAWC's wastewater revenue requirement to be recovered from IAWC's water customers. Staff Ex. 15.0 at 14.

Staff notes that one of the fundamental goals of equitable ratemaking is that the costs of supplying public utility services are allocated to those who cause the costs to be incurred. 220 ILCS 5/1-102(d)(iii). In fact, the Act indicates that if factors other than COS are considered in regulatory decisions, the rationale for these actions should be set forth. 220 ILCS 5/1-102(d)(iv). Thus, Staff argues COS and cost causation should be primary considerations for the Commission.

Staff witness Boggs explained that although concepts such as gradualism, undue discrimination, and efficiency of use, among others, can be considered in rate design proposals, the Company's proposal to reallocate costs from one utility service to another utility service would violate basic cost causation principles. Basic cost causation principles would necessitate wastewater customers to pay rates to recover all costs that the Company incurs to provide service to wastewater customers. Staff opines that IAWC's proposal to have water customers pay rates so the Company can recover a portion of the costs to serve wastewater customers runs counter to the cost causation principles of rate design. Staff Ex. 7.0 at 37.

IAWC witness Rea argues that the Company's proposal is in the public interest in the same way as single tariff pricing and the rebate programs applicable to Illinois gas and electric utilities. IAWC Ex. 18.00 at 34. Staff asserts that Mr. Rea's argument is without merit. Single tariff pricing is guided by ratemaking principles whereas the Company's proposal runs afoul to ratemaking principles since it results in water customers subsidizing wastewater customers. Staff argues that there is very little parallel between the Company's reallocation proposal and single tariff pricing. In Docket No. 92-0116, single tariff pricing was an issue in the Company's rate case proceeding. *Ill.-Am. Water Co*., Docket No. 92-0116, Order at 35-46 (Feb. 9, 1993). In Docket No. 92-0116, the Company proposed to consolidate the Southern Zone to achieve consolidated pricing for the Company's Southern Division. Staff agreed with IAWC's single tariff pricing proposal to consolidate pricing of the Company's Southern Division (which has since been consolidated with the Central Division). *Id*. at 38. In Docket No. 92-0116, the Southern Division to be consolidated was a water division only. Staff explained that although differences existed in the COS for each of the separate districts to be consolidated, each district had similar sources of supply; the districts shared common costs and paid the same Customer Charge; had similar usage characteristics by customer class; and the Company would have a larger base of customers to spread costs so no individual district would be impacted severely if a capitol project became necessary for an individual district. *Id*. The Commission approved the Company's proposal to implement single tariff pricing in the Southern Division. *Id*. at 45.

Staff argues that this proceeding is distinguishable from Docket No. 92-0116 for multiple reasons. Specifically, IAWC's water and wastewater customers do not have the same Customer Charges (current Customer Charge for Central Division water is $20, current Customer Charge from Central Zone wastewater is $14.50); water and sewer

customers do not have the same usage characteristics; and water and wastewater are separate utility services. Further, in Docket No. 92-0116, customers were not paying monthly fees to an unrelated utility while also subsidizing the costs to serve a different utility from which they received no services, as would be the case with IAWC customers in Champaign and Farmington in this proceeding. Thus, Staff asserts that the Company's comparison of its proposed reallocation to single tariff pricing fails.

Furthermore, Staff notes there is no enabling legislation in Illinois that allows reallocation of costs from one utility service to an entirely different utility service. The Company states, "The Commission is not prohibited from making an allocation of wastewater revenue requirements to water customers when designing rates." IAWC IB at 78. Staff states that the Company's assertion is misguided. One of the fundamental goals of equitable ratemaking is that the costs of supplying public utility services are allocated to those who cause the costs to be incurred. 220 ILCS 5/1-102(d)(iii). In fact, the Act indicates that if factors other than COS are considered in regulatory decisions, the rationale for these actions should be set forth. 220 ILCS 5/1-102(d)(iv). Thus, Staff notes, the Act requires the Commission to consider COS and cost causation in setting rates.

Staff recommends that the Commission reject the Company's proposal to reallocate a portion of the Company's wastewater revenue requirement to water customers and recommends that the revenue shortfall be recovered by Central Zone wastewater customers through rate design. Staff Ex. 7.0 at 38-39. Specifically, Staff witness Boggs recommends instituting smaller annual increases for Central Zone wastewater rates until rates are adequate to generate full COS revenue recovery. *Id*. Staff's approach would not involve re-allocating costs to an entirely different utility service customer base. Staff argues that its approach is consistent with the rate design concept of cost causation – i.e., recovering costs from those who caused the cost to be incurred – which is a primary objective of rate design. *Id*. at 38-39. Staff also argues its proposal is consistent with the guiding rate design principles of gradualism, simplicity and feasibility, and affordability. Staff Ex. 15.0 at 14. Implementing annual step increases in rates, as proposed by Staff witness Boggs, would benefit customers by reducing the magnitude of rate increases in the short-term and gradually increase rates until the Company reaches full revenue recovery from Central Zone wastewater customers – i.e., gradualism. Staff Ex. 7.0 at 39.

c. AG's Position

The AG requests that the Commission reject the Company's proposal to reallocate $11.8 million of its Central Zone wastewater revenue requirement to water customers, who in most cases do not receive wastewater service from IAWC. Tacitly acknowledging that this would be radical departure from well-settled ratemaking policy, the Company asked for a "modification in the regulatory landscape." IAWC Ex. 12.00 at 9. The AG urges the Commission to decline IAWC's invitation to "evolve modern ratemaking" in this manner because it would be contrary to the Act, violate well-settled ratemaking principles, and would result in unfair and unreasonable rates to water customers.

The fundamental dictate of ratemaking under the Act is that all rates or other charges "be just and reasonable," and "[e]very unjust or unreasonable charge . . . is

hereby prohibited and declared unlawful." 220 ILCS 5/9-101. To aid in the interpretation of this statutory directive, the AG explains how the Act specifies that utility regulation should be designed to promote fair and equitable treatment of consumers and investors, meaning, in part, that "the cost of supplying public utility services is allocated to those who cause the costs to be incurred." 220 ILCS 5/1-102(d)(iii).

Accordingly, the principle of cost causation—that the COS should be paid by those who cause it—is a requirement of the Act and is well-established in Commission practice. *See, e.g.*, Docket No. 17-1106, Order at 61 (adopting Staff's recommendation to remove demand-related costs from proposed customer charges because it was "consistent with cost causation principles); *Commonwealth Edison Co.*, Docket No. 10-0467, Order at 231-32 (May 24, 2011) (concluding that "it is important to design rates that reflect cost causation" and when rates "do not accurately reflect cost causation, that inefficiency results and society suffers"); *Central Ill. Light Co. d/b/a AmerenCILCO*, Docket Nos. 09-0306–09-0311 (Cons.), Order at 295 (Apr. 29, 2010) ("It is a widely held ratemaking policy that rates should be designed to reflect cost causation, maintain gradualism, and avoid rate shock."). For this reason, combination gas and electricity utilities, such as Ameren and MidAmerican Energy Company, set the rates for each service separately. For example, the revenue requirement for Ameren gas and electric services are set independently, with its electric delivery service set under Section 16-108.5 (*see Ameren Ill. Co. d/b/a Ameren Ill.*, Docket No. 21-0365), whereas its gas delivery service is set under Article IX of the Act. *See* Docket No. 20-0308.

Illinois courts have held that it is unjust and unreasonable for a water and sewer utility to charge individuals for a service they do not receive. *Citizens Util. Co. v. Ill. Com. Comm'n*, 157 Ill. App. 3d 201, 206-207 (1st Dist. 1987). In *Citizens Util. Co*., the Commission found that a water and sewer utility "charged a noncustomer for services which were never rendered" for seven years and ordered the utility to repay the amounts in question. *Id.* at 206. As the court noted, "it would be difficult to envision a more unjust and unreasonable charge than for a service never rendered by a utility." *Id.* at 207 (internal quotations omitted). The situation in this proceeding is scarcely different for the Company's water customers — like the residents and businesses in the Municipalities — who already obtain wastewater service from a different provider. IAWC is asking these customers to pay for a service they do not receive. The AG therefore requests, consistent with case law, that the Commission reject this "unjust and unreasonable charge" for "services never rendered." *Id.* at 206.

The AG also points out that legislation enabling this type of reallocation has been proposed, and rejected, multiple times, providing further proof that such a reallocation would exceed the Commission's authority. Legislative archives show that multiple bills have been introduced in the General Assembly that would change the language of the Act to expressly allow water and wastewater utilities to allocate costs across services. In each case, the Company actively supported these bills by filing witness slips in support. And in each case, the bills failed to become law. Having failed to secure the necessary legislation, the Company is now asking the Commission to exercise authority it has, to date, not previously claimed. The Commission should deny the Company's attempt at an end run around the legislative process and continue to apply fundamental ratemaking principles that are consistent with the Act and fundamental fairness.

The Company attempts to dodge the issue of cost causation by arguing that the Commission may consider ratemaking principles other than cost causation when approving rate designs. *USI 2014 Rate Order* at 29-30. In the *USI 2014 Rate Order*, the Commission concluded that it "is permitted under the Act to consider many factors other than costs when designing rates," including "equity, which is the fair treatment of customers and investors." *Id*. at 29 (*citing* 220 ILCS 5/1-102(d)). The Company argues that, in addition to cost causation, the Commission ought to consider principles such as revenue stability, efficiency of use, gradualism, avoidance of undue discrimination, simplicity and feasibility, and affordability. But as the AG explains, the Company's proposed rate design failed on its own terms because the balance of these factors clearly weighs against the reallocation of sewer costs to water customers.

First, the AG explains that the Company does not further the cause of equity by using a radical approach to rate design to enable the Company to acquire more systems, as the Company's use of the ESL demonstrates. The Company, which currently provides water service to ESL, claimed that it "would be prepared to submit a bid" on the ESL wastewater system if the reallocation were approved. IAWC IB at 94. The Company declined to submit a bid previously out of concern that the community would not be able to pay the higher rates associated with IAWC's management of the system. *Id*. But under the Company's proposed reallocation, "[ESL] water customers, like all water customers, would be paying higher water rates to cover the cost of wastewater acquisitions of other systems." AG Ex. 4.0 at 11. Regardless of whether the Company ultimately acquires, or even bids on, ESL's wastewater system, under the Company's approach, ESL water customers would see an increase to their bills that they can ill-afford under the Company's proposal.

The AG likewise explains how the other factors the Company urges the Commission to consider do not support the proposed reallocation. Recovering the COS from customers who do not receive the service is neither simple nor feasible, and it unduly discriminates against those customers who do not receive sewer service from IAWC. As for gradualism and affordability, the alternative rate design proposed by Staff discussed below would address these important principles by phasing in the increased rates over time while at the same ensuring that the COS is borne by those who caused it. Staff Ex. 7.0 at 39.

IAWC also argued that the reallocation is "analogous to designing rates for single tariff or consolidated pricing," which "has long been ratemaking practice in Illinois generally and for IAWC specifically." IAWC IB at 95. As AG witness Larkin-Connolly explained in rebuttal, "[w]hile it is correct that principles such as single tariff pricing are designed to capture the stability and benefits of economies of scale for a large customer base, pricing is based on the costs of providing a consistent service to consumers." AG Ex. 4.0 at 14. The Company "ignores the requirement that costs be related to the service customers actually receive by suggesting that recovering wastewater costs from water customers is somehow akin to single tariff pricing." *Id*. at 248-50. The Company's analogy failed because "it does not accurately parallel the scenario where a water-only customer, that has a septic system or is served by a non-IAWC wastewater provider, is asked to subsidize wastewater services *it does not and cannot* receive." *Id*. at 15 (emphasis in original). Moreover, the Company's claim that the proposed reallocation had "long been

ratemaking practice in Illinois" is contradicted by the Commission's consistent treatment of gas and electric services provided by the same utility as separate (as noted above), the Commission's rules (83 Ill. Adm. Code 280) that require separate billing for separate services, and the Company's inability to point to a modern example of the Commission having approved a comparable rate design.

The AG explains that the proposed reallocation is proscribed for good reason, as it would result in unjust and unreasonable rates for those customers who are asked to pay for a service from which they receive no benefit. In the Central Zone alone, only 25% of IAWC water customers also receive wastewater service from the Company, meaning that 75% of Central Zone water customers get their wastewater service from elsewhere, either via septic systems or another provider. AG Ex. 2.0 at 16. Thus, under the Company's proposal, the vast majority of water customers would be paying for wastewater services from another provider and for IAWC services that they do not receive. *Id*.

The AG points out that the Company's proposal is even more unreasonable when considering why the Company is seeking to reallocate the wastewater revenue requirement to water customers. The Company claimed that the reallocation is necessary to prevent rate shock. *See* IAWC Ex. 7.00 at 16. But the Company admitted that the only customers who would experience significant rate increases without the reallocation are those on newly acquired systems. AG Ex. 2.3. In other words, the Company is seeking to reallocate wastewater revenue because, by its own admission, its costs exceed what it can reasonably expect to charge these newly acquired customers and maintain affordable wastewater service. *Id*. This is troubling given that the Company has acquired 29 water and wastewater systems since its last rate case, with at least eight more on the way. IAWC Ex. 4.05. Based on the testimony submitted in this proceeding, the Company expects this trend to continue, and it appears its appetite for acquisitions is directly related to its request for the ability to reallocate revenue requirements across types of service. *See* IAWC Ex. 12.00 at 2 ("With the reallocation of a portion of IAWC's wastewater revenue requirement, [IAWC] will have the regulatory treatment needed to support acquiring and investing in these systems . . . ."). In light of this admission, the AG cautions the Commission against straying from well-established ratemaking principles, which would encourage IAWC to make costly acquisitions that harm existing ratepayers and will result in rate shock for the acquired customers.

The Company claims that the SVA (220 ILCS 5/9-210.5), which was enacted in 2013 and renewed in 2018, is evidence that this type of reallocation is consistent with a State policy of promoting system consolidation. The Company claims that the SVA provided a "streamlined mechanism" through which utilities can obtain approval to acquire smaller systems, addressing the issue of water system fragmentation. Because the legislature purportedly supports system consolidation, the Company reasons, then it must also support novel rate designs like the proposed reallocation in order to facilitate acquisitions of smaller water and sewer systems. But the AG points out that nothing in the SVA indicates a legislative intent, implicit or otherwise, to disregard traditional ratemaking principles such as cost causation. Indeed, the General Assembly has on multiple occasions refused attempts to make this reallocation the explicit policy of the State of Illinois. The AG urges the Commission to resist making policy judgments that

the General Assembly considered and rejected to upend long-settled principles of rate regulation.

Instead, the AG argues that the Commission should maintain the current regulatory landscape to ensure that acquisitions by private companies are in the public interest. As Mr. Larkin-Connolly testified, "a water utility should be encouraged to appropriately account for costs and risk when it acquires systems, while at the same time ensure that the acquired customers continue to receive affordable service." AG Ex. 4.0 at 13. Moreover, this should be done "without unfairly burdening existing customers or customers who do not receive the service (i.e., wastewater services) from IAWC." *Id*. at 13. Put simply, when determining whether to acquire a system, the Company should "consider the potential rate impact of future investments on the acquired system and the customers in the consolidated rate class the acquired system will join." *Id*. at 19. If shareholders are unwilling to bear the consequences of costly acquisitions, they should not be made.

In lieu of the reallocation, the AG recommends that the Commission adopt the approach proposed by Staff witness Boggs. *See* Staff Ex. 7.0 at 38-39. Under Mr. Boggs' approach, the Company would "institute annual step increases that are one-sixth of the way to full cost recovery for the next six years," which corresponds to the amount of time since the Company's last rate case filing. *Id*. at 38. This approach would adhere to the established rate design principles of gradualism and cost causation. Staff Ex. 7.0 at 39; AG Ex. 4.0 at 20. While this approach would result in a portion of the wastewater revenue remaining unrecovered from ratepayers, Staff Ex. 7.0 at 39, the AG argues that the Company's shareholders should bear the cost of management's decisions to acquire these wastewater systems. The Company's shareholders benefit from the wastewater acquisitions far more than the water customers in the Municipalities, and when expenses are incurred "to achieve goals that primarily benefit shareholders, then it is reasonable to require that shareholders bear the cost of that [expense]." *See People ex rel. Madigan*, 2011 IL App (1st) 100654, ¶54.

The AG argues that the Company is asking the Commission to exercise unprecedented authority. The Company admitted as much when it asks the Commission to "evolve modern ratemaking" and "modify the regulatory landscape" by approving the proposed reallocation. IAWC IB at 80, 94. As the AG points out, legislation enabling this type of reallocation has been proposed and rejected multiple times. Even if the Commission could exercise this extraordinary legal authority, the AG argues, it should decline to do so here because the Company has failed to demonstrate a compelling rationale from a public policy and rate regulation perspective. Thus, the Commission should not approve an unjust and unreasonable rate design that the legislature and courts have refused to endorse. For these reasons, the AG requests that the Commission deny the Company's request to reallocate a portion of its wastewater revenue requirement to water customers.

d. IIWC/FEA/CUB's Position

IIWC/FEA/CUB take the position that IAWC's proposed reallocation of wastewater revenue requirements to water customers violates basic principles of cost causation. Staff Ex. 7.0 at 37. IIWC/FEA/CUB witness Walters testified that the Company's proposal

to have water customers subsidize service to wastewater customers should be rejected. If there is a need to mitigate the increase in rates to wastewater customers, it would be appropriate to spread the wastewater COS over all IAWC wastewater customers in the State. IIWC/CUB/FEA Ex. 1.0 at 76. It is not appropriate to require customers of the water utility to subsidize service for customers of the wastewater utility. *Id*. The requested subsidy should be denied.

IIWC/FEA/CUB note that Staff has made a proposal, which would mitigate the rate increase that would result for wastewater customers if there is no reallocation of a portion of the Central Zone wastewater revenue requirement to water customers. Staff has proposed that IAWC institute an annual six-step increase for Central Zone wastewater customers, until wastewater rates are set at a level that allows recovery of the wastewater revenue requirement from wastewater customers, without recovery of any wastewater revenue requirement shortfall from other customer groups. Staff Ex. 7.0 at 38-39. In the alternative, IIWC/FEA/CUB agree with Staff's proposal and maintains their opposition to any reallocation of the Central Zone wastewater revenue requirement to water service customers.

e. IIWC/FEA's Position

IIWC/FEA oppose the reallocation of the wastewater revenue requirement to water customers. IAWC originally proposed to reallocate $14,284,494 (reduced to $11.8 million in rebuttal) in costs to serve Central Zone wastewater customers to all water customers. IAWC Ex. 7.00 at 14; IAWC Ex. 18.00 at 42.

IIWC/FEA note, as several witnesses testified in this proceeding, shifting costs of wastewater customers to water customers is contrary to cost causation principles and wastewater revenue requirements should be recovered from wastewater customers. IIWC/FEA Ex. 1.0 at 12-13; Champaign Ex. 1.0 at 4-5; Staff Ex. 7.0 at 37; AG Ex. 2.0 at 16. Furthermore, IAWC's proposal to reallocate wastewater costs to water customers violates a primary rate design objective to recover costs from those who cause the incurrence of those costs. Staff Ex. 7.0 at 39. IIWC/FEA confirm it is an underlying goal and objective of regulation in Illinois that "the cost of suppling public utility services is allocated to those who cause the cost to be incurred." 220 ILCS 5/1-102(d)(iii). IIWC/FEA argue the evidence in this case supports the conclusion that the reallocation of wastewater revenues to water customers would result in unfair and inequitable water rates and, thus, is inappropriate from a ratemaking perspective. AG Ex. 2.0 at 4-5.

IIWC/FEA recommend spreading the original $14.3 million Central Zone wastewater revenue requirement (now $11.8 million) across all IAWC wastewater customer classes in Illinois. IIWC/FEA assert this approach better reflects cost causation and is consistent with how water rates have been transitioning to consolidated or single tariff pricing over the years. IIWC/FEA Ex. 1.0 at 13. Under this approach, the entire water revenue requirement would remain with water customers across the State and the wastewater revenue requirement would remain with wastewater customers throughout the State. *Id*.

In the alternative, IIWC and FEA believe Staff's recommendation to phase in the increase necessary for wastewater customers, as proposed by Staff witness Boggs, would be an appropriate approach. Mr. Boggs recommended a six-step annual rate

increase for the Company to allow it to fully recover the cost to serve Central Zone wastewater customers through equal and progressive annual increases until IAWC files its next rate case. Staff Ex. 7.0 at 39. IIWC and FEA understand that under the Staff's proposal, any revenue shortfall from wastewater customers associated with the six-step approach would be the responsibility of the Company. *Id*. at 38-39.

IIWC/FEA conclude the Commission should reject IAWC's proposal to reallocate a portion of the wastewater revenue requirement for the Central Zone to water customers. IIWC/FEA point out the proposal is inconsistent with fundamental ratemaking principles and Illinois regulation. IIWC/FEA also note the reallocation is opposed not only by IIWC/FEA, but also the AG, Champaign, and Staff.

IIWC/FEA recommend that the Commission adopt the IIWC/FEA proposal to spread the Central Zone wastewater requirement among all wastewater customers in the State or, in the alternative, adopt Staff's six-step increase approach to phase in the increase for wastewater customers, with any shortfalls in recovery from wastewater customers being the responsibility of the Company.

f. Municipalities' Position

The Municipalities oppose IAWC's request to shift $11.8 million of wastewater revenue requirements to water customers, which would impose improper charges on water customers who do not even receive wastewater service from the Company. Imposing costs on customers who do not receive the services is inappropriate and contrary both to established Commission practice and the Act.

The Municipalities witness Nagy testified that Champaign maintains its sanitary sewer collection system within Champaign's city limits. Wastewater treatment is provided by the Urbana and Champaign Sanitary District ("UCSD"), a municipal corporation created in 1921 to provide wastewater treatment for Champaign, Urbana, and the Villages of Bondville and Savoy. Champaign Ex. 1.0 at 2-3. The monthly bill for sewage treatment for a residential customer using 3,500 gallons of water is $20.39 per month in Champaign. Champaign Ex. 1.0 at 4. "For Champaign customers who already pay separate wastewater fees, it is neither appropriate from a rate design or policy perspective to have Champaign customers subsidize customers in other locations through the State of Illinois by surcharging them for services that are not provided to them by IAWC." Champaign Ex. 1 at 4-5. IAWC's proposal would require customers located within the Municipalities to pay twice for wastewater service—once to the entity that actually provides the service and a second time to IAWC for "services" that the Company does not, and cannot, provide.

The Act requires that a utility's rates and other charges for "any service rendered or to be rendered" must be just and reasonable. 220 ILCS 5/9-101. "A public utility is entitled to just and reasonable compensation for the service given to the public." *United Cities Gas Co. v Ill. Commerce Comm'n*, 163 Ill.2d 1, 23-24. It is, therefore, just not reasonable for utility customers to pay more than what the service provided to them is reasonably worth, nor should they pay for costs not legitimately incurred for their benefit. *Id*. at 24. In *Citizens Util. Co.*, the water utility provided no wastewater service but charged the customer for the service. The court agreed with the Commission's ordering a refund of the charges because "it would be difficult to envision 'a more unjust and unreasonable

charge than for a service never rendered by a utility.'" *Citizens Util. Co.*, 157 Ill. App. 3d at 207. The Commission "must ensure that consumers are treated fairly (220 ILCS 5/1102(d) (West 2008), that the 'application of rates is based on public understandability and acceptance of the reasonableness of the rate structure and level.'" *Apple Canyon Lake Prop. Owners' Ass'n v Ill. Commerce Comm'n*, 2013 Il App (3d) 100832, ¶41.

IAWC argues that the improper cost shifting was necessary because, if the Company had to collect the wastewater costs from wastewater customers, those customers would see a large increase in their bills. The Municipalities assert that the problem is one of IAWC's own making. The Company admitted that it made various acquisitions of wastewater systems by apparently paying too much for them, leaving IAWC with insufficient capital to make necessary improvements. AG Ex. 2.0 at 15. The Commission should not encourage the Company to continue making bad investment decisions by allowing it to impose improper costs on water customers who do not benefit from IAWC's wastewater system. As the court noted in *Central Ill. Pub. Serv. Co. v Ill. Commerce Comm'n*, 243 Ill. App. 3d 421, 428 (4th Dist. 1993), one of the goals and objectives of utility regulation "is to ensure that 'the cost of supplying public utility services is allocated to those who cause the costs to be incurred.'" *Id*. at 428. To allow IAWC to allocate wastewater costs to water customers would violate the goal and objective of allocating costs to those who cause the costs to be incurred.

g. Commission Analysis and Conclusion

The Commission agrees with Staff and Intervenors that allowing IAWC to reallocate approximately $11.8 million of IAWC's Central Zone wastewater revenue requirement to be recovered from IAWC's water customers would violate the standard principle of cost causation. A regulatory objective in Illinois is that "the cost of suppling public utility services is allocated to those who cause the cost to be incurred." 220 ILCS 5/1-102(d)(iii). IAWC's proposal would be a direct violation of this principle and it is rejected.

IAWC points to policy direction from NARUC. Policy directions are not statutory regulations, like the principle of cost causation. As other parties indicate, such a policy change would be more appropriately addressed by the General Assembly.

The Commission understands the problems faced by small water and wastewater companies and the aging of those systems. IAWC made the business decision to acquire 14 wastewater systems since its last rate case, six of which were incorporated into the Central Zone division, that need improvements to the wastewater systems. As a result of IAWC's business decisions, this results in the current problem of a significant increase in rates to wastewater customers in the Central Zone. Staff's general proposal to gradually increase rates to customers in the Central Zone appears reasonable. However, Staff's proposal to have any revenue shortfall be covered by the Company would result in IAWC being unable to recover its Commission-approved revenue requirement, and thus violate the Commission's policy of implementing cost-based rates. Therefore, the Commission rejects Staff's proposal as written.

Both IAWC and IIWC/FEA's proposals, in different ways, attempt to mitigate rate shock by spreading out the costs over a larger customer base. While IIWC/FEA's proposal to allocate the original $14.3 million (now $11.8 million) of IAWC's Central Zone

wastewater revenue requirement to all wastewater customers in Illinois to some extent also goes against cost causation principles, it at least applies to customers that are receiving the same type of services from IAWC.

The Commission finds value in combining elements of both Staff's initial proposal and IIWC/FEA's proposal in a way that avoids under-recovery by IAWC of its full revenue requirement and sunsets the allocation of portions of Central Zone's wastewater revenue requirement across all IAWC's wastewater customers within a fixed time-frame. Accordingly, based on the evidence and proposals presented in this docket, the Commission adopts the following approach: re-allocating in the first year following the effective date of the new rates the $11.8 million in IAWC's Central Zone wastewater revenue requirement across all IAWC's wastewater customers statewide, as IIWC/FEA propose, followed in the second through sixth years by an incremental phase down of the socialization, similar to what Staff proposes. Specifically, beginning in the second year after the rates' implementation, the share of the $11.8 million Central Zone wastewater revenue requirement borne by the non-Central Zone wastewater rate customers should be reduced from non-Central Zone rates by one fifth, with an equivalent amount added to the Central Zone wastewater rates. This incremental shifting of costs from the non-Central Zone to the Central Zone should continue annually each year for five years. Thus, beginning in the sixth year after the rates are implemented, Central Zone wastewater rates will fully satisfy cost causation principles by entirely recovering the $11.8 million in revenue requirement at issue. Simultaneously, in the sixth year, non-Central Zone wastewater rates will cease covering any portion of Central Zone wastewater revenue requirement. The Table below illustrates the Commission's adopted approach.

Example Methodology Table for Allocation of $11.8 Million in Revenue Requirement Across IAWC Wastewater Rate Zones			
Year	**Non-Central Zone Wastewater Rate Allocation**	**Central Wastewater Rate Zone Allocation**	**Total IAWC Revenue Requirement Recovered**
Year 1	# Non-Central Zone Ratepayers / Total # IAWC Wastewater Ratepayers * $11.8 Million	# Central Zone Wastewater Ratepayers / Total # IAWC Wastewater Ratepayers * $11.8 Million	$11.8 Million
Year 2	(% Non-Central Zone Ratepayers out of Total * $11.8M) * 0.8	(% Central Zone Ratepayers out of Total * 11.8M) + (% Non-Central Zone Ratepayers out of Total * 11.8M * 0.2)	$11.8 Million

Year 3	(% Non-Central Zone Ratepayers out of Total * $11.8M) * 0.6	(% Central Zone Ratepayers out of Total * 11.8M) + (% Non-Central Zone Ratepayers out of Total * 11.8M * 0.4)	$11.8 Million
Year 4	(% Non-Central Zone Ratepayers out of Total * $11.8M) * 0.4	(% Central Zone Ratepayers out of Total * 11.8M) + (% Non-Central Zone Ratepayers out of Total * 11.8M * 0.6)	$11.8 Million
Year 5	(% Non-Central Zone Ratepayers out of Total * $11.8M) * 0.2	(% Central Zone Ratepayers out of Total * 11.8M) + (% Non-Central Zone Ratepayers out of Total * 11.8M * 0.8)	$11.8 Million
Year 6	(% Non-Central Zone Ratepayers out of Total * $11.8M) * 0.0	(% Central Zone Ratepayers out of Total * 11.8M) + (% Non-Central Zone Ratepayers out of Total * 11.8M * 1.0)	$11.8 Million

This compromise mitigates rate shock, permits IAWC to recover its full revenue requirement, and adheres to rate design principles of cost causation, gradualism, and affordability without shifting some portion of the $11.8 million at issue onto the IAWC's non-Central Zone water or wastewater customers for a potentially longer period, until IAWC's next rate case.

2. COS Studies

a. IAWC's Position

IAWC explains that its water and wastewater COS studies, provided as IAWC Exhibits 7.05 and 7.06, are analyses that calculate IAWC's total investment and operating costs incurred to provide service to various customer groups, or service classes, for the purpose of establishing cost-based rates. IAWC explains further that the COS studies provided in this proceeding allocate the Company's total revenue requirement for water and wastewater operations, respectively, to various cost categories. The revenue requirement for each of those cost categories are then allocated to customer classes using a class allocation factor that differs depending on the nature of the costs.

IAWC explains that the methodology used in the COS studies in this proceeding differs from that used in Docket No. 16-0093, where the Company's external consultant allocated account balances directly to customer class using an appropriate class allocation methodology. In this proceeding, however, the Company has determined that its proposed two-step COS allocation methodology simplifies its cost-of-service analysis and makes the resulting allocation to customer classes more intuitive. IAWC states that adopting an approach that first allocates revenue requirement and account balances to cost categories, after which the cost category revenue requirements are allocated to customer classes, unbundles the Company's revenue requirement into business functions and allows stakeholders to see what the COS is for each customer class by business function.

Notably, IAWC states that no party has offered any substantive criticisms of the Company's proposed methodologies – Staff is the only party to specifically object to the Company's proposed COS methodologies, and that objection is based entirely on a preference to avoid deviation from methodologies previously reviewed and approved by the Commission. IAWC points out that Staff specifically recommends that the Commission bind IAWC to its historical COS analyses "until such a time that the Company's methodology is litigated and determined to provide. . . beneficial improvements…" Staff Ex. 15.00 at 21. IAWC points out that it is unclear what additional litigation Staff seeks, given that this is a contested case, IAWC proposed its COS methodologies at the outset of this proceeding, and all parties, Staff included, have been offered the opportunity to litigate its analyses throughout this proceeding. And, IAWC argues, short of implementing the rates based on the COS analyses offered here, Staff has not clarified how "beneficial improvements" can otherwise be demonstrated. IAWC also asserts that Staff has not offered any evidence that IAWC's COS studies and underlying analyses are somehow deficient or incorrect, nor has Staff provided any alternative analyses for consideration.

IAWC notes that IIWC/FEA is the only other party in this proceeding to raise concerns about the Company's proposed COS studies. IAWC explains that while IIWC/FEA generally agree with the classifications and cost allocations in the Company's COS studies, IIWC/FEA identify a concern that the Company's maximum day and maximum hour ratios may need to be updated and recommends that IAWC perform an updated demand study in its next rate case proceeding. IAWC notes that concern, and IAWC's agreement to perform an updated demand study in its next rate case proceeding, is discussed further below.

IAWC states that it provided substantial evidence that its COS studies are reasonable and appropriate, including testimony discussing its rationale for implementing a change in methodologies. IAWC argues that Staff ignores this evidence, and instead mischaracterizes the Company's testimony and discovery responses, arguing that IAWC "used a different methodology in this rate case because the same methodology was used and approved in a COS study for an electric utility filed by MidAmerican Energy Company." Staff IB at 49. IAWC asserts that this assertion, which is based on a discovery response provided by IAWC (*see* Staff Ex. 7.0, Att. 7.01) is simply wrong.

IAWC explains that in that discovery request, Staff asked for an explanation of the differences between the COS studies submitted in this proceeding compared to those approved in Docket No. 16-0093. Staff also asked for a detailed rationale for each change. In response, IAWC explained that it changed its COS methodologies:

> because the two-step approach simplifies the cost-of-service analysis and makes the resulting allocation to customer class more intuitive. This approach unbundles revenue requirement into business functions and allows stakeholders to see what the cost of service is for each customer class by business function.

Staff Ex. 7.0, Att. 7.01.

IAWC explains that its discovery response clarified that the COS studies utilized in this case and the approach described above and in IAWC Exhibit 7.00 are similar in these respects to the electric COS study filed by MidAmerican Energy Company in Docket No. 14-0066. IAWC asserts that it has been clear about the rationale behind its proposed COS studies and methodologies, a rationale that Staff has not addressed or rebutted, and Staff's misstatement of the record is wrong and should be rejected.

Moreover, IAWC states that it has demonstrated that the operational differences between water/wastewater utilities and electric utilities (like MidAmerican Energy Company) do not change the fundamental process of functionalizing, classifying, and allocating costs which is at issue in this case. Electric utilities and water utilities both have production, transmission, distribution, metering, and customer service functions to which revenue requirements are assigned and that are allocated to customer class using a variety of allocation methodologies. The fact that they operate differently does not change this fundamental foundation for how the COS study in each case could or should be structured.

IAWC argues that it is well-established that prior Commission orders are not controlling: the Illinois Supreme Court has "long recognized that the Commission 'is not a judicial body, and its orders are not res judicata in later proceedings before it.'" *Commonwealth Edison Co. v. Ill. Commerce Comm'n*, 2016 IL 118129, ¶24 (*citing Miss. River Fuel Corp. v. Ill. Commerce Comm'n*, 1 Ill. 2d 509, 513 (1953)). And, IAWC asserts, the Commission must consider the issues in this proceeding based on the evidence and record established in this docket. *Commonwealth Edison Co. v. Ill. Commerce Comm'n*, 405 Ill. App. 3d 389, 407-408 (2nd Dist. 2010); *Miss. River Fuel Corp*, 1 Ill. 2d at 513.

IAWC asserts that the Company's proposed COS studies in this proceeding are intuitive, easier to understand, and a significant improvement over the Company's past studies. IAWC further states that the evidence and record in this proceeding are clear – IAWC's proposed COS studies, including its classifications and cost-allocations, are reasonable, supported by the evidence, and should be adopted.

Water COS Study

IAWC states that it has provided two water COS studies in this proceeding, consistent with its proposal to consolidate water service rates: a primary COS study that includes all water service except for Pekin, and a separate COS study for the Pekin district. IAWC's water COS study allocates the total revenue requirement for IAWC water operations to various cost categories, which are then allocated to the various customer classes IAWC services, with different cost categories allocated to customer classes using a class allocation factor that differs depending on the nature of the costs.

IAWC explains that most of the accounts that make up the Company's revenue requirement are directly assigned to a single cost category (including net plant for Collecting and Impounding Reservoirs, Purchased Water for water pumping, and Water Treatment labor expenses). Accounts not directly assignable to a single cost category are allocated among cost elements based on appropriate allocation factors (including general and intangible plant, miscellaneous rate base deductions, administrative and general expenses, and payroll taxes). IAWC explains that the cost categories that the Company assigns to specific accounts include:

- Variable Costs, such as purchased electric power, purchased water, treatment chemicals and waste disposal costs that tend to vary directly with the amount of water consumed and are allocated to customer classes in direct proportion to each class's annual water consumption.
- Capacity Costs, such as source of supply, water pumping, water treatment, transmission mains, distribution mains, and storage, which refer to the cost of owning, operating, and maintaining the Company's water production, pumping, and distribution system that do not vary directly with the amount of water consumed and are generally allocated to customer classes through the Base/Extra capacity methodology.
- Customer Related Costs, which are allocated to customer classes based on a weighted number of customers calculation (including metering costs and service line cost components) or based on the total number of customers in each class (including customer service cost components).
- Fire Service Costs, which are determined through information on firefighting requirements provided by the American Insurance Association and are split between private fire and public fire customer classes based on the relative potential water demand for each class.

IAWC explains that its water COS study is based on the AWWA M1 manual (Principles of Water Rates, Fees, and Charges), which provides guidance on the appropriate allocation methodologies to use in allocating different types of costs to customer classes. IAWC notes that pursuant to the AWWA M1 manual's guidance, it uses the Base/Extra capacity method to allocate production and distribution costs to customer classes. As Staff witness Boggs and IIWC/FEA witness Collins acknowledge, the Base/Extra capacity method is generally accepted as a sound method for allocating the cost of water service and was used by IAWC in previous rate cases. IAWC notes that the Base/Extra capacity methodology relies upon a combination of the average water consumption across the year for each customer class (the "Base" component) and the difference between each class's average daily consumption and estimated maximum daily consumption for the year (the "Extra" component) to allocate the fixed costs of the water production and distribution system to customers. IAWC explains that for each class, the Base/Extra allocator is calculated as a weighted average of the Base and Extra allocators, resulting in maximum day peaking factors and maximum hour peaking factors that are used in the COS study to allocate revenue requirements for various cost categories to customer class. The Company's maximum day and maximum hour peaking factors by customer class are the same factors that were used in the COS studies provided in Docket No. 16-0093. IAWC notes that while no party contests the use of the maximum day and maximum hour peaking factors in this proceeding, IIWC/FEA recommend that the Company update its peaking factors in its next rate case filing.

IAWC asserts that it provided substantial information in this proceeding explaining how each of its water cost categories were allocated to customer classes based on specific cost classifications and allocation methodologies. IAWC points out that no party contested the analyses underlying these cost allocations, including the allocation

methodologies and the cost categories used. IAWC contends that they should be approved.

Wastewater COS Study

IAWC states that it has provided two wastewater COS studies in this proceeding, consistent with the Company's proposal for wastewater rate design: a COS study for the Chicago Metro wastewater service, which is the legacy group of customers from the Company's last rate case (Docket No. 16-0093), and a second COS study for Central Zone rates, which includes all of the acquisitions included in this proceeding since Docket No. 16-0093 was completed. As with the water COS analyses, IAWC's wastewater COS study allocates the total revenue requirement for IAWC wastewater operations to four cost categories, which are then allocated between two service classifications IAWC serves (Collection Only, and Collection & Treatment) with different cost categories allocated to customer classes using a class allocation factor that differs depending on the nature of the costs.

IAWC explains that like water, the majority of the accounts that make up the Company's revenue requirement are directly assigned to a single cost category (including net plant for Treatment & Disposal functions, Sewage Treatment labor expenses, and plant related to Customer Facilities). IAWC states that accounts not directly assignable to a single cost category are allocated among cost elements based on appropriate allocation factors (including general and intangible plant, miscellaneous rate base deductions, administrative and general expenses, and payroll taxes).

IAWC provided substantial information in this proceeding explaining how each of its wastewater cost categories were allocated to service classifications based on specific cost classifications and allocation methodologies. IAWC notes that no party contested the analyses underlying these cost allocations, including the allocation methodologies and the cost categories used. IAWC concludes that they should be approved.

b. Staff's Position

Staff recommends the Commission reject the Company's COS allocation factor approach used in this proceeding.

The Company implemented a significant change in its COS study approach for the instant rate case filing. In this case, the Company first allocated the revenue requirement and account balances to cost categories. IAWC Ex. 7.00 at 42, 54. Staff witness Boggs explained that the Company used a different allocation approach in this case than the approach that the Commission approved in the Company's last rate case, Docket No. 16-0093. Staff Ex. 7.0 at 13. In Docket No. 16-0093, the Commission-approved COS study allocated account balances directly to customer classes using the appropriate class allocation methodology as detailed in Staff witness Boggs' direct testimony. Staff Ex. 7.0 at 10.

Staff witness Boggs explained that the COS study determines the cost to serve customers and, thus, provides the basis for designing rates for a utility. Specifically, a COS study is performed to allocate costs among all customer classes based on the responsibility of each respective customer class for the costs imposed on the utility. In other words, the various costs on the utility system are allocated among the customer

classes according to cost causation principles. The results are summarized in rate of return for customer classes, which document the relative performance of each customer class in recovering costs. Classes generating above average returns are considered to be paying more than their fair share of the Company's revenue requirement, while classes with below average returns are viewed as paying less than their fair share of the Company's revenue requirement. *Id*.

IAWC stated that it used a different methodology in this rate case because the same methodology was used and approved in a COS study for an electric utility filed by MidAmerican Energy Company in Docket No. 14-0066. Staff Ex. 7.0, Att. 7.01. Staff witness Boggs asserts that a COS study allocation method approved in an electric utility rate case is not appropriate for a water and sewer utility COS study. Staff Ex. 7.0 at 13. There are a multitude of differences between electric and water and sewer utilities so using methods that are specific to water and sewer utilities consistent with AWWA M1 manual are applicable in this proceeding. *Id*. Additionally, the COS study methods provided in the Company's most recent three rate cases (Docket Nos. 09-0319, 11-0767 and 16-0093) were consistent with what the Commission has approved in other water/sewer utilities in Illinois since at least 2009. *Id*. at 14.

Staff witness Boggs clarified that Staff does not object to the Company's Base-Extra Capacity method used in the Company's COS study. *Id*. at 11. Rather, Staff objects to the Company's method to first allocate the revenue requirement and account balances to cost categories and, after determining a revenue requirement for each cost category, the allocation of the cost category revenue requirement to each customer class using a single allocation methodology. *Id*. Using a new two-step approach obscures information Staff gleans from the typical water/sewer COS study, which allocates the account balances directly.

Staff argues that IAWC witness Rea mischaracterizes Intervenor testimony when he states that all parties to this proceeding have approved of the Company's proposed allocation process except for Staff. Staff also asserts that Mr. Rea mischaracterizes Intervenor testimony when he states that all parties to this proceeding have approved of the Company's proposed allocation process except for Staff. *Id*. at 56-57. While most Intervenors, including Staff have agreed that the Base-Extra Capacity approach to allocation is an accepted industry practice (Staff Ex. 7.0 at 9; AG Ex. 2.0 at 9; IIWC/FEA Ex. 1.0 at 7), none except Staff have commented on Mr. Rea's proposed process to allocate a revenue requirement for each cost category first and then allocate the cost category revenue requirement using a single allocation methodology for each cost category which deviates from the allocation process that has been approved by the Commission for at least a decade. Staff Ex. 15.0 at 19-20.

Staff argues that Mr. Rea errs when he contends that Staff's primary consideration for the COS study allocation approach is "doing things the way we've always done them." IAWC Ex. 18.00 at 56. His statement is inaccurate. Staff disagrees with the Company presenting a COS study methodology that deviates from the methods that have been litigated and found by the Commission to be reasonable for developing rate designs for water and wastewater utilities. Mr. Rea's methodology has not been proven to be a "beneficial improvement" to water and wastewater COS studies and he has failed to make

a convincing argument such that the Commission should consider his approach for approval.

c. IIWC/FEA's Position

IIWC/FEA generally agree with the classifications and cost allocations in the Company's Class Cost of Service Study ("CCOSS"). However, IIWC/FEA are concerned that the maximum day and maximum hour ratios need to be updated because, as discussed in more detail below, relying on the peak demand ratios contained in the Company's 2016 load study for the Company's current CCOSS may result in an inaccurate measure of the cost to the Company of providing service to each customer class. IIWC/FEA Ex. 10 at 5.

IIWC/FEA witness Collins explained peak demand ratios as follows:

> The class base, maximum day and maximum hour rates of water usage for customer classes serve as the basis for allocating base, maximum day and maximum hour capacity costs between the Company's customer classes.
>
> Maximum rates of water usage are expressed in terms of peak demand ratios, or peaking factors. The maximum rate of usage, whether daily or hourly, can be expressed as a percent of average annual usage (i.e., base usage). This percentage relationship to the base usage is the peaking factor.
>
> Typically, weather sensitive customers whose water consumption increases during the summer due to discretionary outdoor water use have higher peak demand ratios than customers whose water use is steady year round.

IIWC/FEA Ex. 1.0 at 4.

IIWC/FEA point out the maximum day and maximum hour peaking factors by customer class used in this proceeding are the same as those used in the COS studies provided in the Company's last base rate case proceeding, Docket No. 16-0093. IAWC Ex. 7.00 at 45. IIWC/FEA note, that according to the Company, IAWC has not conducted a new demand study in this proceeding because the Commission's Order in Docket No. 16-0093 stated that assuming there has not been a significant change in the ratio peak to average demand, IAWC needs to "only conduct a demand study using the AWWA-method once every ten years." *Id*. (quoting Docket No. 16-0093, Order at 90).

IIWC/FEA point out, since its last rate case, IAWC has acquired 15 new water systems and 14 wastewater systems, totaling over sixty thousand additional customer connections. IAWC Ex. 1.00 at 6. These new systems consist primarily of residential customers. IIWC/FEA Ex. 1.1. IIWC/FEA suggest this is significant to note because residential customers typically have larger extra capacity demands exceeding their base consumption when compared to non-residential customers. IIWC/FEA Ex. 1.0 at 5. IIWC/FEA indicate the Company has not examined the maximum day or maximum hour demand ratios of all of these newly acquired systems. IIWC/FEA Ex. 1.1. IIWC/FEA identify their concern that since the Company has continued to use the demand ratios based on the 2016 load study in the current CCOSS, these ratios may not result in an

accurate measure of the Company's cost of providing service to each customer class. As IIWC/FEA witness Collins explained, "relying on prior peak demand ratios will not accurately reflect each customer class's extra capacity demand, and therefore will not accurately allocate extra capacity costs across customer classes." IIWC/FEA Ex. 1.0 at 5-6.

IIWC/FEA recommend that the Company be required to conduct a new demand study which includes the load characteristics of the 15 newly acquired water systems and any other systems acquired before the next rate case and utilize the new maximum day and maximum hour customer class peaking factors in the CCOSS for the next rate case. *Id*. at 7. IIWC/FEA reveal the Company agrees "it would be useful to update the Company's capacity study in the next rate case to reflect the acquisitions the Company has made and might make before the filing of the next rate case." IAWC Ex. 28.00 at 40. IIWC/FEA recommend that the Commission require the Company to perform an updated demand study, which includes load data for all water systems acquired since the Company's last rate case up to its next rate case, for use in the Company's next water CCOSS.

d. Commission Analysis and Conclusion

No party takes issue with the Company's Base-Extra Capacity method used in the COS studies. Staff objects to IAWC's allocation factor, which first allocates the revenue requirement and account balances to cost categories and then to customer classes using a class allocation factor that differs depending on the nature of the costs.

The Commission is not averse to trying new allocation factors. As parties note, the allocation factor used by IAWC was approved once before for MidAmerican Energy Company. However, having reviewed the record, the Commission finds that IAWC has not fully supported its proposed change in this proceeding. IAWC makes assertions that the new two-step process is more simple, more intuitive, and will provide benefits to stakeholders. Staff claims that IAWC's proposed allocation factor obscures information that Staff uses in its analysis of the COS studies.

The traditional method used by IAWC, and approved by the Commission, is consistent with the AWWA M1 manual. Considering the record before the Commission, IAWC's new allocation factor methodology is rejected. IAWC is directed to provide COS studies for this rate case that apply the class allocation methods used in the COS studies previously approved in the last three IAWC rate cases.

IIWC/FEA's request for a new demand study, which is agreed to by the Company, is addressed in Section VIII.A.4 of this Order.

3. Central Division Class Revenue Allocation, including Large Public Authorities Class

a. IAWC's Position

IAWC states that its water COS study indicates that rates for the Central Zone Large Public Authorities class must be raised by approximately 55.6% in order to recover its COS. IAWC explains that in order to gradually increase rates to recover the class's COS, the Company proposed to increase rates by 25% with the uncollected revenue

requirement reallocated to other customer classes based on total present rate revenue by class.

IAWC states that to mitigate the reallocation of the cost to serve the Large Public Authorities Class from other customer classes, Staff recommends that the Company increase the Large Public Authorities water rate by 35%, reallocating the remaining 20.6% revenue shortfall to other customer classes. IAWC notes that in the interest of narrowing the contested issues in this proceeding, the Company accepted Staff's recommendation.

b. Staff's Position

Staff argues that the Commission should approve Staff's recommendation to increase the Large Public Authorities class rate by 35% to move the Large Public Authorities class closer to full COS recovery. Staff Ex. 7.0 at 31. The Company initially proposed to increase rates for the class by 25%, which is approximately one half of the 55.6% increase that the COS study indicates it would take for the Company to recover the full cost to serve this class. IAWC Ex. 7.00 at 9.

Mr. Boggs explained in testimony that, as with any customer class, one of the primary functions of rate design is to set rates so that the Company can fully recover the cost to serve a customer class from those who cause the Company to incur those costs. Mr. Boggs explained in testimony that, as with any customer class, one of the primary functions of rate design is to set rates so that the Company can fully recover the cost to serve a customer class from those who cause the Company to incur those costs. Staff Ex. 7.0 at 30. In this case, the Large Public Authorities class would require a 55.6% rate increase so the Company could fully recover the cost to serve the class. Staff Ex. 7.0, Att. 7.05. Because the Company proposes only a 25% rate increase for this class, the remaining approximately 30.6% of the needed rate increase would need to be collected from other customer classes. IAWC Ex. 7.00 at 9-10. The Company's initial proposal was to recover $419,587 from Central residential customers; $126,535 from Central commercial customers; $39,372 from Central industrial customers; $30,479 from Central public authority customers; $60,447 from Central resale customers; and the additional $12,015 from Central miscellaneous and private fire customers. Staff Ex. 7.0, Att. 7.05. The Company makes several proposals in this proceeding to reallocate revenues to other customer classes in an effort to mitigate the increases in revenue recovery that would be necessary for the Company to collect the full cost to serve smaller customer classes. Staff argues that proposing to increase rates for customer classes that do not contribute to the costs to serve - in this instance, the Large Public Authorities class - can result in unjust rate increases that must be absorbed by customers that are burdened with re-allocated costs that are above and beyond the cost the Company incurs to serve them. Therefore, Staff recommends increasing the Large Public Authorities class rate by 35% to move this rate class closer to full cost recovery.

c. IIWC/FEA's Position

IIWC/FEA agree that an increase of slightly above 50% is necessary but propose a more reasonable 27% increase for this class. IIWC/FEA Ex. 2.0 at 6. The IIWC/FEA proposal is greater than the 25% increase proposed by the Company and is in line with the system average increase for the Central Water Division. *Id*. at 6. Importantly, IIWC/FEA's proposal provides a more gradual movement toward COS. Such gradual

movement is more appropriate given the IIWC/FEA concerns raised regarding the accuracy of the Company's CCOSS. *Id*. at 6. IIWC/FEA assert the increases proposed by Staff and the Company should be rejected and IIWC/FEA's more reasonable recommended increase of 27% for the Large Public Authorities class should be accepted.

d. Commission Analysis and Conclusion

The Commission finds that increasing the Large Public Authorities class rate by 35% and reallocating the remaining 20.6% revenue shortfall to other customer classes, as agreed by Staff and the Company, is reasonable and is approved. The end purpose is to move the Large Public Authorities class more towards cost-based rates. This increase is a gradual step toward that purpose. Staff's proposal allows the Company to recover a substantial amount of its COS from the Large Public Authorities class while recognizing that a more significant increase in rates may result in rate shock for customers.

4. Central and Pekin Customer Charges

a. IAWC's Position

IAWC explains that its current rate structure for its Central Water, Lincoln, and Pekin rate zones include a monthly fixed customer charge that varies with the size of the meter and volumetric rates. IAWC states that the primary residential water service meter charge for most customers is set at $20 per month for a 5/8" meter, and the meter charge increases with the size of the meter. With the exception of South Beloit, Lincoln, and Villa Grove, IAWC is not proposing to change its monthly meter charges in this proceeding. IAWC states that its proposed customer charges generally collect the revenue requirement allocated to the metering, service line, and customer service business functions provided in the water COS study, ensures simplicity in the fixed rate assessed to customers, provides consistency in rates in the midst of a complicated rate design and fluctuating volumetric rates, and should be adopted.

IAWC notes that Staff argues that the customer charges for a 5/8" meter should be set at $18.21 for Central Zone customers and $18.41 for Pekin customers, in an effort to perfectly align with COS calculations. IAWC argues that Staff's proposal should be rejected – while Staff attempts to closely align the customer charge with COS calculations, the customer charge does not recover the entirety of the Company's total amount of fixed cost to provide service to customers. Moreover, Staff's proposed charges introduce a calculation that is neither simple nor consistent with previous rates and may introduce an element of confusion for ratepayers that observe a $1.79 (Central Zone) or $1.59 (Pekin) decrease in their monthly service charge, while simultaneously experiencing an increase in volumetric rates. IAWC contends that Staff's proposed changes to the Company's fixed customer charges offer no significant change in cost recovery, less clarity, less efficiency, and less consistency, and should be rejected.

IAWC points out that IIWC/FEA also propose a change to the Company's customer charges, recommending an increase in charges for meter sizes that are two-inches in diameter and greater, while removing an equivalent amount of revenue from the Company's proposed volumetric rate blocks (excluding the first block). IAWC argues that this proposal should also be rejected. Although IIWC/FEA argue that the "costs of

providing water utility service are primarily fixed in nature," IIWC/FEA provide no analysis, evidence, or rationale to support that proposal. IIWC/FEA does not make a recommendation addressing how much additional revenue should be collected from increased meter charges, or why the equivalent flow ratios established by the AWWA should be abandoned in this proceeding. IAWC concludes that IIWC/FEA's proposed change to the Company's customer charges should be rejected.

b. Staff's Position

The Company proposes to set the residential Customer Charge for 5/8" meter customers at $20 for Central Division and Pekin water customers. IAWC Ex. 7.00 at 7; IAWC Ex. 7.01 at 1. IAWC did not calculate a Customer Charge for any water service area in this proceeding. IAWC Ex. 7.00 at 7. The Company indicates setting meter charges precisely implies a level of precision that is not warranted for rate design purposes. IAWC Ex. 18.00 at 47. The Company states that simplicity and consistency in its Customer Charge are more reasonable and plausible than Staff's proposal of cost-based rates. *Id*. at 48.

The Company argues that the Customer Charge does not recover the entirety of the Company's total amount of fixed cost to provide service to customers, and that Staff's proposed charges introduce a calculation that is "neither simple nor consistent with previous rates and may introduce an element of confusion for ratepayers…." IAWC IB at 111-12. Staff argues that this is false and pure speculation by the Company. It is doubtful that ratepayers completely understand how Customer Charges are calculated nor what costs the Company attempts to recover. Staff states it would seemingly be easier for the Company to explain to an inquiring customer that Customer Charges are necessary to recover the fixed customer costs to provide service rather than explain to the customer that IAWC's Customer Charges are an arbitrary number that is set by the Company because it is easier for a ratepayer to understand a $20 Customer Charge than an $18.21 Customer Charge.

Staff recommends the Commission reject the Company's proposal to set the residential Customer Charge for 5/8" meter customers at $20 for Central Division and Pekin water customers (IAWC Ex. 7.00 at 7; IAWC Ex. 7.01 at 1) because the Company's proposed Customer Charges are not cost-based. Staff Ex. 7.0 at 24-25.

According to the Company's COS study (Staff Ex. 7.0, Att. 7.03), cost-based rates for Central Zone water indicate the Company would be able to recover the fixed costs that the Company incurs with a Customer Charge for a 5/8" meter of $18.21. *Id*. This fixed cost recovery would include Lincoln water customers in the Central Zone as proposed by the Company. For Pekin, the cost-based Customer Charge to recover the fixed costs to serve residential water customers calculates to $18.41 for a 5/8" meter. *Id*. Staff witness Boggs recommends approval of its proposed, cost-based Customer Charges.

IIWC/FEA indicates that it would be more appropriate to recover a portion of any approved revenue increase through the fixed monthly meter charges, with an offsetting reduction in volumetric rate blocks. IIWC/FEA Ex. 1.0 at 14. Staff recommends the Commission reject IIWC/FEA's recommendation to recover a portion of the revenue deficiency by increasing the meter charges for meter sizes that are two-inches and

greater. Staff Ex. 15.0 at 27. Specifically, IIWC/FEA does not provide any rationale or cost basis behind its proposal other than it would be more appropriate to make the change so that an equivalent amount of revenue could be recovered through the Usage Charge to offset the additional revenue being recovered through the Customer Charge from customers with meter sizes two-inch or larger. *Id*. The Commission has routinely approved water rate designs around the standard of the AWWA M1 manual which provides equivalent meter size pricing factors that correspond to the amount of water that flows through meter sizes greater than 5/8". Because IIWC/FEA does not provide a cost basis or rationale behind its proposal, Staff argues that the Commission has no foundation from which to consider approving the proposal and therefore, should reject it.

c. IIWC/FEA's Position

IIWC/FEA note the Company proposes to leave its current monthly meter charges unchanged, and to collect its claimed revenue deficiency primarily through volumetric rates. IAWC Ex. 7.00 at 7-8. IIWC/FEA propose to recover a portion of any approved revenue increase through the monthly meter charges, with an offsetting reduction in the volumetric rate blocks. IIWC/FEA Ex. 1.0 at 14.

Company witness Rea disagrees with the IIWC/FEA proposal stating IIWC/FEA provided no rationale to support their proposal other than to say it would increase fixed cost recovery and reduce volumetric revenues. IAWC Ex. 18.00 at 48. However, IIWC/FEA did indeed provide a rationale. IIWC/FEA witness Collins noted that the costs of providing water utility service are primarily fixed in nature, and importantly do not vary with the volume of water used by customers. IIWC/FEA Ex. 1.0 at 14. Although Company witness Rea agrees with this assessment, the Company's rate structure is primarily volumetric. IAWC Ex. 28.00 at 38.

IIWC/FEA explain that the Company's CCOSS shows that for the Central Water Division, approximately 5.6% of the total COS is variable and 94.4% is fixed. IIWC/FEA Ex. 2.0 at 8 *citing* Staff Ex. 7.05. Despite this fact, IIWC/FEA point out that under the Company's current rates, approximately 45% of revenues are collected through meter charges. IIWC/FEA Ex. 2.0 at 8. Under the Company's proposed rates, only about 36% of revenues would come from meter charges. *Id*. at 8.

IIWC/FEA emphasize that the costs of providing water utility service are primarily fixed in nature, and do not vary with the volume of water used by customers. Even so, IIWC/FEA note the Company continues to rely heavily on volumetric charges for collecting fixed costs. Since the Company's rate structure is largely based on volumetric charges, the Company recovers both Base and Extra Capacity costs through its volumetric charges. *Id*. at 8. IIWC/FEA argue this approach does not reflect a cost-based rate structure, fails to provide accurate price signals to customers, and can contribute to revenue instability for the Company. *Id*. at 8.

IIWC/FEA argue it is more appropriate, from a cost causation standpoint, to recover a portion of any approved revenue increase through the fixed monthly meter charges, with an offsetting reduction in volumetric rate blocks. IIWC/FEA Ex. 1.0 at 14. Therefore, IIWC/FEA witness Collins recommended recovering a portion of the revenue deficiency by increasing the meter charges for meter sizes that are two-inches and greater. *Id*. In doing so, an equivalent amount of revenue should be removed from the

Company's proposed volumetric rate blocks, excluding the first block of the Metered General Service rate structure. *Id*. at 14-15.

IIWC/FEA specify it is appropriate for the first volumetric rate block to be priced higher than the tail blocks due to the fact that the first volumetric block of the Metered General Service rate structure should primarily recover the utility's fixed costs of providing service to smaller volume users, such as residential and commercial customers. *Id*. at 15. IIWC/FEA suggest the tail blocks should be less expensive because they should primarily recover the utility's variable cost of providing service. *Id*.

Company witness Rea also criticizes IIWC/FEA's proposal because IIWC/FEA witness Collins did not make a recommendation on how much additional revenue should be collected from increased meter charges for two-inch meters and above. IAWC Ex. 18.00 at 48. While Company witness Rea is correct, IIWC/FEA point out the Company's rate design and proof of revenue workpapers are not set up in a manner that allows for efficient development and testing of alternative rate design by customer class and district. IIWC/FEA Ex. 1.0 at 15. However, IIWC/FEA witness Collins explained in his rebuttal testimony that, at a minimum, he recommends the amount of revenue collected under present meter charges as a percent of total revenue should be maintained, which would provide the Company more revenue stability than provided by the Company's proposal. IIWC/FEA Ex. 2.0 at 9.

IIWC/FEA assert that their proposal should be approved as it is simply more appropriate, from a cost causation standpoint, to recover a portion of any approved revenue increase through the fixed monthly meter charges, with an offsetting reduction in volumetric rate blocks. IIWC/FEA further argue that at a minimum, the percentage of revenue requirement collected through meter charges should remain the same as it is under current rates for those customers with meters of two-inches and above.

d. Commission Analysis and Conclusion

IAWC proposes to leave the monthly Customer Charge for a 5/8" meter for Central and Pekin customers unchanged at $20 per month. Staff proposes that the meter charges be based on the COS, which for demonstrative purposes would be $18.21 for the Central zone and $18.41 for the Pekin zone based on the Company's current COS study. IAWC states that "simplicity and consistency justifies leaving monthly meter charges unchanged . . . ." IAWC Ex. 18.00 at 48. IAWC opposes Staff's proposal primarily because IAWC believes it would cause customer confusion. The Commission finds that Staff's proposal to base the Customer Charge for a 5/8" meter for the Central and Pekin customers on the COS is just and reasonable. To the extent customers in those areas are confused as to why their Customer Charge is being reduced, IAWC should have the resources to address any such inquiries. The Commission further finds that, based on record evidence, IIWC/FEA's proposal lacks sufficient cost basis and foundation for the Commission to consider such a change. As the Company notes, IIWC/FEA make no recommendation regarding the amount of additional revenue that should be collected from increased meter charges for larger meters.

5. Lincoln Water Rates

a. IAWC's Position

IAWC states that in direct testimony, it proposed to continue movement towards single tariff pricing by moving rates in its Lincoln water tariff zone closer to the Company's Central Zone water rates. To do so, IAWC explains, it included revenue requirements for the Lincoln tariff zone with the Central Zone revenue requirements as an initial step that will eventually result in consolidating Lincoln Zone rates with Central Zone rates. Based on the Company's water COS study, the Lincoln zone would require an increase in its revenue requirement of $3.6 million on a stand-alone basis. IAWC states that it proposed, however, to limit that increase to approximately $2.3 million, which is roughly halfway between the increase that Lincoln customers would see if Lincoln rates continued to be calculated on a stand-alone basis and the total increase that the Company proposed in this proceeding.

IAWC notes that Staff acknowledged that under the Company's proposal, Lincoln water customers would experience an increase of approximately 25.79% to its customer charge, and an increase of approximately 84.42% to its usage charge, while approximately $1.3 million in revenues would be recovered from non-Lincoln customers. IAWC states that to reduce the amount of revenues that would be recovered from non-Lincoln customers, and in light of the benefits of allowing IAWC to spread out capital improvement costs over a larger customer base thereby mitigating potential rate shock when large improvement projects need to be made, Staff recommends that the Commission reject IAWC's proposed partial consolidation and instead approve full consolidation of the Lincoln water territory into the Central Zone water territory, increasing the customer charge for Lincoln water customers by 25.79% and increasing the usage charge by 139.51%. IAWC states that in the interest of narrowing the contested issues in this proceeding, IAWC accepts Staff's recommendation.

IAWC states that, while this issue is agreed between Staff and the Company, the AG argues that the Commission should reject Staff's proposal and either adopt IAWC's original proposed partial consolidation and rate increase, or that IAWC be required to submit an alternative Lincoln rate design that limits the revenue increase for any Lincoln water customer class to 50% of revenues for the class under current rates. IAWC states that the AG also recommends that, in the event the Commission does not adopt IAWC's proposal to reallocate a portion of its wastewater revenue requirement to water customers, any subsequent rate transition path the Company submits to move Central wastewater customers from the current rates to consolidated cost-based rates should also limit any single increase to 50% of revenues under the prior rate structure.

IAWC argues that the AG's position should be rejected. IAWC explains that the basis of AG witness Larkin-Connolly's argument that the revenue increases proposed for Lincoln customers are "excessive" is a misreading of the statutory language of Act by a witness with no legal background, proffering a novel interpretation of the Act for the first time in rebuttal testimony. Specifically, IAWC points out, Mr. Larkin-Connolly argues that Section 8-306(a) of the Act must be interpreted in the context of a base rate proceeding to require that "no customer should experience a bill increase of more than 50% in the

first billing period that new rates are adopted." AG Ex. 4.0 at 23. IAWC concludes that this interpretation has no basis in law or fact and must be rejected.

IAWC states that Section 8-306 of the Act requires that the Commission "shall prepare, make available to customers upon request, and post on its Internet web site information concerning the service obligations of water and sewer utilities and remedies that a customer may pursue for a violation of the customer's rights." 220 ILCS 5/8-306(a). This information is intended to "specifically address the rights of a customer of a water or sewer utility" in specific situations, including when "a customer's bill increases by more than 50% within one billing period", as well as when "a rate is filed, including without limitation a surcharge or annual reconciliation filing, that will increase the amount billed to the customer." 220 ILCS 5/8-306(a)(2), (6). In other words, IAWC explains, Section 8-306 establishes an informational requirement for the Commission regarding customer rights and has no bearing on a utility's tariff rate increase under Section 9-201 of the Act. Section 8-306 itself clearly delineates between a situation in which a customer's bill abruptly changes by more than 50% within one billing period, versus a situation in which a customer's bill changes due to a rate filing. IAWC asserts that it is a tenet of statutory interpretation that statutes should be considered as a whole, and "words and phrases should not be construed in isolation but must be interpreted in light of other relevant provisions of the statute." *People ex rel. Madigan v. Wildermuth*, 2017 IL 120763, ¶17; *citing Mich. Ave. Nat'l Bank v. Cty. of Cook*, 191 Ill. 2d 496, 504 (2000). IAWC argues that the AG's novel interpretation of the Act would ignore the other situations identified in Section 8-306(a), conflating abrupt changes between billing periods with bill increases related to rate filings in pursuit of a new and untimely proposed limit on rate increases allowed in this proceeding.

Further, IAWC explains, the Commission has never interpreted Section 8-306(a) to limit or somehow cap an increase in rates resulting from a rate case proceeding where the Commission has reviewed a Company's proposed rates and determined that they are just and reasonable pursuant to Section 9-201. IAWC states that Mr. Larkin-Connolly offers no evidence to support this novel interpretation of the Act, much less to demonstrate how such an interpretation comports with the other provisions of the Act governing changes in rates and hearings before the Commission to evaluate the propriety of those proposed changes. IAWC argues that the AG's recommendation that the Commission reject movement towards single tariff pricing and consolidation of Lincoln water customers with Central Zone customers, as well as the AG's proposal to impose a limit on rate increases in rate case proceedings regardless of the record evidence, should be rejected.

b. Staff's Position

Staff asserts that the Commission should approve Staff's proposal to consolidate the Lincoln water division with the Central Zone water division. The Company states that, in the interest of narrowing the issues in this proceeding, it does not oppose Staff's proposal to consolidate the Lincoln water division with the Central Zone water division. IAWC Ex. 18.00 at 2-3.

Staff recommends fully consolidating the Lincoln water service territory and the Central Zone service territory because it would move the Company toward single tariff

pricing, which is the use of a unified rate structure for multiple systems that are owned and operated by a single utility, but that may or may not be contiguous or physically interconnected. Staff Ex. 7.0 at 18. Staff states that consolidated rates service territories would allow IAWC to spread capital costs over a larger base of customers; thus, mitigating rate shock to a smaller standalone division's customer base when infrastructure improvements become necessary in a particular rate area. In addition, in the long-term, consolidated rates will allow the customers to experience lower rates via fewer rate cases and lower rate case expenses.

The Company provided a COS study and rate design for the Lincoln water service territory that assumes Lincoln is a stand-alone service territory. Staff Ex. 7.0, Att. 7.02. In that COS Study, the Company showed that if Lincoln stood on its own, a Customer Charge of $20.07 for a 5/8" meter would be necessary to recover the fixed costs the Company incurs to service the Lincoln water territory. The Usage Charge to recover the rest of the revenue requirement for a stand-alone Lincoln service territory would need to be $1.110145 per 100 gallons. The COS study for the Central Zone indicated that the Customer Charge of $18.21 for a 5/8" meter would be necessary to recover the fixed costs the Company incurs to service the Central Zone water territory and the residential Usage Charge would need to be $0.98198 per 100 gallons used to recover the rest of the revenue requirement for the Central Zone water district. Staff Ex. 7.0 at 18-19.

Staff witness Boggs explained that the Company has a history of consolidating smaller rate territories into larger rate territories where the territories have common rate structures, and the Commission has been amenable to those proposals. In a recent Company rate case, Docket No. 11-0767, the Company observed:

> The Commission has expressed a general policy of favoring cost–based rates and movement towards single tariff pricing and rate uniformity. The Docket [No.] 07-0507 Order (see pages 94-98) discussed various approaches to single tariff pricing. As discussed by the Commission, one approach is to combine individual rate areas with other rate areas and develop common rates for customers in the combined group based on the group revenue requirements.

Docket No. 11-0767, IAWC Ex. 5.0 at 20.

The Company does not object to Staff's proposal to consolidate the Lincoln water division with the Central Zone water division. IAWC Ex. 18.00 at 2-3. Consolidation would eliminate the recovery of $1.3 million in revenues from non-Lincoln water customers that was initially proposed by the Company to partially consolidate the Lincoln water division with the Central Zone water division. Although the Lincoln customers will experience a larger revenue recovery increase than what the AG recommends as a cap (50%), no other (non-Lincoln) customers will be required to contribute additional revenues to accommodate this proposed consolidation. If the Commission approves this consolidation move, Lincoln customers will be subject to the same rate increases as all other Central Zone water customers upon the Company's next rate design proceeding and will move the Company one step closer to achieving single tariff pricing for all its

water customers. Staff argues that the Commission should approve Staff's proposal to consolidate the Lincoln water division with the Central Zone water division.

c. AG's Position

The AG recommends that the Commission limit increases in the rates charged to Lincoln water customers to no more than 50% higher than the rates they previously paid. In an effort to move toward single-tariff pricing while mitigating the impact of rate increases on customers in the Lincoln water tariff zone, the Company initially proposed a transition rate that was less than the full Central Zone rate. IAWC Ex. 7.00 at 8. In direct testimony, however, Staff witness Boggs recommended that the Lincoln water rates be consolidated with Central Zone water rates in this proceeding. Staff Ex. 7.0 at 23. In response to Mr. Boggs' direct testimony, the Company adopted Staff's position and proposed consolidating the Lincoln water rates into the Central Zone rates. IAWC Ex. 18.00 at 3. Under the Company's revised rate design, water customers in the Lincoln service area would see a 73.55% increase in their rates, with residential customers seeing an even higher increase of 83.38%. AG Ex. 4.0 at 22. The AG opposes the consolidation of Lincoln water rates because it would result in rate shock to Lincoln water customers.

The AG recommends that the Commission adopt an alternative rate design limiting the increase for all Lincoln water customer classes to no more than 50% of revenues for the class under current rates. *Id*. at 24. The AG's recommendation is informed by the fact that the General Assembly appears to view rate increases of more than 50% as excessive. *Id*. at 23. Section 8-306(a) of the Act provides that the Commission must make "information concerning the service obligations of water and sewer utilities and remedies that a customer may pursue for a violation of the customer's rights" in certain specified situations. 220 ILCS 5/8-306(a). Among the situations where the Commission "shall specifically address the rights of a customer" is when "[t]he customer's bill increases by more than 50% within one billing period." 220 ILCS 5/8-306(a)(2). Mr. Larkin-Connolly testified that this strongly suggests that "no customer should experience a bill increase of more than 50% in the first billing period that new rates are adopted." AG Ex. 4.0 at 23.

Contrary to IAWC's claims, Mr. Larkin-Connolly did not assert that the Commission is obligated to limit the increase to 50% or less under Section 8-306(a). Rather, Mr. Larkin-Connolly "was concerned about the magnitude of the bill impacts that Lincoln water customers would experience by moving to fully consolidated Central water rates" and developed a recommendation to reduce the impact consistent with similar guidance under the Act. AG Ex. 4.0 at 21. Because Section 8-306(a) indicates a 50% or greater increase in one billing period may be considered a violation of a customer's rights, the AG argues that the Commission should carefully assess any situation where a utility requests such a rate increase.

The Company and Staff's proposed consolidation of Lincoln water rates into the Central Zone tariff would result in increases of more than 70% (and even higher for residential customers). *Id*. at 23. Thus, the Commission should order the Company to revert to the transition rate it originally proposed or order an alternative rate design that, in either case, does not result in an increase for any Lincoln water customer class of more than 50%.

d. Commission Analysis and Conclusion

As an initial matter, Section 8-306 of the Act establishes an informational requirement for the Commission regarding customer rights. IAWC asserts that the AG represents that Section 8-306(a) limits any increase in rates to 50% or less. The AG indicates that IAWC misconstrues AG witness Larkin-Connolly's testimony. The Commission finds that Section 8-306(a) does not limit or somehow cap an increase in rates resulting from a rate case proceeding where the Commission has reviewed a Company's proposed rates and determined that they are just and reasonable pursuant to Section 9-201.

IAWC and Staff agree to fully consolidate the Lincoln water territory into the Central Zone water territory. The AG opposes full integration at this time and suggests a more moderate approach is appropriate. The AG does not proffer a specific proposal but requests that the Commission either: (1) adopt IAWC's initial proposal; or (2) adopt any increase that the Commission deems reasonable provided it does not increase Lincoln's rates by more than 50%.

The Commission understands parties' concerns regarding rate shock in consolidating the Lincoln and Central Zone territories. However, fully consolidating the Lincoln territory with the Central Zone territory moves the Company towards single tariff pricing for its water customers. While this full consolidation will result in an increase in rates, this increase is reasonable and consolidation will allow IAWC to spread out capital improvement costs over a larger customer base, thereby mitigating potential rate shock when large improvement projects need to be made. Moreover, consolidation eliminates the need to recover revenues from non-Lincoln water customers, which would be the case under IAWC's initial proposal.

Staff's proposal to fully consolidate Lincoln into the Central Zone water territory is approved.

6. Public Fire Protection Rates

a. IAWC's Position

IAWC states that, although the Company's water COS study indicates that public fire surcharges should be raised in the Central Zone by 34.1% and in Pekin by 74.9% in order to recover the full COS, the Company proposed to raise public fire surcharges in all districts by 30%, with the uncollected revenue requirement reallocated to other customer classes based on total present rate revenue by customer class. IAWC explains that because most public fire surcharges are directly collected as meter charges from retail customers, it is the Company's position that the reallocation of public fire revenue requirement will not significantly affect the revenue requirement that would otherwise be allocated to those customer groups.

IAWC notes that Staff objected to the Company's proposal, and instead recommended that IAWC increase public fire charges in the Central Zone by 34.1% in order to allow the Company to fully recover its public fire protection costs. IAWC points out that Staff also recommended that the Company increase public fire charges in Pekin by 37.5%, which would allow IAWC to recover 50% of the increase that is required to recover full public fire protection costs from the Pekin public fire protection customers.

IAWC states that although the final percentage increases in the Central Zone and Pekin may ultimately change based on the final revenue requirement approved in this proceeding, IAWC agreed in rebuttal with Staff's rate design strategy to recover the entire COS for Public Fire from Central Zone customers and approximately one-half of the COS for Public Fire from Pekin customers.

IAWC states that while the Company and Staff are in agreement, IIWC/FEA argue that the Commission should reject Staff's proposal (agreed to by IAWC), reject IAWC's original proposal, and instead approve an increase of 27.6% for the Central Zone. IAWC explains that IIWC/FEA argue that Staff's proposed increase of 34.1% would increase the Public Fire Protection Class in the Central Zone above the class's COS, and that an increase of 27.6% is reasonable, because IAWC's "class [COS] study may not be producing the most accurate measure of the cost of providing service to each class." IAWC argues that IIWC/FEA's proposal should be rejected. First, Staff's proposed increase of 34.1% is, in fact, the increase needed to recover the class's COS. IAWC notes that IIWC/FEA's proposal would still require recovery of the shortfall in revenue from other customers. Second, IIWC/FEA's argument that the Company's COS studies may not produce the "most accurate measure" of the cost of providing service has no basis in the record. IAWC points out that IIWC/FEA has not provided any evidence demonstrating that IAWC's COS study is deficient or inaccurate, and likewise has not provided any analysis or evidence demonstrating why a rate increase of 27.6% is more reasonable or accurate than the increase agreed to by Staff and IAWC. IAWC concludes that the Commission should reject IIWC/FEA's proposal and adopt the rate design strategy agreed to between Staff and IAWC – namely, to recover the entire COS for Public Fire from Central Zone customers and approximately one-half of the COS for Public Fire from Pekin customers.

b. Staff's Position

Staff recommends the Commission approve a 34.1% increase to Public Fire Charges in the Central Zone. Staff Ex. 7.0 at 29. Staff witness Boggs explained that this will allow the Company to fully recover the public fire protection costs from those who caused the costs to be incurred by the Company. *Id*. In addition, Staff recommends an increase of 37.5% to Public Fire Charges for the Pekin service territory. *Id*. This recommendation will allow the Company to recover 50% of the increase that is required to recover full public fire protection costs from the Pekin public fire protection customers. *Id*. Fire protection costs should be fully recovered from those who cause the costs to be incurred by the Company. Because public fire costs are a benefit to the community, reallocation of some of the costs for Pekin public fire protection should be considered for this proceeding only. The increase for Pekin Public Fire Charges in the next rate proceeding filed by the Company should attempt to adequately recover the full cost of public fire costs in the Pekin service territory incurred by the Company.

The Company does not object to Staff's rate design strategy to recover the entire COS for Public Fire from Central Zone customers and approximately one-half of the increase in Public Fire indicated by a final COS study in this case to Pekin Zone customers. IAWC Ex. 18.00 at 3. Staff argues that the Commission should approve Staff's recommendation.

c. IIWC/FEA's Position

IIWC/FEA take issue with Staff witness Boggs' proposed revenue allocation for the Public Fire Protection class. Staff witness Boggs has proposed an increase of 34.1%, or approximately 1.25 times the system average increase for the Central Water Division, to the Public Fire Protection class. Staff Ex. 7.0 at 29; IIWC/FEA Ex. 2.0 at 6. Mr. Boggs argues his proposed increase will allow the Company to fully recover the public fire protection costs incurred by the Company. Staff Ex. 7.0 at 29. However, IIWC/FEA note IAWC's CCOSS shows that its proposed increase of 30.6% is sufficient to bring this class to COS. IAWC Ex. 7.05. IIWC/FEA point out Mr. Boggs' proposal would increase this class's rate above COS. Differing with both the Company's 30.6% and Staff's 34.1% proposal, IIWC/FEA have proposed a more reasonable 27.6% increase for this class. IIWC/FEA Ex. 2.0 at 6-7. IIWC/FEA believe this is most appropriate given that the Company's CCOSS may not be producing the most accurate measure of the cost of providing service to each class.

IIWC/FEA argue both the Company's and the Staff's proposals should be rejected and IIWC/FEA's 27.6% recommended increase for the Public Fire Protection class should be accepted.

d. Commission Analysis and Conclusion

As an initial matter, the Commission finds that IIWC/FEA's argument that IAWC's COS studies may not produce the "most accurate measure" of the cost of providing services is not supported by the record. Record evidence shows that Staff's proposed increase of 34.1% is an accurate measure of the increase needed to recover the class's COS. IIWC/FEA's proposal would still require recovery of the shortfall in revenue from other customers. Therefore, the Commission adopts the rate design strategy agreed to between Staff and IAWC – namely, to recover the entire COS for Public Fire from Central Zone customers and approximately one-half of the COS for Public Fire from Pekin customers.

VI. RIDERS

A. Uncontested Issues

1. Rider Factors

Below is a description, by rate rider, of each factor that will be set with the final order in this proceeding:

VBA

- Rate Case Revenue shall mean the dollar amount of volumetric revenues reflected in the revenue requirements approved by the Commission for the applicable Service Classification in the Company's most recent general rate case.
- Rate Case Sales ("RCS") shall mean the forecasted sales for customers for the identified Service Classifications in 100 gallons.
- Unit Production Cost shall mean the authorized amount of production costs (power, chemical, water waste disposal) divided by the RCS to determine a

cost per 100 gallons in the test year in the Company's most recent general rate case.

- Unit Treatment Cost shall mean the authorized amount of treatment costs (power, chemical, waste disposal) divided by the RCS to determine a cost per 100 gallons in the test year in the Company's most recent general rate case.

Invested Capital Tax ("ICT")

- Rate Case Expense shall mean the dollar amount of ICT expense reflected in the revenue requirements approved by the Commission in the Company's most recent general rate case.

QIP

- PTR = Pre-tax return as described in 83 Ill. Adm. Code 656.50(a)(1).
- 83 Ill. Adm. Code 656.50(a)(1): The pre-tax return is calculated using the weighted cost of debt and weighted cost of equity determined in the utility's last rate case for the rate zone. The weighted cost of equity is multiplied by the GRCF. The product is then added to the weighted cost of debt to obtain the pre-tax return.

Variable Income Tax

- OpInc represents the Operating Income from the Company's rate case used in setting base rates in effect during the Tax Period.
- PrIT represents Income Tax Expense included in the calculation of authorized revenue requirement and operating income from the Company's rate case used in setting base rates in effect during the current Tax Period.
- INT represents the Synchronized Interest from the Company's rate case used in setting base rates in effect during the current Tax Period.
- EDT is allocated to the tariff zones by using Factor F (Utility Plant Balance-Adjusted Average Balance) from the rate case.

IAWC states that the Company will provide compliance reports as required by the Illinois Administrative Code and/or the Company's tariffs, along with supporting workpapers that incorporate the results of the final Order of this proceeding on the calculation of each rider. The Commission finds IAWC's rider factors are reasonable and should be approved.

B. Contested Issues

1. Environmental Surcharge Rider ESR ("Rider ESR")

a. IAWC's Position

IAWC explains that in this proceeding, it is requesting approval to implement a new Rider ESR pursuant to Section 9-220.2(a) of the Act, for recovery between rate cases of the revenue requirement associated with non-QIP eligible capital investments made to comply with new and emerging state and federal environmental standards or to advance

state and federal environmental regulatory policy objectives. As explained by Company witnesses Selinger and O'Neill, these investments can be significant, are driven by changes to drinking water and wastewater standards over which IAWC has no control, are difficult to predict, and fluctuate from year to year.

Specifically, the Company states that it anticipates investing approximately $88 million over the next 5 years to address new and emerging regulations and standards through the construction of new facilities and equipment. The Company states that it anticipates that additional investment needed to address perfluorinated compounds, pharmaceuticals, personal care products, nanomaterials, microplastics and algal toxins will occur over the next decade that will impact both the water and wastewater systems. IAWC notes that with more than 80,000 chemicals currently being used in society, and about 2,000 new chemicals being developed each year, it is expected that future regulations will require the water and wastewater treatment facilities to make further improvements to protect the environment and health of the public. IAWC explains that some of the technology needed to remove these contaminants may require large investments that will impact the overall investment plan for the company. IAWC states that it will be required to incur costs in order to meet new environmental standards, but cannot with any reasonable specificity identify the amount, magnitude, or timing of those investment costs.

IAWC states that with the approval of Rider ESR, the Company can make prudent investments to address new regulations and standards and serve the long-term interests of customers in a fiscally prudent manner, while moderating future rate increases on customers more efficiently and effectively.

IAWC explains that Section 9-220.2(a) of the Act provides that "[t]he Commission may authorize a water or sewer utility to file a surcharge which adjusts rates and charges to provide for recovery of" purchased water, purchased sewage treatment service, qualifying infrastructure plant, and "(iii) other costs which fluctuate for reasons beyond the utility's control or are difficult to predict." 220 ILCS 5/9-220.2(a). Subsection (c) provides that "[o]n a periodic basis, the Commission shall initiate hearings to reconcile amounts collected under each surcharge authorized pursuant to this Section with the actual prudently incurred costs recoverable for each annual period during which the surcharge was in effect." 220 ILCS 5/9-220.2(c). The Company also cites *Citizens Util. Bd. v. Ill. Commerce Comm'n*, 166 Ill. 2d 111, 138, 651 N.E.2d 1089, 1102 (1995) ("[A] rider mechanism is effective and appropriate for cost recovery when a utility is faced with unexpected, volatile, or fluctuating expenses.").

IAWC further explains that the costs that it proposes to recover through Rider ESR are the kinds of costs that Section 9-220.2(a)(iii) was intended to address, as they both "fluctuate for reasons beyond the utility's control" and "are difficult to predict." 220 ILCS 5/9-220.2(a)(iii). IAWC states that Section 9-220.2(a) does not establish any additional limitations on the kinds of costs recoverable under this subsection. For example, it does not establish, require, or even discuss a minimum dollar threshold that would be used to determine if a proposed surcharge is lawful or appropriate. Nor does it limit eligible riders to addressing specific issues such as fluctuations in market or commodity prices. And, the Company explains, no such limitations have been imposed by the Commission's implementing regulations, which only address purchased water and sewage treatment

surcharges (83 Ill. Adm. Code 655 ("Part 655")), and qualifying infrastructure plant surcharges (Part 656).

In response to Staff's assertion that Section 9-220.2(a)(iii) does not contemplate capital assets or infrastructure, and that the language in the statute referencing 'other costs' refers to expenses rather than capital investments of new infrastructure, equipment, and technologies, IAWC notes that statute does not say "expenses." IAWC states that, consistent with Staff's argument, if the General Assembly only meant for this provision to allow recovery of "expenses," it could have specifically used the word expenses. IAWC explains that the General Assembly similarly could have expressly specified that "other costs" excludes capital investments (i.e., it could have said "other costs, except for costs associated with capital investments of new infrastructure, equipment, and technologies, which fluctuate for reasons beyond the utility's control or are difficult to predict"), but it did not. The Company explains that instead, the plain language of the statute establishes Section 9-220.2(a)(iii) as a "catchall" for any unpredictable costs fluctuating beyond the utility's control, without any other express limitation that those costs must be related, or not related, to capital investment, expenses, or any other type of cost. That the General Assembly defined a subset of "costs" recoverable under Section 9-220.2(a)(iv) as "costs associated with an investment in qualifying infrastructure plant" contradicts Staff's argument, as it confirms that the catchall "other costs" could include other types of "costs associated with investment." The Company notes that where statutory language is clear and unambiguous, statute must be applied as written, and a court or agency may not "depart from the plain language of the statute by reading in any exceptions, limitations, or conditions that would frustrate the expressed intent of the legislature." *M.U. by & Through Kelly U. v. Team Ill. Hockey Club, Inc*., 2022 IL App (2d) 210568, ¶ 25

IAWC notes that the State of Illinois has statutorily authorized cost recovery mechanisms associated with qualifying infrastructure (*see* 220 ILCS 5/9-220.2(a)(iv); 220 ILCS 5/9-220.3), renewable energy mandates (220 ILCS 5/16-107.6(h)), energy efficiency (220 ILCS 5/8-103), and zero carbon electricity generation (220 ILCS 5/16-108(k)). IAWC states that the Commission has recognized the need to utilize cost recovery mechanisms related to environmental compliance as well, having authorized recovery of expenses associated with manufactured gas plant remediation through cost recovery riders and cites *Commonwealth Edison Co*., Docket No. 05-0597, Order at 212-13 (Jul. 25, 2006) (authorizing rider to recover manufactured gas plant remediation costs). More recently, in Docket No. 20-0722, the Commission approved modified extension policies for Nicor to facilitate the connection of renewable natural gas facilities to the Company's distribution system. *N. Ill. Gas Co. d/b/a Nicor Gas Co.*, Docket No. 20-0722, Order (July 8, 2021). IAWC contends that this type of action demonstrates the Commission's ability to advance state environmental policy goals, while enhancing operational efficiency. As further discussed below, IAWC believes it is important to not only be a leader in environmental compliance but also in reducing its impact on the environment. IAWC proposes to do so by examining ways that the Company can become more energy efficient, and to recover through Rider ESR investment in facilities that would support those initiatives and goals.

The Company explains that it is subject to a host of new and emerging regulations and standards governing both water supply and wastewater treatment, and that while the undisputed need to meet environmental compliance standards is expected and ordinary, the costs and investments associated with doing so are not. The Company notes that even proposed regulations and standards can and do change and evolve up until rules are finalized, giving companies little certainty about the scope and extent, or the timing, of necessary investments. IAWC states that the regulatory and rulemaking processes for developing the new regulations provides the Company with an understanding of what limits may be forthcoming, but the lengthy regulatory processes often result in changes, updates, and modifications to the science, the proposed standards, and the guidance. IAWC states that the proposed methods of determining the health impact level of various contaminants, for example, can and do change before regulations are complete, and it is difficult for the Company to determine the level of investments, techniques, or treatments that will be needed until regulations are finalized and the maximum contaminant level ("MCL") is established.

IAWC explains that water and wastewater utilities are subject to a complex array of regulations at the federal, state, and local levels with respect to water quantity, water quality and other environmental aspects of their facilities and operations. IAWC notes that drinking water quality is addressed by a combination of federal regulations under the Safe Drinking Water Act of 1973 and state regulations under Title 35, Subtitle F, Chapter I and Chapter II of the Illinois Administrative Rules. The Company explains that the federal act established the EPA as the federal regulatory body governing drinking water. Pursuant to that authority, the EPA has established standards for contaminant levels in drinking water, mandatory treatment methods, monitoring and reporting requirements, and public notification mandates in the event of contaminant level or treatment method noncompliance. *See* 40 C.F.R. Parts 141-143. The EPA also has granted "primacy" to the Illinois EPA ("IEPA") to administer the federal regulatory standards.

IAWC states that in recent years there has been an increase in public concern over water quality standards and regulation. IAWC explains that this increase has led to increased stringency in EPA and state drinking water regulation, and the extension of regulatory protections through the establishment of MCLs or treatment requirements that target additional contaminants. MCLs determine the maximum level of each covered substance that is deemed safe for the customer, and include requirements for monitoring, remediation, and public notice when standards are exceeded. IAWC states that there are now MCLs for 88 individual organic and inorganic chemicals, including groups like trihalomethanes and haloacetic acids ("HA"), and E. coli bacteria indicator microorganisms. In addition, IAWC notes, treatment technology requirements include specifications for surface water filtration and groundwater disinfection cover protozoa, viruses, and other bacteria.

IAWC states that MCLs provide an example of how regulations can shift during the regulatory and/or rulemaking process. IAWC explains that regulations on contaminates usually take into account the potential human exposure and risks of adverse health effects based on readily available sciences and the technology available to detect and treat the contaminate. As science, and the understanding of the long-term health effects of the contaminants evolve, the considered MCLs can change during the development of the

underlying rules and regulations, as well as after the MCL is initially set. The Company notes that an example of this is the June 15, 2022 EPA issuance of interim updated drinking water Health Advisories for perfluorooctanoic acid ("PFOA") and perfluoroocatanesulfonic acid ("PFOS") that moved the 2016 HA level of 70 parts per trillion (ppt) for individual or combined concentrations of PFOA and PFOS to levels of PFOA and PFOS that are 0.004 ppt and 0.02 ppt, respectively. In addition, an example of an MCL that was changed after a rule was in effect was the January 2001 revised standard for arsenic in drinking water, which replaced the 1975 standard of 50 parts per billion ("ppb") with a limit of 10 ppb due to a better understanding of the human health effects associated with chronic low-level exposure to arsenic.

IAWC states that the EPA continues to make its regulations concerning disinfection byproducts more stringent, has identified new contaminants and established more stringent standards for existing contaminants, and now, the Company must anticipate that the EPA may adopt more stringent lead concentration requirements under the federal "Lead and Copper Rule."

IAWC states that currently identified contaminants are not the only contaminants the Company may have to address: with advances in testing and health research, experts are learning of new potential dangers in our drinking water chemicals that had not previously been detected (or were previously known but are being able to be detected in far lesser concentrations) and are now being discovered in the water supply. IAWC explains that these chemicals are known as "emerging contaminants" or "contaminants of emerging concern"; prior to the emergence of these contaminants, source waters were considered relatively clean and, for the most part, required minimal levels of treatment followed by disinfection. IAWC points out that emerging contaminants can now be detected at trace levels, and even these very small amounts can pose a chronic health risk. IAWC states that over the past several decades it has seen an increasing interest in identifying unregulated substances within the environment that may pose a risk to human health, aquatic life, or the environment. These substances may not have been previously detected or were at concentrations that testing, and monitoring equipment could not detect until recently. IAWC explains that in all cases, these substances are considered important to continue to monitor and evaluate as experts work to determine the true risk they pose to human health and the environment.

IAWC explains that stringent new drinking water standards to address these potent compounds demand more innovative treatment approaches. IAWC further explains that emerging pollutants such as perfluorinated compounds, pharmaceuticals, personal care products, nanomaterials, microplastics, and algal toxins are becoming more prominent within the source of water, wastewater and potential entry into our drinking water. IAWC states that most water and wastewater treatment facilities were not designed to address these pollutants and will most likely not be able to treat them to the lower levels of concentration that is expected to be considered in new regulations as those regulations address the long-term impact of lower levels of contaminates, which the health and science community has been able to determine through improvements in analytical instruments.

IAWC states that, for the most part, these emerging contaminants are not yet federally regulated. Regulations governing the treatment of emerging contaminants are

currently moving through the EPA evaluation and rulemaking process. IAWC notes that several statutes authorize the EPA and the states to address those emerging contaminants, the most prominent of which are the Clean Water Act and the Safe Drinking Water Act, which Congress established to restore and protect the quality of the nation's surface waters and authorized the EPA to set the standards for drinking water quality and monitors states, local authorities, and water suppliers who enforce those standards.

IAWC states that, for example, in the near term, the Company will need to address PFAS in drinking water. IAWC maintains that until final regulations are enacted regarding these emerging contaminants, it is difficult to determine what systems will be impacted or the extent to which IAWC will need to invest in its systems. PFAS are a group of manufactured chemicals that have been used in industry and consumer products since the 1940s because of their useful properties.

IAWC states that current studies indicate that in order to remove PFAS from drinking water, IAWC may need to employ additional treatment technologies at existing water treatment facilities; these treatments could include activated carbon treatment, ion exchange resins, high-pressure membranes, nanofiltration, or reverse osmosis. IAWC notes that a determination of what technologies to employ if PFAS compounds are present will require a review of the effectiveness of each technology and an analysis of the costs and operational feasibility for each location. IAWC cannot determine the scope or cost of these treatment options until final regulations have been enacted, but the remediation techniques may be potentially very extensive and expensive.

IAWC states that additional contaminants, such as Legionella and Endocrine-disrupting chemicals, are becoming more prevalent in the environment and are increasingly posing a greater risk to human health. IAWC notes that it will almost certainly be required to invest in its systems to address and remediate these contaminants, although the scope and cost of such efforts will not be known until final regulations are adopted. IAWC points out that it also must comply with new and emerging environmental standards for wastewater systems, which similarly will require IAWC to incur unpredictable costs.

IAWC notes that wastewater systems are also seeing continued and increased regulatory initiatives to address surface water quality and the environment as a whole. Wastewater utilities continue to see an effort to reduce the number of CSO and sanitary sewer overflows ("SSO") through discharge permits (National Pollutant Discharge Elimination System ("NPDES") permits) and agreements to ensure compliance in meeting the goals of the Clean Water Act. IAWC states that wastewater systems are also seeing an increasing emphasis on assisting with reducing nutrient pollution in lakes, rivers, and streams by addressing the amount of phosphorus and nitrogen that is released into the environment by wastewater systems.

IAWC points out that in the short term, phosphorus and nitrogen nutrients in the discharge of wastewater facilities are being further reviewed by the EPA and the IEPA for their impact to the nutrient enrichment of lakes, streams, and rivers. As NPDES permits for IAWC wastewater facilities are renewed, IAWC anticipates that more stringent phosphorus and nitrogen limits will be required for those wastewater facilities, and, consequently, improvements will be needed to meet these requirements. IAWC states

that it anticipates that it will need to invest in its system to address lower phosphorus and nitrogen limits through changes in chemical or biological treatment enhancements over the next five years.

IAWC states that it expects to continue to make the appropriate changes in process, and investments in enhancements to wastewater chemical and treatment facilities, to allow it to meet these current and emerging regulations. IAWC explains that through meeting clean water standards, it ensures that it is returning water to the streams, rivers and lakes that protects the environment and the health of the community. IAWC maintains that by making the prudent investments to ensure compliance with these standards, IAWC protects its customers and the communities that are served.

IAWC explains that the Company has already experienced changes in or new regulatory compliance initiatives that have required investment in its facilities in order to comply with the new or changed regulatory requirements. IAWC explains that since 2000, there have been 13 EPA rules or regulations that have had an impact on how IAWC monitors, operates, or treats the drinking water within its facilities and distribution systems. IAWC explains that due to the rules or regulations enacted since 2000, the Company has undertaken 19 direct projects with an investment of over $88 million in enhancements or additions to treatment facilities.

IAWC states that the Long Term 2 Enhanced Surface Water Treatment Rule ("LT2") (adopted in 2006), which is the second phase of rules required by Congress to address microbial pathogens, provides a good example of investments that would be recovered through Rider ESR. IAWC states that the rule supplements existing regulations by targeting additional Cryptosporidium treatment requirements in facilities that take steps to decrease formation of disinfection byproducts that result from chemical water treatment. This rule has required enhancements and improvements in IAWC's treatment facilities. IAWC notes that it has implemented UV disinfection and other enhancements to several water treatment facilities to meet LT2 Cryptosporidium requirements. These facilities include the ESL Water Treatment Plant, Granite City Water Treatment Plant, Alton Water Treatment Plant, and the Streator Water Treatment Plant. In addition, IAWC states that it expects to carry out improvements at the Cairo Water Treatment Plants to allow it to meet the requirements of the LT2 Cryptosporidium requirements that are included in this case.

IAWC explains that recent changes to Illinois Title 35, Subtitle F, Chapter I, Part 604, Section 604.725 now require that a minimum combined chlorine residual of 1.0 mg/L be maintained in all active parts of the distribution system at all times. IAWC states that this change makes meeting the Stage 2 Disinfectant By Product Rule requirements challenging at times. To meet the IEPA chlorine residual requirement, IAWC has proposed that numerous Rechloramination Stations be installed in several of its larger distribution systems over the next several years that are included within the case. Each Rechloramination Station is designed specifically for each location to account for the size of the station covers and the amount of water that is required to be treated and must take into account how the station features and aesthetics to fits into the community where it is located. Thus, IAWC states, the scope, cost, and timing of each project is variable and currently unknown.

IAWC states that it has experienced similar investment needs for wastewater as well: IAWC has invested approximately $6.7 million since 2017 on wastewater system improvements to address regulatory, administrative order of consent, or Long-Term Control Plans.

IAWC states that between 2024 and 2026, the Company expects to invest approximately $39 million, or approximately $12.8 million per year, on projects that it has currently identified to address regulatory requirements that have recently been revised or expected to be introduced or revised. IAWC explains that this represents a significant portion of IAWC's projected annual capital expenditures.

For example, to address water system requirements, IAWC anticipates investing approximately $6.5 million on projects to address IEPA Chlorine Residual requirements and Stage 2 DBPR requirements over the next several years through the continued addition of rechloramination stations and improvements at facilities to improve chlorine residual and chlorine contact time. IAWC notes that to address wastewater requirements, it expects to invest approximately $30.1 million in improvements to the wastewater collections system in Alton and Godfrey to address the requirements of the Long-Term Control Plan and the administrative order of consent that is in place for each of those communities. In addition, IAWC states that it expects to invest about $7 million in improvements to the Godfrey and Jerseyville WRF to address phosphorus removal associated with the reduction of nutrient limits to protect receiving waters that receive the WRF's discharge flow.

IAWC states that it also expects that additional investment will be needed to address regulatory requirements associated with emerging contaminates that have not been included in the present 2022 to 2026 Capital Investment Plans. IAWC states that it would expect that investments will be needed to address the removal of PFAS compounds at some of its groundwater facilities and that additional investment will be needed to address phosphorus and nitrogen nutrients limits at some of its wastewater reclamation facilities as their discharge permits are renewed. IAWC notes that at the present time, it has not included these within its Capital Investment Plans due to uncertainty of the projects and limited understanding of the types of investments that will be needed.

IAWC states that the Company anticipates that the additional investment needed to address perfluorinated compounds, pharmaceuticals, personal care products, nanomaterials, microplastics and algal toxins over the next decade will result in additional spend that would result in an annual investment of between $15 and $20 million in its water and wastewater systems.

IAWC explains that the Company's analysis of the type, level, and timing of system investment to satisfy environmental standards is impacted by a multitude of factors. The type, source, climate, and environment of each water and wastewater facility, along with the unique characteristics of the distribution system and the existing type and age of the treatment that each facility employs, are main contributors to the determination of when a new or updated investment is needed to meet regulatory limits. IAWC notes that unexpected changes in weather, such as greater intensity storms, drought, and long-term temperature changes can all impact the watershed and source of the raw water to the

Company's water and wastewater facilities, which subsequently affect the levels of naturally occurring or manmade contaminates that the Company regularly monitors, which can lead to an unfavorable change in the contaminate levels that require the Company to make an unplanned investment to ensure that customers' health is protected.

In addition, IAWC contends, there can be unintended consequences of a new regulation on an existing established limit, which the Company also cannot control. As an example, IAWC explains that when the State of Illinois made changes to Illinois Title 35, Subtitle F, Chapter I, Part 604, Section 604.725 to require that a minimum combined chlorine residual of 1.0 mg/L be maintained in all active parts of the distribution system at all times, these changes resulted in the use of more chlorine through the system to ensure compliance. IAWC states that the increase in the use of chlorine increased the likelihood that the amount of disinfection byproducts being created in the distribution system as the chlorine naturally degraded would exceed the limit set by the Stage 2 Disinfection By Product Rule. IAWC explains that this required the recent investment of approximately $1.8 million in rechloramination systems along with the anticipated investment of approximately $8 million over the next several years to allow for decentralized control of chlorine residuals and disinfection byproducts that was unplanned until the new regulations were put in place.

IAWC points out that Staff and the AG do not address, much less rebut, all of this evidence. The Company asserts that, instead, Staff and the AG attack a straw man argument that the Company has never made (i.e., that environmental regulation is somehow new or a "unique business challenge that only IAWC faces") or attempt to wave away the Company's evidence by unfairly and inaccurately characterizing it as "generalized and vague arguments about environmental regulation." *See* Staff Ex. 1.0 at 16; AG Ex. 2.0 at 25. In response to the AG's argument that decisions relating to environmental compliance are no different from any other decision utility management faces, the Company explains that the Company's unrebutted evidence establishes that these investments are, in fact, different than other investment decisions the Company faces. As an example, the Company notes that the investments required to comply with environmental regulations are quite different than investments necessary to replace aging facilities or water transportation or distribution infrastructure, which costs are much more predictable in both timing and amount, and the timing and extent of which are more within in the Company's control.

IAWC explains that consistent with Section 9-220.2 of the Act, Rider ESR would allow the Company to recover the cost for enhancement or improvements to treatment plant items or facilities that are necessary to meet the new and emerging treatment and/or water quality standards described above. Specifically, Rider ESR would recover costs for treatment structures, pumping equipment, generators, water quality sampling equipment, supervisory control and data acquisition ("SCADA") equipment, chemical equipment, and treatment equipment, as well as non-QIP distribution system structures, supply mains, power generation equipment, pumping equipment, transmission and distribution mains, and storage tanks to meet water quality standards within the distribution system. Inclusion of these items would allow the installation of enhanced and new facilities/equipment to meet new standards that allow IAWC to continue to provide high-quality water service and safe drinking water.

IAWC explains that not all investments to meet new standards and regulations will require new infrastructure or be recovered through Rider ESR. There are several investments that will need to be made to meet emerging standards and regulations from the EPA and IEPA that will involve the replacement of existing infrastructure that may be recovered through IAWC's existing QIP Rider. For example, IAWC explains that to meet most of the upcoming standards established by the Lead and Copper Rule and the Illinois Lead Service Line Replacement and Notification Act, along with investments necessary to reduce/eliminate CSO and SSO, IAWC will be required to replace existing water and wastewater system infrastructure, and the Company will seek recovery of those costs under the QIP rider. The Company notes that parts of CSO and SSO improvement projects will be included within Rider ESR, however. IAWC explains that a major portion of the improvements necessary to address CSO and SSO in wastewater systems is the replacement and renewal of gravity sewers and service laterals. This work would not be included within Rider ESR since it is related to the replacement and renewal of existing wastewater facilities and is eligible for the QIP Rider. IAWC further explains that there will be some level of investment associated with the installation of equalization storage and collection system additions that will allow the wastewater collection system to accommodate high flow conditions that will involve the installation of new facilities. IAWC states that it would propose that these types of investments in new facilities would be included within Rider ESR.

IAWC notes that it also believes it is important to not only be a leader in environmental compliance but also in reducing its impact on the environment. IAWC proposes to do so by examining ways that the Company can become more energy efficient, increasing use of renewable energy and increasing our alternative-fuel fleet. IAWC explains that all of this supports American Water's goal to reduce absolute scope 1 and scope 1 greenhouse gas emissions by more than 40% by 2025 from a 2007 baseline. IAWC states that it would support this through investment in facilities that will support its transition to alternative-fuel vehicles. These facilities could include electric charging stations and alternative-fuel storage, fueling stations. In addition, IAWC notes that it would continue to look to expand its renewable energy use through the installation of solar, wind and hydro facilities. IAWC proposes that these types of investments be included within Rider ESR.

IAWC states that the required investments covered by Rider ESR will benefit customers through the provision of safe and reliable water and wastewater service that meets evolving governmental requirements and advances environmental policy objectives. IAWC notes that implementation of Rider ESR would allow IAWC to recover these unpredictable costs in a timely manner, reducing regulatory lag and supporting the Company's efforts to comply with these important environmental requirements.

IAWC further explains that the Rider ESR mechanism will mitigate future rate increases as it will facilitate smaller, more gradual increases to customers' bills. Rider ESR's recovery of these investments, which represent a significant portion of the Company's annual capital budget, will occur over time and not all at once in a general rate proceeding. IAWC further explains that riders such as the proposed Rider ESR also have the potential to extend the period of time between rate case filings and reduce the expense associated with those proceedings.

IAWC states that a reliable water and wastewater system is an important asset to the entire community. It protects the public health and enhances the ability of the communities that IAWC serves to compete for new businesses and industries, which is often an important economic benefit to the community.

In addition, IAWC argues that Illinois, as a whole, would benefit from the investment made through Rider ESR. IAWC explains that jobs in water utilities are accessible to workers with a range of educational and training backgrounds and offer opportunities for workforce development and advancement. Contractors, too, will hire diverse individuals throughout the state to support the infrastructure enhancements and improvements funded by the Rider. IAWC states that according to a 2014 study undertaken by the Clean Water Council, 16 jobs throughout all sectors of the economy are supported for every $1 million spent on infrastructure. IAWC points out that the jobs created are not just in the construction industry, but in supporting fields such as architecture, engineering, industrial machinery, and truck transport. As such, IAWC states that not only would the increase in infrastructure investment maintain and improve service reliability, but it would also benefit the local economy as well since an improved water and wastewater systems and the resulting customer benefits noted above can also attract new business to the area and support economic development goals.

Moreover, IAWC states that there are many studies that show that increased spending on infrastructure investments produces positive economic development results. IAWC points out that in a study released in 2016 on the economic impact of under-investing in our water and wastewater infrastructure, the American Society of Civil Engineers estimated that remaining on the current track will cost American businesses $896 billion in sales between 2016 and 2025, and the cumulative loss to our GDP will be $508 billion, directly due to deteriorating water infrastructure. IAWC contends that a modest increase in investment would prevent 489,000 job losses during the same period. Additionally, IAWC points out that according to the U.S. Conference of Mayors, every dollar invested in water infrastructure adds $6.35 to the national economy. IAWC also points to additional studies that show further economic benefit in infrastructure investment, including recent EPA surveys which tallied a 20-year need of over $650 billion for needed water and sewer infrastructure improvement projects. IAWC maintains that this would create between 10.5 and 17.5 million jobs over 20 years or 525,000 – 875,000 jobs annually. IAWC concludes that annual creation of jobs would be enough to annually employ one third of our nation's 1.8 million annual bachelor's degree graduates.

IAWC states that these statistics would hold true for infrastructure investment in Illinois. IAWC explains that not only would the increase in needed infrastructure investment provide safe water and improve service reliability, but it would also benefit the local economy as well. IAWC states that a water and wastewater system that meets all standards and regulations not only benefits the customer but can also provide interest in a community for new businesses and support local economic development goals. The Company notes that, like its other evidence regarding this issue, Staff and the AG ignore or otherwise fail to rebut the Company's evidence regarding the anticipated benefits of Rider ESR.

IAWC notes that the Company's initial proposal for the design of Rider ESR was prospective based on a forecasting process where the Company would forecast the

amount of qualifying environmental capital expenditures it will make for the upcoming year to calculate the revenue requirement necessary to recover that capital investment, followed by a true-up reconciliation to actual investments at the end of each year. IAWC explains that the Company subsequently accepted Staff's recommendation that Rider ESR be implemented using a historic operation year. IAWC explains that this change will allow Staff and others to review ESR investments included for recovery in the mechanism after they are placed in service, which along with the Company's prior agreement to multiple reporting and auditing commitments, should alleviate concerns expressed by Staff and others associated with the nature and review of Rider ESR investments.

Additionally, IAWC notes that the Company accepted Staff's recommendation to limit the amount of ESR investments and proposed a cap at 2.5% of authorized annual base rate revenues. IAWC points out that the Company also agreed to add language to its proposed tariff that specifies: (1) that the Company will provide information regarding the state or federal regulation requiring each investment as part of its annual filings; and (2) to specify the months in which its ESR reconciliation charge would be charged/credited to customers. IAWC explains that to address other recommendations made by Staff, the Company included in its proposed Rider ESR tariff an O factor in the ESR reconciliation calculation that would address any adjustments made by order of the Commission, as well as language to specify that the ESR would be billed as a separate line item on customer bills.

IAWC notes that the Company made several other changes to respond to input from the AG:

- IAWC added language to the proposed tariff confirming that investments to be recovered will not be revenue producing.
- IAWC added language requiring the Commission to find that ESR investments are prudent, reasonable in cost, and used and useful.
- IAWC added an annual audit requirement, with the following conditions:

  The utility shall submit annually to the Commission's Manager of the Accounting department no later than September 15th, an internal audit report that determines whether:

  i. Internal controls are effectively preventing the double recovery of costs through the Rider ESR and other approved tariffs;

  Costs recovered through the Rider ESR are recorded in the appropriate accounts;

  i. Costs recovered through Rider ESR are properly reflected in the calculation of the surcharge percentage and annual reconciliation;

  ii. The Rider ESR surcharge percentage and annual reconciliation properly reflect all applicable adjustments from prior Rider ESR surcharge reconciliation Orders;

- The Rider ESR surcharges are properly calculated.

- The Rider ESR surcharge percentage is being properly billed to customers.
- IAWC will also submit information describing which environmental standard or policy objective requires each investment.

IAWC explains that other aspects of the operation of Rider ESR are as follows:

- All items included for recovery through the ESR, including capital costs and annualized depreciation and property tax expense, will be set to zero at the conclusion of the next IAWC rate case. At that time, the abovementioned items will be subsumed within IAWC's base rates and afforded ratemaking treatment similar to IAWC's other capital investments.
- The ESR shall not be applied to any add-on taxes, to any revenues attributable to the Purchased Water and Sewage Treatment Surcharges developed pursuant to Part 655, QIP Surcharges, or to any other revenues not recorded in a ESR base rate revenue account.
- The revenue requirement for the ESR will be calculated using the pre-tax return ("PTR") as approved as approved in the Company's most recent general rate case. In the event there is more than one PTR during an ESR period, the PTRs will be prorated based on the number of days they were in effect during the period.
- Rider ESR will use the depreciation rates approved by the Commission, for the respective plant accounts in which the specific items of qualified Environmental Surcharge Rider plant are recorded.
- Rider ESR will use the property tax rates currently in effect and applicable to the Company's investments.

The Company notes that many of Staff's arguments against Rider ESR appear either mooted or otherwise ignore these changes that the Company has adopted in response to Staff and Intervenor input. The Company notes that Staff's assertion that the cost of capital investments should not be recoverable prior to a determination of prudence and reasonableness ignores that the Company added language to the Rider ESR tariff requiring Commission to find that ESR investments are prudent, reasonable in cost, and used and useful, along with an annual audit requirement, as conditions of recovery. Similarly, Staff's arguments regarding "speculative changes" and capital investments that the Company "might make" to comply with environmental regulations are moot since the Company accepted Staff's recommendation that IAWC's proposed Rider ESR operate on a historic basis. IAWC states that for this reason, the Commission should reject Staff's recommendation that it "remove language from the rider that permits the Company to include investment projects to comply with 'emerging' standards or environmental policy objectives." Staff IB at 62. The Company explains that Staff's argument that "there is no limit on the amount of ESR investment the Company could project for a given operating period," is moot given the Company's agreement to cap the investments that could be recovered through Rider ESR at 2.5% of authorized annual base rate revenues.

The Company states that the Commission should reject arguments from Staff and the AG that these costs are more appropriately recovered through base rate cases. IAWC

states that these arguments are essentially arguments against rider mechanisms generally, with the AG arguing that riders eliminate regulatory incentives to control costs and can result in increased rates and revenues. IAWC notes that the legislature, however, has expressly provided for water and wastewater utilities to implement riders as a recovery mechanism for costs of the type proposed for Rider ESR. 220 ILCS 5/9-220.2(a)(iii). IAWC further notes that the Illinois Supreme Court has consistently upheld the Commission's authority to implement riders "in proper situations and under circumstances that are lawful and reasonable" and that "reflect the need for pragmatic adjustments," which the Company explains is the case here. *In Re N. Shore Gas Co*., Case No. 07-0241, Opinion 2008 WL 631214. The Company contends that the fact that the Company could recover these costs through base rate case proceedings does not necessarily mean that it must do so, and that instead, these costs are appropriately recovered through Rider ESR, consistent with legislative intent in establishing the rider framework in Section 9-220.2(a).

Finally, the Company responds to Staff's argument that the rate of return for Rider ESR should equal the midpoint of long-term Aaa-rated bond yields and the WACC most recently approved by the Commission in a rate proceeding. IAWC explains that, contrary to Staff's arguments, the fact that Section 656.50(a) of the Commission's rules provides that "the pre-tax return is calculated using the weighted cost of debt and weighted cost of equity determined in the utility's last rate case for the rate zone" supports the use of the same approach here. 83 Ill. Adm. Code 656.50(a). IAWC states that there is no principled distinction between the nature of the utility assets recoverable under water QIP riders, as to which the Commission determined that the appropriate rate of return is the utility's WACC, and the assets recoverable under Rider ESR. IAWC notes that, like Rider ESR, QIP riders include an annual reconciliation mechanism and a review of the prudence and reasonableness of assets.

IAWC asserts that the Commission should adopt the same approach for Rider ESR that it adopted for QIP riders, and that nothing in Staff's position justifies a different approach, including the electric utility consolidated billing ("UCB")/purchase of receivables ("POR") cases Staff cites. IAWC notes that those cases – which are over 10 years old and concern the rate of return on capital investment in implementation costs (namely, for information technology assets associated with billing processes) required for UCB and reflected in the UCB discount rate, are based on a different statutory provision applied in a vastly different factual context, with a citation to *Central Ill. Light Co. d/b/a AmerenCILCO*, Docket No. 08-0619 (Cons.), Order at 24 (Aug. 19, 2009). The Company explains that the costs at issue in those cases were also shared with retail electric suppliers through the calculated UCB discount rate, so the recovery "risk" that the Commission considered was very different than with Rider ESR investment. IAWC states that, accordingly, the cases Staff cites are not applicable to Rider ESR's rate of return.

IAWC concludes that given IAWC's acceptance of the proposal to shift Rider ESR to historical operation, and other changes recommended by Staff and Intervenors, IAWC's revised Rider ESR tariff is reasonable and should be approved.

b. Staff's Position

Staff argues that the Commission should reject the Company's proposed Rider ESR. The Company relies on Section 9-220.2(a) of the Act as the statutory basis for its proposed Rider ESR. *Id*. at 23-24. The Company hinges its argument on subsection (a)(iii):

> (a) The Commission may authorize a water or sewer utility to file a surcharge which adjusts rates and charges to provide for recovery of (i) the cost of purchased water, (ii) the cost of purchased sewage treatment service, (iii) *other costs which fluctuate for reasons beyond the utility's control or are difficult to predict*, or (iv) costs associated with an investment in qualifying infrastructure plant, independent of any other matters related to the utility's revenue requirement. A surcharge approved under this Section can operate on an historical or a prospective basis.

220 ILCS 5/9-220.2(a)(iii) (emphasis added).

However, Staff argues that the statutory language the Company relies upon in order to justify recovery through Rider ESR does not contemplate capital assets or infrastructure. Rather, the language in the statute referencing "other costs" refers to expenses rather than capital investments of new infrastructure, equipment, and technologies. This is evident when looking to the plain language of the statute in the next subsection. Specifically, subsection (a)(iv), refers to "costs *associated with an investment in [QIP]*…" (emphasis added). Staff's position is that this is significant because if the General Assembly intended to reference infrastructure in subsection (a)(iii), it would have explicitly done so as it did in subsection (a)(iv). The primary purpose of statutory interpretation is to ascertain and give effect to the intent of the legislature. *Skaperdas v. Cty. Casualty Ins. Co.*, 2015 IL 117021, ¶15. Legislative intent should be sought primarily from the language of the statute, since the language of the statute is the best evidence of legislative intent and provides the best means of deciphering it. *Bruso v. Alexian Bros. Hosp.*, 178 Ill. 2d 445, 451-52 (1997). The plain language of the statute is clear in that it does not list or anticipate recovery of cost of plant anywhere. Therefore, Staff asserts that the Company's reliance on Section 9-220.2(a) for the implementation of Rider ESR is unpersuasive and is not applicable to the costs in question.

While the Company maintains that the expenditures it proposes to recover through Rider ESR are unexpected, Staff argues that IAWC has failed to provide evidence that the costs are difficult to predict or that they fluctuate beyond the utility's control to merit rider recovery. Unknown costs are particularly "unpredictable" or "fluctuating" per the language in the statute. Staff points out that as a regulated entity, IAWC must be responsive to and in compliance with new standards and regulations. It is not a benefit to customers that the Company meet all standards and regulations; rather, it is a requirement of the utility as a regulated entity to be in compliance with standards and regulations. Environmental regulation is not new; nor are regulations in general. Changing standards and regulation have been, and will continue to be, a constant. It is the nature of the utility business environment that it must be responsive to statutory

environmental standards, and it is not a unique business challenge that only IAWC faces. Staff Ex. 1.0 at 16. The Company's generalized and vague arguments about environmental regulation are unconvincing to show that those particular unknown costs are unpredictable and fluctuating. Thus, Staff contends that the Company makes generalized and vague arguments about environmental regulation that are thoroughly unconvincing to demonstrate that Rider ESR is needed and that the costs are unpredictable and fluctuating.

Additionally, Staff states that Rider ESR is unnecessary and imposes additional costs to ratepayers equal to the revenue requirement for such non-QIP eligible capital investments between rate cases, prior to a determination of prudence and reasonableness by the Commission. Staff Ex. 1.0 at 14. Rider ESR would include not only a return on the cost of the capital investments, but also the cost of depreciation expense and real estate taxes. *Id*. Further, there is no limit on the amount of ESR investment the Company could project for a given operating period. *Id*. at 9. Staff argues that this could encourage unnecessary capital spending that would unreasonably increase customer bills. *Id*. Therefore, Staff concludes that the traditional method of filing a rate case is sufficient to provide the Company with a return of and on its additional capital investments. *Id*. at 15. As the frequency and timing of a rate case is up to the utility, the Company is free to file a rate case whenever it believes the existing rates are insufficient to cover operating costs and provide investors with a reasonable return. *Id*.

Moreover, the Company already has a QIP rider, authorized by statute, that allows recovery of capital investments between rate cases for QIP eligible plant additions. *Id*. at 16. As noted by Ms. Pearce, the cost of capital investments should not be recoverable prior to a determination of prudence and reasonableness, except as a result of statutory approval. Notably, there has been no showing that IAWC needs an additional rider to recover the projected cost of capital investments that IAWC might make "to comply with new and emerging state and federal environmental standards or to advance state and federal environmental policy objectives." *Id*. at 13. The Company also fails to acknowledge that some emerging standards and policy objectives might never be enacted; thus, only actual changes, not speculative changes, would result in actual investment costs to the Company. Further, if changes or standards were enacted, there would likely be ample time for water and wastewater utilities to comply with the final regulation. *Id*. at 10.

If the Commission decides to approve Rider ESR, which it should not, Staff recommends that the Commission instruct IAWC to change Rider ESR to include Staff's recommendations:

(1) To utilize a historical, versus prospective, investment period; and

(2) To remove language from the rider that permits the Company to include investment projects to comply with "emerging" standards or environmental policy objectives.

Staff Ex. 9.0 at 13.

The Company states it accepts Staff's recommendation to limit the amount of ESR investments and proposed a cap at 2.5% of authorized annual base rate revenues. The

Company goes on to explain it included in its proposed Rider ESR tariff an O factor in the ESR reconciliation calculation that would address any adjustments made by order of the Commission, as well as language to specify that the ESR would be billed as a separate line item on customer bills. *Id*. However, the Company's proposal does not address Staff's concerns that Rider ESR would encourage unnecessary capital spending that would unreasonably increase customer bills. Staff maintains that the traditional method of filing a rate case is sufficient to provide the Company with a return of and on its additional capital investments.

The Company also claims that its design of Rider ESR has evolved to address the input from parties in this case, and for that reason, it is now reasonable and should be approved. Staff disagrees. Staff has multiple issues with Rider ESR; further, the Company completely fails to address or adopt some of Staff's recommended changes. Specifically, the Company failed to remove language from the rider that permits the Company to include investment projects to comply with "emerging" standards or environmental policy objectives. Further, IAWC failed to adopt or respond to Ms. Kight-Garlisch's recommendation that the return component for Rider ESR equal the midpoint of long-term Aaa-rated bond yields and the WACC most recently approved by the Commission in a rate proceeding. Staff Ex. 13.0 at 10. IAWC proposes to use the pre-tax return approved in the Company's most recent rate case as the interest rate for the return component for Rider ESR. IAWC Ex. 6.02 at 2-3. In direct testimony, Ms. Kight-Garlisch recommended that the Commission rely on the customer deposit rate for the return component. Ms. Kight-Garlisch explained that, generally, when a return component is not stated in the Act or in the Administrative Code, the Commission utilizes the Customer Deposit Rate 5 as the return component for riders due to the low-risk nature of the rider assets and the short time horizon. Staff Ex. 5.0 at 6.

In response to Ms. Kight-Garlisch's recommendation in direct testimony, IAWC argued that the return component will be applied to capital assets and thus, should receive a rate that is higher than the customer deposit rate. In her rebuttal testimony, Ms. Kight-Garlisch adjusted her recommendation and recommended that the return component for Rider ESR equal the midpoint of long-term Aaa-rated bond yields and the WACC most recently approved by the Commission in a rate proceeding. Staff Ex. 13.0 at 10. Utilizing the approach recommended by Ms. Kight-Garlisch in her rebuttal testimony recognizes that, while Rider ESR ensures dollar for dollar cost recovery of Rider ESR assets, the prudency and reasonableness of Rider ESR assets will remain subject to periodic review by the Commission. Thus, there remains a degree of risk related to non-recovery of costs. Therefore, Ms. Kight-Garlisch relied on the midpoint between the ROE that the Commission authorizes for rate base assets and lower risk Aaa-rated bond yields.

The Company's proposal to apply the most recent Commission-authorized rate of return on rate base to the Rider ESR assets implies that the risk inherent in the recovery of Rider ESR assets equals the risk of the Company's assets included in rate base. Ms. Kight-Garlisch noted that Rider ESR has features that reduce the risk of Rider ESR assets relative to rate base assets. Staff Ex. 13.0 at 9. Specifically, Rider ESR includes an annual reconciliation mechanism that ensures dollar for dollar cost recovery. This effectively eliminates both regulatory lag and the risk of non-recovery of prudent and reasonable costs incurred by the Company in implementing the ESR program. *Id*.

As Ms. Kight-Garlisch notes, authorizing a rate of return for Rider ESR assets that exceeds the investor-required rate of return on ESR assets would not balance the interests of investors and ratepayers. Rather, it would benefit Company shareholders at the expense of customers because the portion of return that exceeds the investor-required rate of return would be collected from customers and passed through to investors. Investors would receive more return than they require given the risk level of the Rider ESR assets, and customers would receive no benefit from guaranteeing the recovery of prudent and reasonable ESR costs. As such, that reduced risk should be reflected in the cost of common equity used to calculate the rate of return component in Rider ESR.

Mr. Selinger argues that because IAWC's QIP rider uses the WACC to determine the revenue component, Rider ESR should also use the WACC. IAWC Ex. 17.00 at 31. However, the return component calculation for QIP riders is specified in Part 656.50(a). Specifically, the Commission rules require QIP riders to apply the pre-tax WACC from the last rate case. 83 Ill. Adm. Code 656.50(a). In contrast, there is no similar rule for the proposed Rider ESR.

Notably, the Commission has adopted a similar approach to Ms. Kight-Garlisch's rebuttal recommendation for estimating an authorized return for utility assets that were guaranteed dollar for dollar cost recovery and also subject to periodic reviews for prudence and reasonableness in Docket Nos. 08-0618/0619/0620 (Cons.) and Docket No. 10-0138. *Central Ill. Light Co. d/b/a AmerenCILCO*, *Central Ill. Pub. Service Co. d/b/a Ameren CIPS, and Ill. Power Co. d/b/a AmerenIP*, Docket Nos. 08-0619/08-0620/08-0621 (Cons.), Order at 32-33 (Aug. 19, 2009); and *Commonwealth Edison Co.*, Docket No. 10-0138, Order at 48 (Feb. 9, 2011).

Staff argues that it is clear that the Company's proposed use of the WACC from the Company's most recent rate case would not reflect the risk of Rider ESR and would be contrary to past Commission decisions. Staff also notes that the Company failed to address the Commission's previous decisions on riders that have similar risk to the Company's proposed Rider ESR. Therefore, Staff does not recommend approval of Rider ESR; however, if the Commission does approve Rider ESR (which Staff does not recommend), Staff recommends the Commission adopt Ms. Kight-Garlisch's revised recommendation regarding the return component for Rider ESR.

c. AG's Position

The AG recommends that the Commission reject the Company's proposed Rider ESR. The Company is proposing Rider ESR for the purpose of recovering its "costs associated with new investment in qualifying, non-QIP eligible utility plant required to comply with new or emerging federal and state environment and safety requirements or to satisfy other state or federal environmental policy objectives." IAWC Ex. 27.01 at 1. The AG explains that Rider ESR is not authorized under the Act, and it is not necessary because the costs in question are neither unpredictable nor uncontrollable such that a rider mechanism is necessary.

The Company asks the Commission to authorize Rider ESR under Section 9-220.2(a) of the Act. The AG explains that principles of statutory interpretation lead to the conclusion that Section 9-220.2(a) of the Act does not authorize Rider ESR.

When interpreting a statute, the "primary objective is to ascertain and give effect to the intent of the legislature," the most reliable indicator of which is the language of the statute. *Oswald v. Hamer*, 2018 IL 122203, ¶ 10. If a "literal reading of a statute produces absurd results, the literal reading should yield," and the statute must be construed in such a way that "avoids absurd or unjust results." *People v. Hanna*, 207 Ill. 2d 486, 498 (2003). The doctrine of *ejusdem generis* is particularly helpful "where a statute or document specifically enumerates several classes of persons or things and immediately following, and classed with such enumeration, the clause embraces 'other' persons or things." *Farley v. Marion Power Shovel Co.*, 60 Ill. 2d 432, 436 (1975). In such a case, "the word 'other' will generally be read as 'other such like,'" meaning that the "other costs" described in Section 9-220.2(a)(iii) should be read as other costs like purchased water, purchased sewage treatment, and qualifying infrastructure plant and "not of a quality superior to, or different from, those specifically enumerated." *Id*. Applying these principles of statutory construction, the AG demonstrates that Section 9-220.2(a) does not authorize Rider ESR.

First, recovery of capital investments needed to comply with environmental regulations would be fundamentally unlike the other items listed in Section 9-220.2(a). As AG witness Larkin-Connolly explained, costs that "fluctuate" and "are difficult to predict" in this context typically refer to "market or commodity prices that can be volatile and unpredictable." AG Ex. 2.0 at 27. Therefore, it is more likely that "the intent of this clause is to promote the adoption of mechanisms used to shield utilities from input cost volatility, not changes in regulations." *Id*.

Second, the Company's interpretation would lead to an absurd result. According to the Company, "Section 9-220.2(a) does not establish any additional limitations on the kinds of costs recoverable under this subsection." IAWC IB at 120. The Company interpreted the requirement that the costs in question be "difficult to predict" to simply mean that the Company does not know what they are yet (because, for instance, a regulation has yet to be finalized). IAWC IB at 119–20. Thus, the Company is effectively arguing that the Commission has authority to permit a rider for any costs that the Company may incur in the future, but which are not yet known. The AG argues that it is unlikely that the legislature enacted Section 9-220.2(a) with the intent of swallowing the traditional ratemaking process entirely, and therefore the Company's proposed interpretation of the Act should be rejected.

Even if the Act authorized Rider ESR, it would not be appropriate because the costs in question are neither unpredictable nor uncontrollable. As discussed above, Section 9-220(a)(iii) authorizes a rider to recover "other costs which fluctuate for reasons beyond the utility's control or are difficult to predict." 220 ILCS 5/9-220.2(a)(iii). Echoing the statutory language, riders are traditionally meant to recover "*unexpected, volatile, or fluctuating* expenses." *A. Finkl & Sons Co. v. Ill. Commerce Comm'n.*, 250 Ill. App. 3d 317, 327 (1st Dist. 1993) (emphasis in original). Thus, the Commission should only approve a rider "if the utility cannot influence the cost" and "the expense is a pass-through item that does not change other expenses or increase income." *Commonwealth Edison Co.*, 405 Ill. App. 3d at 414 (*citing Citizens Util. Bd.*, 166 Ill. 2d at 138).

As demonstrated by Staff and AG witnesses, the costs that the Company proposes to recover under Rider ESR are neither unpredictable nor beyond the Company's control. *See, e.g.*, Staff Ex. 9.0 at 8-10; AG Ex. 3.0 at 28; AG Ex. 4.0 at 26. With respect to

compliance-related costs, there is nothing new or exceptional about IAWC's need to comply with environmental and safety regulations; indeed, it is a core responsibility of any utility. *See* 220 ILCS 5/8-401. As Mr. Larkin-Connolly testified:

> Since Congress enacted the Safe Drinking Water Act [] in 1974, giving the [EPA] the mandate to set standards for drinking water quality, there have been dozens of regulations adopted at the state and federal levels that require water and wastewater operator compliance. Changes in water and wastewater regulations have been an ever-present factor in the industry for over 40 years.

AG Ex. 2.0 at 25. And as Staff witness Pearce pointed out, "[e]volving statutory environmental standards are the nature of the utility business environment and not a unique business challenge that only IAWC must address." Staff Ex. 9.0 at 9.

While regulations and compliance standards evolve, they are rarely unexpected or volatile. The AG illustrates how the "process for identifying and regulating new contaminants at the federal level is . . . clear and predictable" using several examples that the Company cited in support of Rider ESR. For instance, PFOS and PFOA — two of the "emerging contaminants" cited by the Company as the reason Rider ESR is necessary— have been under consideration by the EPA for over ten years. AG Ex. 2.0 at 25-26. As Mr. Larkin-Connolly explained, before the Company will have to implement any compliance changes, the EPA will commence a rulemaking process that will likely take at least one to two years and will ultimately set forth the standards for water utilities like the Company. *Id*. at 26. Once the rulemaking is finished and the standards are finalized, public water system providers will have at least three more years to comply with the final standards and up to five years if capital improvements are necessary. *Id*. In all, PFOS and PFOA have been "emerging" as a contaminant for over a decade since the Contaminant Candidate List process began, and regulations of these contaminants may not take effect for another five years. *Id*.

The Company also pointed to several other examples at the federal level. For instance, the Company cited the January 22, 2001 change to the standards for levels of arsenic in drinking water, which was reduced from 50 ppb to 10 ppb, as an example of changing regulations. But according to the EPA website, "[w]ater systems had to meet the new standard by January 23, 2006," meaning that the Company would have had a full five years to comply. Another example cited by the Company, the LT2 requiring monitoring and treatment of cryptosporidium for water systems that was published January 5, 2006, gave the largest systems more than six years to comply with the treatment technique requirements, and states were allowed to grant systems up to two additional years for capital improvements. The Company also points to the June 15, 2022 updated interim health advisory for PFAS as evidence of emerging contaminants it will need to address. However, in announcing the updated health advisories, the EPA noted that drinking water health advisories "are non-enforceable and non-regulatory," meaning there was not an immediate and uncontrollable regulatory requirement resulting from the updated advisory, and at the same time the EPA announced $10 billion in funding through the Bipartisan Infrastructure Law to assist systems in addressing PFAS and other emerging contaminants. At the state level, the Company pointed to the Stage 2

Disinfectant By Product Rule that the Illinois Pollution Control Board implemented in 2019. But the AG points out that there was nothing unique about this rulemaking. The proceeding began in August 2017 and did not conclude until August 2019, during which time it went through the ordinary procedural process of allowing for interested parties, including the Company, to provide input on the proposed rules. What these examples demonstrate is that the Company has "ample time" and considerable discretion in determining how to comply with applicable environmental requirements and standards. Staff Ex. 9.0 at 10; AG Ex. 4.0 at 30.

The AG notes that the Company appears to conflate costs that are "unpredictable" with costs that are unknown. AG Ex. 4.0 at 28. The Company knows that environmental standards will continue to evolve as they always have, but it does not know what the "anticipated costs associated with investment in order to meet new environmental regulations" will be. IAWC Ex. 14.00 at 7. The Company's argument appears to be that although the event that causes "the costs to be incurred (new environmental laws and regulations) are predictable, the Company's actions (capital investments) necessary to respond to the event are unpredictable because they depend on factors not yet known." AG Ex. 4.0 at 28. As Mr. Larkin-Connolly pointed out, however, it is true that "the Company cannot know all of the factors that may affect a future decision, but this is no different from any other decision utility management faces." AG Ex. 4.0 at 28. All water and sewer utilities need to make decisions regarding the capital investments that are necessary to provide safe and reliable service, taking into consideration factors such as "source water characteristics, environmental factors, distribution system characteristics, wastewater receiving streams, and climate impacts." *See* IAWC Ex. 14.00 at 8. Because these are investments that any such utility would need to make in the ordinary course of business, "it would be difficult, if not impossible, to distinguish between costs that are eligible for recovery through Rider ESR and costs that are simply normal costs IAWC incurred to satisfy its obligation to provide safe and affordable water and wastewater service." AG Ex. 3.0 at 30.

In addition to being largely predictable, the AG explains how the "non-QIP eligible capital investments" of the type the Company seeks to recover under Rider ESR are also within the Company's control. In defending Rider ESR, the Company states that "[i]t is difficult to determine what level of investments, techniques, or treatments will be needed until regulations are finalized and a [MCL] is established." IAWC Ex. 14.00 at 8. Thus, the Company admitted that once a new regulation or standard is finalized, it is the Company who will determine what approach to take. AG Ex. 4.0 at 30. This is to be expected; the determination of how to comply with applicable regulations and standards "is a key attribute of utility management." *Id*. As Mr. Larkin-Connolly testified, "[t]he mere fact that the Company must decide on how to implement or respond to a new regulation shows that it has some level of control over the costs." *Id*. The Company cannot claim that capital investments are outside of its control simply because it does not know what they are yet.

Similarly, the AG argues that "investments made to advance state and federal environmental regulatory policy objectives" are not costs that are beyond the Company's control that would be appropriate for recovery under Section 220.2(a) of the Act. IAWC Ex. 3.00 at 25. The Company attempted to use a broad definition of "regulatory policy

objectives" by including "increasing use of renewable energy and increasing [its] alternative-fuel fleet." In addition to the lack of limitation as to what types of regulatory policies are relevant to IAWC as a water and wastewater utility, IAWC has failed to show that its response to, and investments in response to, purported regulatory goals are beyond the Company's control. Similarly, it has not shown that the associated costs would be exceptionally volatile or unpredictable. *See* IAWC Ex. 6.00 at 26. Thus, the AG argues, IAWC has not shown that its proposed Rider ESR meets the standards for approval.

The AG also explains that the Company incorrectly claims that similar riders have not been approved for other utilities. IAWC cites two cases to support its claim that "[s]imilar mechanisms have been approved for Illinois energy utilities." IAWC IB at 120-121. However, neither of the mechanisms approved in the cited dockets are similar to IAWC's proposal. In Docket No. 05-0597, the Commission approved a rider for ComEd to recover the costs of environmental clean-up and remediation costs for specific sites related to historic manufactured gas plants ("MGP") because the Commission had previously approved cost-tracking riders for MGP site remediation costs and such costs could no longer be recovered through base rates. Docket No. 05-0597, Order at 212. The Commission denied recovery for non-MGP site cleanup, because ComEd "failed to demonstrate that non-MGP costs [were] reasonable, prudently incurred, related to delivery costs and are as volatile as MGP costs." *Id*. at 213. The Commission further pointed out that "there is no precedent for recovery of non-MGP costs through a rider." *Id*. In Docket No. 20-0722, the Commission approved a limited rider to allow Nicor to facilitate the connection of renewable natural gas facilities to its distribution system. Docket No. 20-0722, Order at 15-16.

In contrast to both of these dockets, IAWC's proposed rider is based on potential future "changes to drinking water and wastewater standards." IAWC IB at 118. IAWC claimed that it anticipates spending "approximately $88 million over the next [five] years to address new and emerging regulations and standards through the construction of new facilities and equipment," and "additional investment" to address other environmental concerns. *Id*. In other words, IAWC's proposal is not limited to environmental cleanup at specific historic plant sites or a narrow interconnection pilot project, but instead is a large-scale capital investment rider that would provide the Company with authority to heavily invest in new infrastructure to address vague environmental concerns, without rate case oversight. The AG argues that the Commission should reject IAWC's proposal because it is significantly broader in scope and costs than either the ComEd or Nicor proposals the Company cited as support.

The Company claims that its ability to recover costs under Rider ESR would benefit its customers and Illinois more broadly. These include the health benefits of safe drinking water, environmental benefits associated with compliance such as a reduction in nutrient enrichment and pollution in source waters, and economic benefits of infrastructure spending. But, the AG notes, compliance with environmental regulations and prudent investment in its systems are the baseline expectations of a utility. Thus, customers will recognize these benefits regardless of the cost recovery mechanism.

While there is no benefit to ratepayers, the AG explains that there are several risks if the Commission were to approve Rider ESR. The use of riders as a cost recovery

mechanism "eliminates the regulatory incentive to control costs between rate cases and undermines the principle that the utility must manage its aggregate costs to keep rates just and reasonable." AG Ex. 3.0 at 28. Mechanisms like Rider ESR "can increase rates and revenues even when a regulated utility company achieves its rate of return and does not have a revenue deficiency." *Id*. at 29. Moreover, allowing the Company to recover the proposed expenses through Rider ESR would simply incentivize the Company "to favor compliance steps that involve investment in new capital over possibly less expensive operating cost measures." AG Ex. 2.0 at 28. The AG explains that the only party that stands to benefit from a reduction in regulatory lag and oversight is the Company's shareholders.

As Staff witness Pearce stated, "the rider is unnecessary because the Company may file a rate increase whenever it believes revenues are no longer sufficient to cover operating costs and provide a reasonable return to its investors." Staff Ex. 9.0 at 13. On the other hand, the AG explains how the proposed rider would reduce regulatory lag and oversight, to the sole benefit of the Company's shareholders. It is a well-settled principle that the "rate making process . . . involves a balancing of the investor and consumer interests." *Ill. Bell Tel. Co*., 414 Ill. at 287 (1953), *citing Fed. Power Comm'n*, 320 U.S. at 603. The AG demonstrates that Rider ESR would upend that traditional balance because it is completely unnecessary and would allow the Company to immediately recover costs, including the return to investors, that can be adequately covered through general rates. Therefore, the AG requests that the Commission reject Rider ESR.

d. Municipalities' Position

The Municipalities agree with Staff and the Intervenors that IAWC's proposed Rider ESR should be rejected. The Company seeks the rider to cover what it claims are unpredictable capital costs it might incur to comply with changes in environmental regulations and standards. However, the rider is not necessary because the Company has failed to show that there is a reasonable expectation that such costs will occur. Indeed, the Company in its own briefs listed known rules, regulations, and standards and acknowledged the costs to comply with them. Therefore, the Company has not demonstrated that its costs "are difficult to predict" as required for approval of a rider under Section 9-220.2(a)(iii) of the Act.

Moreover, the Municipalities agree with AG witness Larkin-Connolly that the core function of water and wastewater utilities is:

> to comply with environmental and clean water laws and regulations to assure safe drinking water and a clean environment. Environmental compliance costs are not unique or unpredictable; and compliance should be an ordinary, ongoing utility function. A rider surcharge mechanism is not appropriate for costs that are a part of the utility's fundamental responsibility.

AG Ex. 2.0 at 22.

Because IAWC's request for Rider ESR does not meet the statutory requirements for a rider and because IAWC is seeking to recover costs associated with its "fundamental

responsibility" as a water and wastewater utility, the Municipalities assert that the rider should be rejected.

e. Commission Analysis and Conclusion

IAWC seeks approval of a new rider that will allow the Company to recover the revenue requirement associated with non-QIP eligible capital investments made to "comply with new and emerging state and federal environmental standards or to advance state and federal environmental regulatory policy objectives." IAWC IB at 3; *see also* IAWC Ex. 3.00 at 25.

Compliance with state and federal regulations is a requirement for all public utilities and is not unique to IAWC. As parties indicate, these regulations are on some level always in flux. Regulations governing the treatment of contaminants in water do change, as do federal and state environmental policy objectives. While specific changes themselves may be unpredictable, they are not unexpected. As the AG notes, two of the 'emerging contaminants' that IAWC refers to have been under consideration by the EPA for over a decade.

The Commission agrees with Staff, the AG, and the Municipalities that the challenges that IAWC faces in complying with new and emerging regulations or regulatory policy objectives is typical of any of the challenges faced by any utility management. The Commission finds it unreasonable to approve a rider mechanism that would arguably place greater risk on the ratepayer for the benefit of stakeholders because IAWC would be able to immediately recover costs, including a return to investors, under the rider subject to a reconciliation. Should IAWC's management find in the future that its existing rates are insufficient to comply with any environmental rules or regulations, the Company may elect to file a rate case.

Also concerning is the potential scope of the qualifying costs under Rider ESR. IAWC states that investments under Rider ESR would represent a significant portion of the Company's annual capital budget. As Staff correctly notes, Rider ESR is a broad capital investment rider that would provide IAWC with authority to make large capital investments in new infrastructure to address vague environmental concerns. While investments in infrastructure provide positive economic results that benefit ratepayers, that does not mean that such investments are reasonable or prudent, especially considering the broad scope and ambiguity of Rider ESR. Accordingly, the Commission rejects IAWC's proposed Rider ESR.

Because the Commission rejects Rider ESR, assuming arguendo it is properly allowable pursuant to Section 9-220.2(a) of the Act, the Commission need not address the statutory interpretation arguments raised by parties as to whether such a rider is permissible under the Act.

2. Bad Debt Expense Rider ("Rider BDE")

a. IAWC's Position

IAWC states that the Commission has the authority to, and should, approve Rider BDE on a permanent basis. IAWC notes that Staff witness Alan recommends the Commission reject the Company's proposal to make its current Rider BDE permanent. IAWC notes that Section 9-220.2 of the Act provides that a water or sewer utility may "file

a surcharge which adjusts rates and charges to provide for recovery of… other costs which fluctuate for reasons beyond the utility's control or are difficult to predict.…" 220 ILCS 5/9-220.2(a). IAWC states that it filed its original Rider BDE, effective December 20, 2020 "to recover incremental bad debt expense that fluctuates for reasons beyond the Company's control or are difficult to predict given the ongoing COVID-19 pandemic." *See* IAWC Tariff filing SRM #20-045, Cover Letter (Nov. 5, 2020). As stated in the tariff, "[t]he purpose of this Rider is to recover or credit the amount by which the Company's actual annual bad debt expense in a fiscal year ending in February exceeds or is less than the bad debt amount included in the Company's rates in effect for the reporting year… Costs subject to this Rider are those costs that are classified as bad debt expense in Account 670. IAWC explains that such adjustments will be the incremental difference between the amount of bad debt expense in Account 670 and the bad debt expense included in base rates and as allocated by customer class in the [COS] study for that case." ILL.C.C. No. 24, Section No. 1, First Revised Sheet No. 29 (Canceling Original Sheet No. 27).

IAWC explains that Rider BDE is consistent with Section 9-220.2, including its provisions for reconciliations that will compare revenues collected under these riders during the effective period with the anticipated amount of revenues that were to be recovered or refunded under the riders. IAWC Tariff filing SRM #20-045, Cover Letter (Nov. 5, 2020). IAWC explains that Rider BDE was extended through December 2023 by the Commission in Docket No. 20-0309. *Ill. Commerce Comm'n,* Docket No. 20-0309, Order on Reopening and Stipulation (Mar. 18, 2021).

With these approvals, IAWC notes, the Commission has found that Rider BDE is a proper and reasonable mechanism for recovering fluctuating bad debt expense as a result of the pandemic through 2023. But as IAWC explained, bad debt expense is expected to continue to fluctuate after 2023.

IAWC notes that, as Company witness Selinger testified, there are a variety of factors, both on a macro and micro level, that cause fluctuations in uncollectible expense. For example, IAWC states, the current elevated level of inflation is at a level not seen in decades. Furthermore, IAWC states, contrary to Staff's opinion, due to the ongoing and uncertain impacts of the COVID-19 pandemic, the ability to forecast the level of uncollectible expense in base rates continues to be challenging, and the historical approach utilized for setting a level of uncollectible expense in base rates carries risks for both customers and the Company. Additionally, IAWC states, the variability in uncollectible expense is not only related to severe events such as the pandemic. IAWC maintains that changes in economic conditions in general can drive these balances to significantly change from year to year. Further, the impact of new customer assistance programs is uncertain at this time and establishing IAWC's current Rider BDE on a permanent basis would ensure that customers receive the benefit of such reductions if they were to occur. IAWC explains that Staff's opposition to Rider BDE ignores a key element of IAWC's proposal – because proposed Rider BDE will adjust for the variance between the actual uncollectible expense incurred and the level of expense authorized in this case. The Company notes that should uncollectible expense go down (for example due to the impact of customer programs, such as the Low-Income Household Water Assistance Program), customers would receive a credit for that reduction.

According to IAWC making Rider BDE permanent is consistent with Section 9-220.2 of the Act, as the level of bad debt expense remains beyond IAWC's control and difficult to predict. Without question, the impact of the pandemic on bad debt costs is outside IAWC's control. But IAWC anticipates other impacts will continue to affect bad debt expense as well.

If costs are difficult to predict, as Section 9-220.2 contemplates, so inherently is the timeframe for that unpredictability. As such, Section 9-220.2 permits a Commission approved surcharge without a time limit. For example, not only was it unforeseen that Illinois would face COVID-19, but it was also unforeseen that it would last for multiple years. As such, making Rider BDE permanent is not only reasonable and beneficial to the Company and its customers, but consistent with Section 9-220.2.

IAWC points out that Staff witness Alan disregards that Illinois' energy utilities currently operate uncollectible ("bad debt") rate adjustment mechanisms on a permanent basis. IAWC notes that energy utilities have statutory bad debt riders. *See, e.g.,* 220 ILCS 5/16-111.8 (authorizing an uncollectible rider for electric utilities). The Company explains that water utilities experience the same fluctuations and unpredictability for bad debt expense as other types of utilities. Establishing Rider BDE on a permanent basis simply puts IAWC on the same footing as the energy utilities in terms of the ability to address these fluctuations and unpredictability in a manner that allows IAWC to recover its costs if bad debt expense goes up and protects customers if the expense goes down – as Section 9-220.2 intends.

Staff witness Alan claims that because the current Rider BDE is set to expire December 31, 2023, the Company has minimal risk associated with fluctuations in its uncollectible expense. However, IAWC states, contrary to Staff's opinion, as stated above, the expiration date of December 31, 2023 is not a reliable factor in predicting the end of unpredictable fluctuations in the Company's uncollectible expense. IAWC notes that Staff does not demonstrate that the same circumstances affecting IAWC's bad debt expense now will not be present in December 2023 and beyond. Further as explained above, there are other impacts to bad debt costs that qualify bad debt costs for recovery under Rider BDE pursuant to Section 9-220.2. IAWC explains that the unpredictability is the precise reason why Rider BDE should be made permanent.

IAWC also states that Staff's claims that "[t]here is no [] provision in the Act authorizing permanent uncollectible riders for water or wastewater companies" and characterizes Rider BDE as a rider "that do[es] not have a basis in statute but impact[s] the revenue requirement…", is clearly incorrect as a matter of law, as Rider BDE does have a basis in statute – in Section 9-220.2(a) of the Act. 220 ILCS 5/9- 220.2(a). IAWC states that Staff's own logic regarding Rider ESR, that "the statute referencing 'other costs' refers to expenses rather than capital investments of new infrastructure, equipment, and technologies", would suggest that Rider BDE is exactly the type of rider authorized by Section 9-220.2. IAWC states that in short, Rider BDE is authorized by statute, and the standard is whether its recovers costs "which fluctuate for reasons beyond the utility's control or are difficult to predict."

The Company states that Section 9-220.2 of the Act is the correct legal standard and that the record evidence shows that IAWC's bad debt expense "fluctuate[s] for

reasons beyond the utility's control or [is] difficult to predict…." For this reason, IAWC states, Staff's reliance on *People ex rel. Madigan*, where the court cites to a 2010 Appellate Court decision, *Commonwealth Edison Co. v. Ill. Commerce Comm'n*, 405 Ill. App. 3d 389 (2d Dist. 2010), is misplaced. IAWC explains that nevertheless, even if those cases do apply, they establish essentially the same standard: whether the expenses in question are unexpected, volatile, fluctuating or outside the utility's control. As explained above, Rider BDE meets this standard. The Commission has previously approved an extension to Rider BDE, demonstrating that it is a proper and reasonable mechanism for recovering fluctuating bad debt expense through 2023.

IAWC contends that Staff's own adjustment to test year uncollectible expense confirms that the expense fluctuates. Staff developed a revised test year level of uncollectible expense using a "normalization" approach of a three-year average of 2019-2021 expense. IAWC explains that this use of a multiyear average of actual data suggests a desire to smooth out annual variability in uncollectible expense – in other words, that the expense fluctuates. IAWC also explains that the fluctuation can be seen in IAWC's data on annual uncollectible rates by rate zone, which show, for example, uncollectible percentages for Central wastewater ranging from 1.66% to 3.66% over the 2019-2021 time period, and for Central water from 0.49% to 0.74% over that same period.

Accordingly, IAWC concludes, the Commission should approve Rider BDE on a permanent basis.

b. Staff's Position

Staff argues that the Commission should reject the Company's proposal to make Rider BDE permanent. First, the Company has failed to provide evidence that the fluctuations in uncollectibles expense is exceptional to demonstrate that the rider is necessary. When reviewing riders that do not have a basis in statute but impact the revenue requirement, the Commission has looked to the courts for guidance. The Appellate Court decision, *Commonwealth Edison Co.,* 405 Ill. App. 3d 389, noted that "exceptional circumstances" exist such that it finds that the expenses in question are unexpected, volatile, fluctuating or outside the utility's control. The Company has the burden of showing that the costs are fluctuating, unexpected, or volatile.

Staff argues that IAWC has failed to provide evidence that the costs are fluctuating, unexpected, or volatile. Staff witness Alan calculated the Company's three-year Company average of uncollectible expense percentage for years 2019 through 2021 as 0.73%, with 2021 being 0.77%. Staff Ex. 3.0 at 15-16. The Company's stated necessity for the rider is not supported by the data; specifically, the lack of significant fluctuation in the data provides only further support that the costs are not fluctuating, unexpected, or volatile. Further, uncollectible expenses are not unique to IAWC; rather, they are costs common to all water and wastewater utilities and operating expenses fluctuate year to year. *Id*. at 16. According to Staff, adopting Company witness Selinger's rationale regarding fluctuation would lead to the unreasonable conclusion that the Company should be allowed to recover any, and all of its costs through various riders because the argument could be applied to any expense that fluctuates at all, even a minimal fluctuation. *Id*.

Second, Staff states that the Company's argument that because Illinois' energy utilities have permanent uncollectible expense riders, water and wastewater companies should be given the same treatment, is unpersuasive. The Commission granted uncollectible riders for gas and electric utilities through specific authority provided in the Act. *See*

220 ILCS 5/16-111.8(a);

220 ILCS 5/19-145(a).

There is no such provision in the Act authorizing permanent uncollectible riders for water or wastewater companies. If the General Assembly intended for water and wastewater companies to have uncollectible riders, it would have explicitly stated so as it did for electric and gas utilities. The best evidence of legislative intent is the language used in the statute itself, which must be given its plain and ordinary meaning. *People v. Bywater*, 223 Ill. 2d 477, 481 (2006). "No rule of construction authorizes us to declare that the legislature did not mean what the plain language of the statute imports, nor may we rewrite a statute to add provisions or limitations the legislature did not include." *See Zahn v. North Am. Power and Gas, LLC*, 2016 IL 120526, ¶ 15. The Commission is a creature of statute, and when granting energy utilities' uncollectible riders, it looked to the Act authorizing such an action. Staff asserts there is no such authority here, and the Company's arguments that water/wastewater utilities should be authorized to have uncollectible riders simply because energy utilities have them, are unpersuasive and should be rejected by the Commission.

Third, Staff states it is important to note that the Commission chose not to make the uncollectible rider permanent in Docket No. 20-0309, but instead extended the rider through December 2023 due to the COVID-19 pandemic. The Commission recognized that the pandemic was an unusual circumstance, which is why the Company was permitted to utilize Rider BDE on a temporary basis only.

In rebuttal testimony, the Company disagreed with Staff's recommendations due to the following factors: elevated level of inflation and continued uncertainty regarding the economic consequences of the COVID-19 pandemic, aligning the Company with its peer Illinois energy utilities, and the differences the parties have had in this case recommending the amount of uncollectible expense to include in base rates. Staff Ex. 11.0 at 13; IAWC Ex. 17.00 at 39. With regard to inflation, Staff notes that the Company has minimal risk of significant fluctuations in uncollectible expense due to its current Rider BDE being extended to December 31, 2023, and its estimated length for rates to be effective from this case. The possible effect on the Company's uncollectibles will not occur until 2024 at the earliest. *Id*. at 14. Company witness Selinger also stated that new customer programs and other customer bill assistance funds may result in reduced uncollectible expense for the Company. *Id*. (*citing* IAWC Ex. 17.00 at 39). As to aligning with its peer energy utilities, Staff stands on its argument that there is no statutory authority for uncollectible riders for water/wastewater utilities as there is for energy utilities. Most notably, there is not a water/wastewater utility that currently has a permanent uncollectible rider. Thus, Staff argues that the Company's comparison ultimately fails.

Staff notes that the Company argues that Section 9-220.2 is a basis for approving proposed Rider BDE. IAWC IB at 144. However, Rider BDE is not consistent with Section 9-220.2 of the Act, which states:

> (a) The Commission *may authorize a water or sewer utility to file a surcharge which adjusts rates and charges to provide for recovery of* (i) the cost of purchased water, (ii) the cost of purchased sewage treatment service, (iii) *other costs which fluctuate for reasons beyond the utility's control or are difficult to predict*, or (iv) costs associated with an investment in qualifying infrastructure plant, independent of any other matters related to the utility's revenue requirement.

220 ILCS 5/9-220.2(a) (emphasis added).

Staff disagrees with the Company that the level of bad debt expense is "beyond IAWC's control" and "difficult to predict given the [COVID]-19 pandemic" in December 2023 and beyond. IAWC IB at 144-45. Aside from mere generalized statements that fluctuations are expected to continue past 2023, the Company fails to provide any actual evidence to support its claim that the costs are significantly fluctuating, unexpected, or volatile to justify making Rider BDE permanent.

The Company also argues that Staff has not demonstrated that Rider BDE should not be permanent. Staff argues that the Commission should reject this assertion. The burden of proof is on IAWC to prove that Rider BDE is just and reasonable on a permanent basis, not Staff. 220 ILCS 5/9-201(c). The Company argues that Staff witness Alan has not demonstrated that the same circumstances affecting IAWC's bad debt expense now will not be present in December 2023 and beyond. *Id*. However, according to Staff, IAWC's attempt to shift the burden of proof is inappropriate. Moreover, IAWC's attempt to deflect and shift the burden of proof only further demonstrates the Company's failure to prove that fluctuations and unpredictability will continue beyond December 2023.

Lastly, with regard to the Company's rebuttal argument that the different uncollectible expense amounts recommended by parties in this case supports the Company's proposal to make Rider BDE permanent is unconvincing. The Company accepted the AG's correction in its rebuttal position, and Staff concurred with the AG's correction. *Id*. at 15. Therefore, the uncollectibles amount in base rates is no longer contested and there is only one position in the record; however, this is not an argument in support of making Rider BDE permanent. *Id*.

Staff concludes that the Commission should reject the Company's proposal to make Rider BDE permanent.

c. Commission Analysis and Conclusion

The Commission does not find that IAWC has provided sufficient evidence that fluctuations in uncollectibles expense are unexpected or volatile so as to support permanent approval of Rider BDE. The Company asserts Rider BDE is necessary due to the ongoing impacts of the COVID-19 pandemic making it difficult for the Company to forecast the level of uncollectible expense. The Commission extended the effective date of Rider BDE through 2023. Other than general assertions made by IAWC, nothing in the

record indicates that fluctuations in uncollectibles expense due to the ongoing COVID-19 pandemic will continue beyond that date, let alone supports permanent adoption of Rider BDE. Moreover, as Staff notes, IAWC's claim that costs are fluctuating, unexpected or volatile is not supported by the data. Staff Ex. 3.0 at 15-16.

The fact that Illinois energy utilities have uncollectibles expense riders is not persuasive to justify approving a permanent rider for IAWC, especially considering that the energy utilities' uncollectibles riders were specifically authorized by the Act. *See* 220 ILCS 5/16-111.8(A); 220 ILCS 5/19-145(a). Accordingly, the Commission rejects IAWC's request to adopt Rider BDE on a permanent basis.

VII. LOW-INCOME TARIFF

A. Contested Issues

1. Eligibility Threshold

a. IAWC's Position

IAWC proposes new low-income discount tariff pricing to make water and wastewater service more affordable for customers with demonstrated income at or below 150% of the Federal Poverty Level ("FPL"). IAWC states that the affordability of water and wastewater service is essential. It is IAWC's position that everyone should have access to clean, safe, and reliable water and wastewater service, a priority that no party disputes. IAWC explains that in an effort to achieve this goal, IAWC's proposed low-income discount tariff is designed to assist customers with the affordability of their service by providing a rate that lowers their monthly bill and makes service more affordable. IAWC explains that its proposed tariff has the following features:

- The Company's proposed tariff will be available to all water and wastewater residential customers with household incomes at or below 150% of the FPL.
- The tariff will offer a 70% discount on the base volumetric charges to any qualifying water or wastewater customer for all usage during the month.
- There is no proposed cap on monthly usage for any qualifying customer.
- Total discounts provided the customers will be recovered from all customers through the Company's existing Volume Balancing Adjustment ("VBA") mechanism.
- IAWC's proposed low-income rate will not limit the amount of time a customer can take service through this tariff as long as the customer demonstrates household income at the qualifying level.

IAWC notes that while no party disputes the benefit of the Company's proposed low-income tariff, and Staff and the AG generally recommend that the Commission approve the Company's proposed tariff, Staff objects to the Company's proposed eligibility threshold, the Company's decision to not place a usage cap on the amount of service that can be taken under the tariff, and the method by which the Company should recover the shortfall in revenue resulting from the low-income discount. IAWC argues that Staff's criticisms of IAWC's low-income tariff prioritize consistency with another

utility's tariffs over the best interest of IAWC's customers, ignores detailed analyses performed at a community level, and should be rejected.

IAWC proposes to make its low-income discount tariff available to any residential customer with a demonstrated income at or below 150% of the FPL. IAWC explains that this threshold is based on extensive research into the Company's residential customer population, which provides the estimated number of customers by multiple of FPL and the expected Balance-to-Income ("BTI") ratios for each of those groups based on the Company's proposed rates.

IAWC estimates that there are approximately 46,000 residential water customers and approximately 9,000 residential wastewater customers in its service territory with household incomes at or below 150% of the FPL that would be eligible for the Company's proposed low-income tariff. IAWC explains that for customers in the income group at or below 150% of the FPL, the discounts offered under this tariff would reduce a typical bill for Basic Water Service (40 gallons per day per household member for a family of three) from $64.20 per month under proposed rates to $41.31 per month, which is a discount of 36% on the total bill and is less than what these customers would pay for basic water service under the Company's current rates. IAWC notes that the BTI ratio for this customer group would be reduced from approximately 7% to approximately 5% under the proposed discounts.

IAWC states that Staff opposes the Company's proposed eligibility threshold, arguing that IAWC should be bound to the 100% of FPL threshold approved for PPWC in Docket No. 21-0198, because "[t]here is no reason that the Commission should approve different income level thresholds for two water/wastewater utilities in the same state and whose territories and customer makeup is similar." Staff Ex. 15.0 at 4. IAWC contends that Staff offers no evidence or support for the assertion that the Company's territory and customer makeup is similar to that of PPWC (let alone why any similarities would justify mandating implementation of an identical low-income program). Instead, IAWC notes, it is clear that Staff's objection to the Company's proposed eligibility threshold is based on nothing more than a desire to avoid inconsistent eligibility criteria for residential customers. IAWC argues that this is not a reasonable justification for rejecting the Company's data-driven proposal, and that this approach assumes that IAWC must somehow overcome or disprove the standards implemented in the PPWC rate case, while simultaneously ignoring the substantial evidence presented by IAWC in this proceeding.

IAWC explains that of the approximately 46,000 residential water customers and approximately 9,000 residential wastewater customers in IAWC's service territory with household incomes at or below 150% of the FPL, IAWC has determined that approximately 20,000 of those customers (43%) are in the 100-150% FPL group that Staff's proposal would exclude from eligibility in the tariff based on the tariff program approved for PPWC. And, for the approximately 20,000 customers that Staff's proposal would exclude from eligibility for the low-income tariff, IAWC has estimated that bills resulting from the Company's proposed rates are expected to take up approximately 2.8% of household income – above the 2% BTI threshold that is generally regarded as being "affordable" for non-low-income customers. IAWC states that as acknowledged by the AG, the Company's proposed low-income eligibility threshold is supported by substantial community-level data - the Company's geospatial poverty analysis comprehensively

assesses the prevalence of poverty in its service areas through a specific service territory analysis of customers and income data available at the zip code level and does not rely on state-level averages. IAWC points out that in contrast, per Staff witness Boggs' explanation, the threshold level established for PPWC in Docket No. 21-0198 was done without actual data, including information supporting how many households would be eligible.

IAWC argues that it is well-established that "any finding, decision or order made by the Commission shall be based exclusively on the record for decision in the case." 220 ILCS 5/10-103. IAWC asserts that Commission practice is clear on this point – the Commission must have the power to "deal freely with each situation that comes before it, regardless of how it may have dealt with a similar or even the same situation in a previous proceeding." *Commonwealth Edison Co.*, 405 Ill. App. 3d at 407-408; *citing Miss. River Fuel Corp*, 1 Ill. 2d at 513. Therefore, "[a] record containing new evidence or argument that implicates past decisions compels reconsideration on the new record and may require a different result." *Commonwealth Edison Co.*, 405 Ill. App. 3d at 408. IAWC notes that the AG also acknowledges this point, stating that the Commission is not required to approve the same program for IAWC that it approved for PPWC.

IAWC notes that Staff offers no other justification for why the Company's proposed eligibility threshold should not be adopted. IAWC argues that binding it to another utility's rate design, simply because the other utility suggested it first, is unreasonable and ignores the reality of the Company's distinct and separate customer base, service territory, and proposed low-income program. IAWC concludes that the Company's proposed eligibility threshold of 150% of the FPL is reasonable, supported by evidence, and should be adopted.

b. Staff's Position

Staff states that the Company proposes low-income discount tariff pricing to make water and wastewater service more affordable for customers with demonstrated income at or below 150% of the FPL. IAWC Ex. 7.00 at 34-35. The tariff discount will be a 70% discount on all applicable base rate volumetric charges for qualifying customers. *Id*. at 35. The Company's proposal does not include any limits (or caps) on the number of participants in the program, the dollar amount of discounts provided to eligible customers, or the amount of monthly water or wastewater service that a qualifying customer can use under the discounted tariff. *Id*. at 35-36. The Company proposes to recover the costs of the discounts provided to customers through the Company's Rider VBA. *Id*. Staff objects to the Company's proposed eligibility threshold, the lack of inclusion of usage caps and its approach to cost recovery. Staff recommends the Commission approve the Company's low-income discount tariff with Staff's proposed modifications to the eligibility criterion, usage caps, and cost recovery. Staff Ex. 7.0 at 57.

Staff argues that the Commission should reject the Company's proposal to offer its low-income tariff to any water or wastewater customer whose household income is at or below 150% of the FPL. Staff Ex. 7.0 at 51. Staff recommends the tariff be available to all customers with demonstrated income at or below 100% of the FPL. *Id*. Mr. Boggs explained in testimony that the Commission recently approved this criterion for a discounted volumetric rate provided by PPWC. *Id*. at 51-52. In that docket, the company,

Staff, and the AG all agreed that the 100% threshold was "reasonable" and should be adopted.

As this is a new proposal from IAWC and the low-income rate approved in Docket No. 21-0198 is still in its infancy stage, Staff does not see a compelling reason to allow a different income eligibility threshold to be approved in two different water/wastewater utilities in Illinois. *Id*. at 52. Thus, to remain consistent, Staff recommends the Commission approve IAWC's low-income discount tariff to all customers with demonstrated income at or below 100% of the FPL. *Id*. Staff is unaware of any compelling reason that the Commission should approve different income level thresholds for two water/wastewater utilities in the same state and whose territories and customer makeup is similar. *Id*. at 52-53. Although Staff's recommendation may reduce the amount of IAWC customers that are eligible for the low-income discount rate tariff, this will also mitigate the reduced revenue from offering lower rates that will have to be recovered from customers that do not qualify for the discounted tariff. *Id*.

The Company argues that Staff's concerns regarding inconsistent eligibility criteria are not reasonable justifications for rejecting the Company's "data-driven" proposal. Staff argues that the Company's arguments are meritless. Staff has explained that both customer bases are made up of a combination of smaller, former municipal systems that were consolidated into a larger water and sewer utility system over time, and that both IAWC and PPWC's customer classes are spread across several counties in Illinois. IAWC's proposal could result in a customer being eligible in one community, but not in a neighboring community. Staff states that at this early stage of the low-income program, there is no reason for two Illinois water and wastewater utilities to offer different eligibility parameters for water and wastewater customers. Staff asserts that the Commission should approve Staff's recommended eligibility threshold that the tariff should be available to customers with demonstrated income at or below 100% of the FPL.

c. AG's Position

The AG argues that the Commission is not required to approve the same program for IAWC that it approved for PPWC. AG witness Larkin-Connolly pointed out, "Given the magnitude of the rate increases the Company proposes . . . , I view the adoption of this discount rate as an important affordability measure." AG Ex. 2.0 at 29-30. When compared with the Low-Income Home Energy Assistance Program ("LIHEAP"), Staff's proposed eligibility threshold is very low for a discount rate program and would thus omit many struggling ratepayers from participation in a program that would otherwise provide help to cover IAWC's increasingly unaffordable rates. Raising the eligibility threshold for certification to 150% gives greater opportunity for low-income customers to avoid being overburdened by IAWC's rate increases and allows a greater number of struggling ratepayers to participate in its program.

The AG shows that Staff's reliance on the PPWC program is also misplaced because the service areas of the two utilities are very different. USI has approximately 15,000 water customers and 4,000 wastewater customers spread over 22 districts. Docket. No. 21-0198, Order at 11, 36. In contrast, IAWC has 375,000 customers in more than 60 municipalities. *See* IAWC Municipality List; IAWC Ex. 1.00 at 4. IAWC's estimates show that approximately 46,000 of its residential water customers and

approximately 9,000 of its residential wastewater customers make less than 150% FPL—meaning that the number of customers eligible for IAWC's program is more than double USI's entire customer base. If the Commission caps IAWC's eligibility threshold at 100% FPL, then it would exclude approximately 20,000 customers from this program. Further, IAWC serves many Illinois cities (*e.g.* Peoria, Pekin, Champaign, ESL) as well as more suburban (Chicago area) and rural areas. The cost of living in these areas may be higher than in PPWC's service territory. As a result, the populations served by the two utilities are not comparable. The AG maintains that more flexible eligibility criteria that more closely mirrors eligibility in the Energy Assistance Act and the Water and Sewer Assistance Act is more appropriate for a utility of IAWC's size. *See, e.g.,* 305 ILCS 20/6 (Energy Assistance Act); 305 ILCS 21/20 (Water and Sewer Assistance Act).

The AG requests that the Commission reject Staff's proposal to lower IAWC's discount rate eligibility threshold to 100% FPL.

d. Commission Analysis and Conclusion

While Staff's 100% FPL eligibility threshold is reasonable, IAWC's proposed eligibility threshold of 150% of the FPL for participation in its low-income tariff is also reasonable and supported by substantial evidence that analyzes the Company's residential customer population, including the estimated number of customers by multiple of FPL and the expected BTI ratios for each of those groups based on the Company's proposed rates. Staff claims the Commission should make IAWC's low-income tariff consistent with the low-income tariff approved for PPWC in Docket No. 21-0198 in part because having consistent State-wide eligibility parameters places Illinois customers on a level playing field. Low-income tariff programs are relatively new. While uniformity among low-income tariff programs may be an appropriate goal in the future, the Commission must make a decision based on the evidence in this record. IAWC has a different service area than PPWC, including many more ratepayers in very different communities, and limiting the eligibility threshold to 100% of the FPL unnecessarily excludes struggling ratepayers from participating in the program. The Commission adopts IAWC's proposed eligibility threshold of 150% of the FPL.

2. Usage Caps

a. IAWC's Position

IAWC states that its proposed low-income discount tariff will be available to all customers in all pricing zones and will provide a 70% discount on all base rate volumetric charges in each district. IAWC notes that the Company has determined that it is in the best interest of IAWC customers to not impose a cap on the amount of water that can be used each month under the discounted rates because there is a strong positive correlation between the number of people living in a home and the amount of water used for basic water service in the home. In other words, the more people that reside in a household, the more water one can expect that household to use. IAWC explains that because the definition of FPL takes into account both household income and the number of people living in a home, and households with as many as six or seven people can qualify under the 150% of FPL provision for the proposed low-income tariff, it is appropriate to ensure that the potential benefits of the tariff are available to larger families that would qualify under the tariff's income guidelines. IAWC notes that the AG agrees

with this approach, acknowledging that "the variability in the size of low-income households makes it appropriate to forego a volumetric bill usage cap on discounted water," and given that "application of the discount to a specific usage cap had the potential to undermine the program's goal to keep water and sewer rates affordable for low-income households." AG Ex. 2.0 at 31.

IAWC states that Staff objects to this approach and argues that usage under the low-income tariff should be capped using "a similar usage forecast and calculations…as the Commission approved in Docket No. 21-0198." Staff Ex. 7.0 at 54. IAWC explains that Staff's justification for the usage cap is based, again, on a preference for consistency and a desire to bind IAWC to the tariffs approved for an unrelated utility with separate geographical service areas and customer base. Again, similar to Staff's objection to the Company's proposed eligibility threshold, there is no data or evidence supporting this proposal. IAWC maintains that Staff has not offered any analysis of how a cap on usage under the low-income rate may impact participation, customer bills, or affordability, not has Staff demonstrated why PPWC's usage forecast and calculations are reasonable or appropriate for use by IAWC. Staff also argues a usage cap is necessary to ensure that low-income customers are incentivized to conserve water in the same way as non-low-income customers. Again, IAWC notes, there is no evidence that low-income customers (who necessarily have lower income levels than the non-low-income customers) may lack incentives to conserve water or may otherwise use water and wastewater service indiscriminately. Neither has Staff demonstrated what factors may drive water conservation for non-low-income customers, such that they will conserve water whenever possible. IAWC further notes that under Staff's proposal (assuming an eligibility threshold of 150% of FPL), more than a quarter of potential eligible customers will see significant differences of anywhere between 16% and 78% depending on the size of the threshold.

b. Staff's Position

The Company's proposed low-income discounted tariff does not include any limit (or cap) on the amount of water/wastewater service that a low-income customer can use under the discounted tariff. IAWC Ex. 7.00 at 35. Staff objects to this aspect of the Company's proposal. Staff Ex. 7.0 at 53.

Staff witness Boggs recommends IAWC use a similar usage forecast and calculations for both its water and wastewater low-income tariff proposal as the Commission approved in Docket No. 21-0198. Staff Ex. 7.0 at 54. In that case, PPWC developed a low-income usage forecast model based on a bill frequency analysis of its residential bills and, from that model, PPWC estimated that the average low-income usage on a bill would be 2.299 kilogallons, equal to a 67% factor for low-income usage. *Id*. The Commission approved using this 67% factor to forecast total low-income sales for rate design purposes, which addressed the concerns of the AG regarding bill distribution effects of using the residential class average usage to forecast low-income sales. Docket No. 21-0198, Order at 105. Staff recommends that IAWC use a similar usage forecast and calculations for both its water and wastewater low-income tariff proposal. Staff Ex. 7.0 at 54. Staff asserts that since the low-income tariff rate proposals are in their infancy stage, having two different low-income tariff programs running simultaneously with different rules and eligibility requirements between similar utilities could lead to fairness concerns between the two customer bases. *Id*.

Staff witness Boggs calculated a usage cap for water and wastewater service for IAWC's proposed discounted tariff using the method approved by the Commission in Docket No. 21-0198. *Id*. Based on IAWC's usage calculations provided by the Company and the approved USI model described previously, the overall average water usage for IAWC customers is 4,130 gallons per month. The average usage among IAWC customers who do not use the average amount of water in a month is 2,314 gallons. In this IAWC proceeding, the usage adjustment would calculate to 56%. Staff Ex. 7.0 at 54-55, Att. 7.06.

Staff states that the Commission should reject the Company's proposal of no cap on the amount of monthly water or wastewater service that a low-income customer can use under the discounted tariff. Staff Ex. 7.0 at 55. Customers that qualify for the discounted tariff should have the same incentive to conserve water as the IAWC customers that do not qualify for the discounted tariff. The Company's calculated average water and wastewater usages among all customers includes all non-low-income and low-income users. Staff Ex. 7.0 at 55. Staff states that the Company has not provided information or documentation to illustrate that the family size differs among customers that qualify for the discounted tariff and customers that are ineligible for the discounted tariff. Staff's recommendation should provide all water and wastewater customers an incentive to conserve water whenever possible. *Id*.

c. AG's Position

The AG requests that the Commission deny Staff's proposal for a usage cap because the Commission is not required to approve the same discount rate program for multiple utilities. The AG notes that Staff's usage cap would arbitrarily limit the discounted service available to low-income ratepayers without regard to family size or location. Indeed, the poverty rate explicitly recognizes the higher costs associated with larger families, and the AG contends such families, while qualifying for the program, should be able to satisfy basic health and sanitation needs by using the amount of water appropriate to the number of people in the household. A usage cap based on an average family size would unreasonably limit the benefit available to larger families. The AG maintains that if the Commission were to approve Staff's proposal, then it would unreasonably force low-income ratepayers to ration their water use to avoid paying the full cost of IAWC's unaffordable service for any amount of water or wastewater used above the proposed caps. The AG thus requests that the Commission reject Staff's proposal to impose a cap on water and wastewater usage subject to IAWC's discount rate.

d. Commission Analysis and Conclusion

The Commission is not persuaded by Staff that a usage cap is necessary. As the Company points out, there is no evidence that low-income customers will use unreasonable amounts of water due to the reduced rates. Moreover, there is a strong positive correlation between the number of people living in a home and the amount of water used for basic water service in the home. As IAWC notes, it is appropriate to ensure that the potential benefits of the tariff are available to larger families that would qualify under the tariff's income guidelines.

Staff claims that having two different low-income tariff programs running simultaneously with different rules and eligibility requirements between similar utilities

could lead to fairness concerns is misplaced. Utilities offer many different products to their customers, some which are required by law and some which are not. Utilities are not required to offer low-income tariffs to their customers and therefore, are not required to mimic other utilities' nonstandard services.

3. Revenue Recovery

a. IAWC's Position

IAWC states that because it is unclear how many customers might avail themselves of the low-income rate to recover the cost of the 70% discount on volumetric rates provided to eligible customers through the low-income tariff, the Company proposes to use its VBA mechanism to recover the cost of the discount on volumetric rates provided through its low-income tariff. The VBA Rider, which is reconciled every year in a docketed Commission proceeding, allows the Company to recover shortfalls in volumetric revenues or provide credits from an overcollection of volumetric revenues to customers based on approved volumetric revenue requirements in this proceeding. Under this approach, IAWC explains, if all customers who were eligible for the tariff participated at full usage, the cost of the low-income program would be approximately $10.2 million. The associated increase in the VBA to recover this cost would be approximately $0.03 per hundred gallons, which for a low-income household of two person would equate to $0.78 per month. Because the typical discount for that low-income customer is approximately $16 per month, the associated increase in the VBA represents less than 5% of the total discounts available to low-income customers. IAWC argues that this approach is reasonable, avoids imprecise estimates of potential customer participation in the tariff, and ensures that any revenue shortfalls that accrue from the low-income program are reflected in the VBA calculation rather than guaranteeing the Company cost recovery based on a predetermined estimated level of cost.

IAWC notes that Staff objects to IAWC's proposal to recover the exact amount of its revenue shortfall through Rider VBA, arguing that Rider VBA was not established as a mechanism to recover loss of revenue as the result of offering a low-income rate through a discounted tariff, and that IAWC's proposal would potentially set a dangerous precedent by allowing the Company to reduce rates for an unlimited amount of water for a particular customer class knowing that there will be guaranteed recovery of that revenue somewhere else. Instead, Staff recommends that IAWC assume 100% participation in its low-income rate to develop a rate that recovers any revenue shortfalls from the low-income tariff through the volumetric rate in each respective water and wastewater division.

Again, IAWC contends, Staff's recommendation is designed to remain consistent with the method approved in Docket No 21-0198. And, again, IAWC states, Staff offers no evidence as to why this approach or Staff's proposed assumptions are appropriate or reasonable for IAWC. In fact, IAWC notes, Staff acknowledges the inexactitude of this proposal, recognizing that it is unlikely that the Company will get 100% participation from all customers who qualify. To address this imprecision, Staff simply recommends that the Company engage in annual reporting (excluding first-year statistics) to estimate the volumes of water and wastewater used by the number of low-income ratepayers and determine how to set non-low-income volumetric rates in future rate filings.

IAWC states that Staff has not provided any evidence demonstrating why this approach is reasonable, nor any justification for its application to IAWC beyond ensuring consistency with PPWC. IAWC explains that developing a volumetric rate that assumes a relatively large assumption of tariff participation into rate design will inevitably increase rates for customers with no ability to reduce those rates until the next rate case if there is less than 100% participation in the low-income tariff by eligible customers. In contrast, IAWC notes that its proposal results in lower rates for customers, and only recovers the cost of discounts offered through the tariff when those discounts are used; those costs are recovered in the next year, which further reduces the cost of the program for nonparticipants.

Further, IAWC states, Staff's concern that Rider VBA was not designed to recover revenue shortfalls resulting from a low-income rate is irrelevant, and that Staff offers no case law, evidence, or contradictory tariff language to support this view. IAWC points out that the first low-income rate for water and wastewater utilities was approved just nine months ago in Docket No. 21-0198 (which Staff has repeatedly cited). Therefore, IAWC states, indisputably, the Company's VBA Rider was approved by the Commission when a low-income discount tariff had not yet been contemplated, let alone litigated. Nevertheless, IAWC states, recovery of revenue shortfalls resulting from a low-income rate is consistent with the original purpose of the VBA Rider – to allow the Company to recover its approved volumetric revenue requirement, no more or less.

IAWC explains that as designed, its VBA tariff reconciles rate case volumetric revenues generally. IAWC asserts that in order for low-income discounts to not be recovered through the VBA, the tariff language of Rider VBA and the calculation of the factor itself would have to be amended to specifically exclude rate case revenues and actual revenues associated with low-income discounts. IAWC asserts that its VBA tariff carries the force of law, and Staff has not proposed any changes to the tariff language or to the VBA calculation that would specifically exclude the reconciliation of revenues associated with a low-income tariff. Without such changes, IAWC's VBA tariff would capture shortfalls in revenue associated with the low-income tariff in its revenue calculation. *See Sheffler v. Commonwealth Edison Co.*, 2011 IL 110166, ¶28 ("Once the Commission approves a tariff, the tariff is a law, not a contract, and has the force and effect of a statute"); *citing Adams v. N. Ill. Gas Co. d/b/a Nicor Gas Co.*, 211 Ill. 2d 32, 55 (2004).

IAWC also asserts that under Staff's approach, which would adjust volumetric rates to account for assumed participation levels, IAWC would still be required to use its VBA mechanism to reconcile total actual fiscal year volumetric revenues; thus, any deviation from Staff's assumptions about low-income discounts would cause a fluctuation in actual fiscal year volumetric revenues, which would again be recovered through the normal VBA process. Therefore, unless IAWC's VBA Rider is changed to specifically exclude fluctuations in revenues due to low-income tariff participation, any changes in revenues from Rate Case volumetric revenue due to differences between actual and forecasted low-income participation will flow through the VBA no matter what assumptions are initially made.

IAWC argues that Staff's additional objections to the use of Rider VBA to recover revenues associated with the low-income tariff are similarly unsupported. While Staff

maintains that Rider VBA was not intended to recover anticipated lost volumetric revenue, IAWC notes that this argument ignores that, in Docket No. 16-0093, the Commission approved Rider VBA and acknowledged its myriad benefits for the Company's customers, including that Rider VBA "supports revenues for programs and investments that improve water efficiency." Docket No. 16-0093, Order at 72. Thus, IAWC asserts, while the Commission did not directly address Rider VBA's relationship to low-income rates (nor would it, given that none would be proposed in Illinois for another five years), the Commission clearly anticipated reduced volumetric revenues resulting from Company-implemented programs. And, although Staff argues that the Company's proposed use of Rider VBA could somehow set an inappropriate precedent, Staff disregards the clear laws and regulations in place that prevent utilities from, on their own accord and independent of Commission oversight, setting (or decreasing) rates for specific groups based on an assumption that the VBA will reconcile the difference.

IAWC states that under Staff's proposal, the Company would be guaranteed this level of cost recovery automatically in rates every year, even for eligible customers that do not participate in the program, and those increased revenues would accrue to the Company's benefit rather than guaranteeing the Company full funding every year regardless of customer participation levels. IAWC asserts that such an approach will increase rates for customers with no ability to reduce those rates until the Company's next rate case, if there is anything less than 100% participation in the low-income tariff by the Company's estimated 46,070 eligible customers.

IAWC states that its proposed low-income tariff rate design is designed with the long-term best interest of its customers in mind, maximizes benefits to as many eligible customers as possible, and mitigates the cost of the program for all IAWC customers. IAWC argues that it should be adopted. In contrast, IAWC states, Staff's proposal reduces eligibility, reduces benefits, and increases costs to non-participating customers beyond what is necessary to fund the program. IAWC argues that Staff's reliance on the low-income tariff approved in Docket No. 21-0198 is inappropriate, unsupported, and should be rejected.

b. Staff's Position

Staff recommends the Commission reject the Company's proposal to recover the costs of the discounts provided to customers under the proposed low-income tariff through the Company's Rider VBA.

Rider VBA was established to ensure the volumes and revenues used in the rate case are trued up to the actual amounts of revenue if consumption drops or rises. Staff Ex. 7.0 at 57. Rider VBA is not an appropriate mechanism to recover loss of revenue as the result of offering a low-income rate through a discounted tariff for low-income customers as proposed by IAWC in this docket. *Id*. IAWC admits as much, stating that Staff "may very well be correct that Rider VBA does not contemplate revenue losses as a result of low-income rates because that Rider was developed at a time when low-income discount rates did not exist and were not proposed." IAWC Ex. 18.00 at 20. However, IAWC argues that Rider VBA does not address any specific cause of revenue fluctuation and does not distinguish between causes of revenue fluctuation. *Id*. The Company also asserts that Staff's concern that "Rider VBA was not designed to recover revenue

shortfalls resulting from a low-income rate is irrelevant." IAWC IB at 156. Staff asserts that the Commission should reject these arguments; Staff argues that the purpose of Rider VBA is exceedingly relevant. When the Commission approved IAWC's Rider VBA in Docket No. 16-0093, utilizing Rider VBA for the circumstances in this proceeding, as a mechanism to recover anticipated lost volumetric revenue, was not contemplated. Specifically, Rider VBA was designed to ensure that it collects the revenues authorized by the Commission, independent of changes in sales volume. Docket No. 16-0093, Order at 68. Rider VBA, as implemented since Docket No. 16-0093, compares the rate case authorized amount of volumetric revenues to actual volumetric revenues, net of production expenses (power, chemicals, and water waste disposal) that vary directly with sales levels, and provide a credit (if revenues exceed the authorized level) or a volumetric surcharge (if revenues are below the authorized level). *Id*. Netting production costs ensures that customers pay only those production costs for the actual amount of water delivered. *Id*. Under Rider VBA, prices will increase and decrease as sales volume changes between rate cases, but it will hold revenues at authorized levels. *Id*. Utilizing Rider VBA as proposed by the Company in this proceeding could set an inappropriate precedent for the use of Rider VBA in future proceedings and allow for recovery of items that are outside the scope of what is deemed appropriate for recovery under the rider. Staff states that IAWC would seemingly have the Commission ignore that Rider VBA should only recover volumetric charges, and instead, utilize Rider VBA as a mechanism to recoup, improperly, revenue shortfalls from the proposed low-income tariff.

Instead of improperly utilizing Rider VBA, Staff recommends the Company recover the revenue shortfall from customers that do not qualify for the discounted tariff through the Usage Charge. The Commission recently approved a similar approach in Docket No. 21-0198. Docket No. 21-0198, Order at 107. Consistent with the Commission's Order in that case, Staff recommends that IAWC use the 67% factor to estimate usage forecasts for water and wastewater customers who are at or below 100% of the FPL and would be eligible for the low-income discount tariff. To calculate rates in this case, the Company should assume 100% participation from all customers that are eligible by virtue of having annual income at or below 100% of the FPL. The Company should recover revenue shortfalls from non-low-income customers separately through the volumetric rate in the respective water and wastewater divisions. *Id*. To remain consistent with the method approved in Docket No. 21-0198 the Commission should approve IAWC using a 67% factor (2,767 gallons per month for water customers and 2,675 gallons per month for wastewater customers) to forecast its total low-income sales for rate design purposes. *Id*. It is also Staff's contention that a pitfall to recovering the revenue shortfall through Rider VBA is that revenue shortfall will be recovered from all customers, which could greatly reduce the benefits to low-income customers if large amounts of the revenue shortfall would need to be recovered from all customers.

The Company asserts that Staff's recommendation is designed to remain consistent with Docket No. 21-0198, and "offers no evidence as to why this approach or Staff's proposed assumptions are appropriate or reasonable for IAWC." IAWC IB at 155. This is false. Staff states that the Commission should remain consistent with the low-income tariff approved in Docket No. 21-0198, and Staff has provided several reasons as to why this is important.

Staff also recommended certain reporting requirements related to the Company's proposed low-income discount tariff. Mr. Boggs explained that, at the onset of offering this discount tariff, it is unlikely that the Company will get 100% participation from all customers who qualify. Staff Ex. 7.0 at 59. To estimate the volume of water discounted by the low-income tariff in future years, Staff recommends the Company provide an annual report documenting the percentage of eligible low-income ratepayers who have signed up to take advantage of the low-income tariff offering. *Id*. Staff recommends eliminating the first-year statistics for eligible customers and the volumes of water and wastewater used at the discounted rate because it is unknown how the low-income rate will be communicated to customers and how likely those customers will provide the income documentation to prove eligibility. After the tariff has been established for a year and the Company has had adequate opportunity to communicate the availability of the program, the Company's low-income statistics should be averaged for all subsequent years until the Company's next general rate case. *Id*. Upon that filing, the Company should have enough data to more accurately estimate the volumes of water and wastewater used by the number of low- income ratepayers that have proven eligibility and participated in the program. The data compiled should include the number of customers that have taken rates under the low-income tariff and the average volume of water used at the discounted rate. This data will aid in determining how to set non-low-income volumetric rates in future rate filings so the shortfall of revenues collected at the discounted low-income rate can be recovered through the volumetric rates paid by non-low-income ratepayers. *Id*. at 59-60. Staff made a similar recommendation in Docket No. 21-0198, which the Commission approved. Docket No. 21-0198, Order at 111.

For the foregoing reasons, Staff recommends the Commission adopt a low-income discount tariff for IAWC water and wastewater customers with the following modifications: the tariff should be available to customers with demonstrated income at or below 100% of the FPL and the tariff should include usage caps on the amount of monthly water or wastewater service that customers can use under the discounted tariff of 2,771 gallons for water customers and 2,675 gallons for wastewater customers. Additionally, Staff asserts that the Commission should reject the Company's proposal to recover the costs of the discounts provided to customers under the low-income tariff through Rider VBA. Staff argues that the Commission should approve Staff's recommendation that IAWC recover the revenue shortfall from non-low-income customers in the respective water and wastewater service areas as the customers using the discounted tariff rate. Staff also recommends the Company provide, in its next general rate case, an annual report documenting the percentage of eligible low-income ratepayers who have signed up for the low-income tariff offering. Staff also states the Commission should approve Staff's reporting requirements.

c. AG's Position

Staff proposed that IAWC assume 100% of eligible customers will enroll in the program and charge other ratepayers the costs of that participation upfront, rather than have IAWC recover the actual costs of participation through the Rider VBA. Staff Ex. 7.0 at 58. In contrast, IAWC proposed that it refrain from assuming the participation level upfront, and instead recover the actual costs of the program annually through its Rider

VBA. The AG supports IAWC's proposal because it is a more accurate measure of program participation and cost.

The AG demonstrates that assuming that 100% of eligible customers will participate is unreasonable and will inevitably result in costs that do not reflect the actual number of program participants. The AG offers LIHEAP, a statewide opt-in energy assistance program, as an example. LIHEAP experienced 13% to 25% participation from 2014 to 2020. *See* Docket No. 21-0198, Order at 109. The AG maintains that it is unreasonable to expect 100% of eligible customers to participate in IAWC's program when only 25% of eligible ratepayers participated in an established statewide program with similar opt-in application criteria. IAWC will recoup the full costs of the program through both proposals, but the AG contends that it is better to recover these costs through the Rider VBA after the Company and Commission know the actual participation levels. This will avoid creating large swings for Rider VBA to fill and prevent overcharging ratepayers upfront and then having to potentially refund them later through Rider VBA. The AG asserts that the Commission should not require customers to pay more for a program based on an unreasonable and unrealistic participation estimate.

The AG also points out that Staff failed to reconcile the fact that Rider VBA will be used to adjust the costs of recovery either way. According to the AG, the Commission is presented with two choices on this issue, either require ratepayers to pay Staff's unrealistic and inflated estimated costs of the program upfront and refund ratepayers for these excessive charges through the Rider VBA later; or permit the Company to charge ratepayers the actual costs of the program through the VBA, after the actual number of customers who participate in the program is known. The AG maintains that the second option is preferable because it is based on actual participation—not an unreasonable and unrealistic participation estimate.

For these reasons, the AG requests that the Commission adopt the revenue recovery mechanism proposed by IAWC.

d. Commission Analysis and Conclusion

Staff recommends that the Commission approve revenue recovery under the low-income tariff based on the process approved in Docket No. 21-0198. Staff also argues that using Rider VBA for cost recovery is counter to the purpose behind the approval of Rider VBA. Staff therefore suggests using 100% participation from all eligible customers to calculate rates in this case. Staff states the Company should recover revenue shortfalls from non-low-income customers separately through the volumetric rate in the respective water and wastewater divisions.

The Commission agrees that Rider VBA was not approved with a low-income tariff in mind. The VBA tariff, however, reconciles rate case volumetric revenues generally. "Rider VBA is designed to ensure that it collects the revenues authorized by the Commission, independent of changes in sales volume." Docket No. 16-0093, Order at 68. The Commission agrees with IAWC that Rider VBA benefits the Company's customers, and "supports revenues for programs and investments that improve water efficiency." *Id.* at 72.

Using 100% eligible participation for estimating purposes surely overstates the costs of the program. The Commission agrees with the AG that based on its experience with LIHEAP, there is never 100% participation among eligible customers.

The Commission further agrees with the AG that Rider VBA will eventually be used to adjust the costs of recovery. Ratepayers can pay Staff's overestimated costs of the program upfront and later be refunded through Rider VBA or, the Company can charge ratepayers the actual costs of the program through the VBA. The Commission finds that the second option is preferable because costs are based on actual participation. The Company's cost recovery proposal, supported by the AG, is approved.

Staff makes several recommendations on reporting the results of the low-income tariff. It does not appear any party objects to those; they are adopted.

VIII. OTHER

A. Uncontested Issues

1. Depreciation Study

IAWC states that Staff noted the depreciation study used for this case was calculated as of December 31, 2016. IIWC/FEA also recommend that IAWC be required to conduct an updated demand study. The Company has agreed to conduct a depreciation study prior to its next rate case. The Commission finds this is reasonable and it is approved.

2. Original Cost Determination

IAWC accepts the proposed original cost determination as of December 31, 2021 of $2,455,743,929. This issue is uncontested. The Commission finds this is reasonable and it is approved.

3. Gross Revenue Conversion Factor

IAWC explains that the Company's original filing applied a uniform gross revenue conversion factor ("GRCF") based on the total company average uncollectible rate provided in the Company's Schedule C-16. Staff and the AG proposed to apply a GRCF calculated using a zone-specific uncollectible rate. Staff proposed Schedules 9.07 for GRCF. Staff Ex. 9.0 at 2. IAWC did not contest Staff's Schedules.

The Company has updated its GRCF calculation based on the Company's proposed individual rate zones uncollectible percentage. These updates can be found in the Company's revised A-2.1 schedule. The Commission finds IAWC's updated GRCF is reasonable and it is approved.

4. Demand Study

IAWC notes that IIWC/FEA recommend that the Company be required to conduct a new demand study which includes load characteristics of the fifteen newly acquired water systems and the fourteen wastewater systems in this case in addition to any additional systems the Company acquires before the next rate case so that peaking factors updated for these acquisitions can be included in the next COS study provided by the Company, and Staff agreed with that recommendation. IAWC states that the Company agrees that it would be useful to update its capacity study in the next rate case

to reflect the acquisitions the Company has made and might make before the filing of the next rate case. The Commission finds this is reasonable and it is approved.

5. Typographical Errors

Staff identified typographical errors included in the Company's proposed Standby Water Usage Charges for its Central Division customers and the Company's proposed Metered Water Usage Charge for the Central Division (Pontiac District). Staff Ex. 8.0 at 3. Staff recommended that the Company correct those errors identified in Schedule E-1. IAWC Ex. 15.00 at 14. IAWC agreed to update and correct its proposed rates in its tariff pages filed in compliance with the final Order in this proceeding. *Id*. The Commission finds this is reasonable and is approved.

IX. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the record herein, is of the opinion and finds that:

(1) Illinois-American Water Company is in the business of furnishing water and sewer service to the public in various areas in the State of Illinois and is a public utility as defined in the Public Utilities Act;

(2) the Commission has jurisdiction over the parties hereto and of the subject matter herein;

(3) the findings and conclusions stated in the prefatory portion of this Order are supported by the evidence of record and are hereby adopted as findings of fact; Appendices A through E attached hereto provide supporting calculations for various conclusions in this Order;

(4) the test year in this proceeding is a future test year consisting of the 12 months ending December 31, 2023; this test year is appropriate for purposes of this proceeding;

(5) for purposes of this proceeding, Illinois-American Water Company's net original cost rate bases are set forth in Appendices A through E;

(6) the $2,455,743,929 original cost of plant for Illinois-American Water Company as of December 31, 2021 should be approved as the original cost of plant;

(7) a just and reasonable rate of return which Illinois-American Water Company should be allowed an opportunity to earn on its net original cost rate base is 7.01%; this rate of return incorporates a return on equity of 9.78%;

(8) the rates of return set forth in Finding (7) hereinabove result in operating revenues and net annual operating income as shown in Appendices A through E based on the test year herein approved;

(9) Illinois-American Water Company's rates which are presently in effect for water service and sewer service are insufficient to generate the operating income necessary to permit it the opportunity to earn a fair and reasonable return on net original cost rate base; the currently effective rates should be permanently canceled and annulled;

(10) the rates proposed by Illinois-American Water Company would produce a rate of return above a return that is fair and reasonable; Illinois-American Water Company's Proposed Tariffs should be permanently canceled and annulled;

(11) Illinois-American Water Company should be authorized to place into effect tariff sheets designed to produce annual operating revenues as contained in Appendices A through E, such tariff sheets to be applicable to service furnished on and after their effective date; with compliance tariffs to be filed annually which reflect the re-allocation stage of the Central Zone's wastewater revenue requirement; the terms and conditions in these tariff sheets should be consistent with Finding (17) below;

(12) the cost of service, interclass revenue allocation, wastewater revenue reallocation, rate design, and tariff terms and conditions found appropriate in the prefatory portion of this Order are just and reasonable for purposes of this proceeding and should be adopted;

(13) the 2021 actual and projected 2022 and 2023 QIP amounts for Central Water included in base rates are comprised of Utility Plant in Service of $215,171,408; $305,495,156 and $418,193,512, respectively; related accumulated depreciation of $8,686,824; $14,559,772 and $19,654,797, respectively; related accumulated deferred income tax of $22,060,880; $45,701,157, and $53,280,959, respectively, for NetQIP – Rate base of $184,423,704 for 2021, $245,234,227 for 2022 and $345,257,756 for 2023 and $3,920,937; $5,873,284; and $10,490,886 in annualized depreciation expense, respectively;

(14) the 2021 actual and projected 2022 and 2023 QIP amounts for Pekin Water included in base rates are comprised of Utility Plant in Service of $9,161,804; $15,111,206 and $21,086,089, respectively; related accumulated depreciation of $445,061; $751,144 and $1,037,664, respectively; related accumulated deferred income tax of $1,062,931; $2,230,519 and $2,907,895, respectively, for NetQIP – Rate base of $7,653,813 for 2021; $12,129,543 for 2022 and $17,140,530 for 2023 and $219,004; $229,479 and $240,146 in annualized depreciation expense, respectively;

(15) the 2021 actual and projected 2022 and 2023 QIP amounts for Lincoln Water included in base rates are comprised of Utility Plant in Service of $4,601,999; $15,539,951 and $31,414,074, respectively; related accumulated depreciation of $176,882; $445,963 and $746,579, respectively; related accumulated deferred income tax of $458,960; $1,624,459 and $1,724,395, respectively, for NetQIP – Rate base of $3,966,158 for 2021; $13,469,530 for 2022 and $28,943,100 for 2023 and $84,147; $88,586 and $93,105 in annualized depreciation expense, respectively;

(16) the 2021 actual and projected 2022 and 2023 QIP amounts for Chicago Metro Wastewater included in base rates are comprised of Utility Plant in

Service of $21,545,373; $32,916,397 and $41,425,245, respectively; related accumulated depreciation of $737,814; $1,441,240 and $1,604,755, respectively; related accumulated deferred income tax of $1,507,322; $2,794,412 and $3,005,914, respectively, for NetQIP – Rate base of $19,300,238 for 2021; $28,680,745 for 2022 and $36,814,575 for 2023 and $413,662; $703,427 and $329,170 in annualized depreciation expense, respectively;

(17) the new tariff sheets authorized to be filed by this Order shall reflect an effective date not less than five working days after the date of filing, with the tariff sheets to be corrected within that time period if necessary, except as is otherwise required by Section 9-201(b) of the Act as amended;

(18) the Commission has considered the estimated costs to be expended by Illinois-American Water Company to compensate attorneys and technical experts to prepare and litigate rate case proceedings and assesses that the amount included as rate case expense in the total revenue requirement of $594,000 is just and reasonable pursuant to Section 9-229 of the Act

(19) Illinois-American Water Company is directed to conduct a depreciation study and demand study prior to its next rate case;

(20) Illinois-American Water Company is directed to provide updated COS studies in accordance with the conclusions herein; and

(21) Illinois-American Water Company should be directed to conduct a new demand study that includes load characteristics of the fifteen newly acquired water systems and the fourteen wastewater systems in this case, and any additional systems the Company acquires before the next rate case, so that peaking factors updated for these acquisitions can be included in the next cost of service study provided by the Company.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the Proposed Tariffs proposing a general increase in rates, filed by Illinois-American Water Company on February 10, 2022, are hereby permanently canceled and annulled.

IT IS FURTHER ORDERED that Illinois-American Water Company is authorized and directed to file new tariff sheets with supporting workpapers in accordance with Findings (11), (12), and (17) of, and other determinations in, this Order, applicable to service furnished on and after the effective date of said tariff sheets.

IT IS FURTHER ORDERED that upon the effective date of the new tariff sheets to be filed pursuant to this Order, the tariff sheets presently in effect for water and sewer service rendered by Illinois-American Water Company which are replaced thereby are hereby permanently canceled and annulled.

IT IS FURTHER ORDERED that the $2,455,743,929 original cost of plant for Illinois-American Water Company at December 31, 2021, is approved as the original cost of plant.

IT IS FURTHER ORDERED that Illinois-American Water Company comply with the requirements in Findings (19), (20) and (21) above.

IT IS FURTHER ORDERED that Illinois-American Water Company's 2021, 2022, and 2023 Qualifying Infrastructure Plant costs included in rate base in this proceeding for each rate zone are subject to review in the Illinois-American Water Company's annual Qualifying Infrastructure Plant reconciliation proceedings and the costs related to such Qualifying Infrastructure Plant are subject to adjustments for prudence and reasonableness in the annual Qualifying Infrastructure Plant reconciliation and future base rate proceedings.

IT IS FURTHER ORDERED that all motions, petitions, and objections which have not been disposed of are hereby deemed to be disposed of in a manner consistent with the conclusions herein.

IT IS FURTHER ORDERED that pursuant to Section 10-113(a) of the Public Utilities Act and 83 Ill. Adm. Code 200.880, any application for rehearing shall be filed within 30 days after service of the Order on the party.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 15th day of December, 2022.

(SIGNED) CARRIE ZALEWSKI

Chairman

COMMONWEALTH OF VIRGINIA **Attachment 4**

STATE CORPORATION COMMISSION

AT RICHMOND, APRIL 24, 2023

2023 APR 24 A 11: 15

APPLICATION OF

VIRGINIA-AMERICAN WATER COMPANY CASE NO. PUR-2021-00255

For a general increase in rates

APPLICATION OF

VIRGINIA-AMERICAN WATER COMPANY CASE NO. PUR-2019-00176

For an Annual Informational Filing

APPLICATION OF

VIRGINIA-AMERICAN WATER COMPANY CASE NO. PUR-2020-00249

For an Annual Informational Filing

FINAL ORDER

On November 15, 2021, Virginia-American Water Company ("VAWC" or "Company") filed an application with the State Corporation Commission ("Commission") for an increase in rates ("Application" or "Rate Case"). On December 6, 2021, and December 9, 2021, the Company supplemented its Application.

On December 21, 2021, the Commission issued an Order for Notice and Hearing in VAWC's Rate Case, which, among other things, docketed the Company's Application; directed VAWC to provide notice of its Application; provided interested persons the opportunity to comment or participate in the proceeding; directed the Commission's Staff to investigate the Application; scheduled an evidentiary hearing; and assigned a Hearing Examiner to conduct all further proceedings in this matter on behalf of the Commission.

2022-00124

Notices of participation were filed in the Rate Case proceeding by the Hopewell Committee for Fair Water Rates ("Hopewell Committee"); the City of Alexandria, Virginia ("Alexandria"); and the Office of the Attorney General, Division of Consumer Counsel ("Consumer Counsel").

On March 3, 2022, the Commission entered an Order in Case Nos. PUR-2019-00176 and PUR-2020-00249 ("AIF Proceedings") which, among other things, found that the AIF Proceedings required further process and should be addressed as part of VAWC's pending Rate Case (Case No. PUR-2021-00255).[1] The Commission directed the Hearing Examiner assigned to the pending Rate Case to make findings and recommendations pertaining to the AIF proceedings in addition to any other findings and recommendations to be made as part of the Rate Case.[2] On March 14, 2022, the Hearing Examiner ruled that the AIF Proceedings would proceed concurrently with the Rate Case.[3]

On July 19, 2022, the Hopewell Committee, Alexandria, and Consumer Counsel filed their respective Rate Case testimony. On August 16, 2022, Staff of the Commission ("Staff") filed testimony pertaining to the Rate Case and the AIF Proceedings, and Consumer Counsel filed supplemental Rate Case testimony. On September 6, 2022, VAWC filed rebuttal testimony pertaining to the Rate Case and the AIF Proceedings. Public comments were also received in the Rate Case proceeding.

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[1] *Applications of Virginia American Water Company for Annual Informational Filings*, Case Nos. PUR-2019-00176 and PUR-2020-00249, Doc. Con. Cen. No. 220310081, Order at 4-5 (March 3, 2022) ("AIF Further Proceedings Order").

[2] AIF Further Proceedings Order at 5. In a footnote to Ordering Paragraph (1), the Commission stated: "We leave to the Hearing Examiner's discretion whether and how to combine and/or consolidate Case Nos. PUR-2019-00176, PUR-2020-00249, and PUR-2021-00255." *Id.* n.19.

[3] Hearing Examiner Ruling at 2 (March 14, 2022).

On September 26, 2022, VAWC, Staff, and Alexandria (collectively, "Stipulating Participants") submitted a Joint Motion to Approve Stipulation together with a proposed Stipulation ("Stipulation") pertaining to the Rate Case and AIF Proceedings.[4] The Hopewell Committee and Consumer Counsel were not signatories to the Stipulation. Consumer Counsel, however, recommended the Commission approve the Stipulation as a reasonable resolution of the issues.[5]

The Stipulating Participants agreed as follows:[6]

> (1) To a rate increase that would produce additional annual jurisdictional revenues of $10.75 million;
>
> (2) For future cases requiring a capital structure and cost of capital until such time as VAWC files its next base rate case, the Stipulating Participants agree to a 9.7% return on equity ("ROE") and the following actual capital structure and cost of capital:

Component	Ratemaking Capital	Weight	Cost Rate	Weighted Cost
Short-Term Debt	$20,144,129	7.335%	1.838%	0.135%
Long-Term Debt	$141,673,355	51.590%	4.222%	2.178%
Preferred Stock	$0	0.000%	0.000%	0.000%
Common Equity	$111,850,200	40.73%	9.70%	3.951%
Investment Tax Credits	$946,123	0.345%	6.594%	0.023%
Total Capitalization	$274,613,807	100.00%		6.286%

> (3) To move forward with the second phase of consolidation for water service rates and the purchased water surcharge as proposed by the Company and consistent with the Partial Stipulation approved by the Commission in Case No. PUR-2018-00175;
>
> (4) To a 3-year amortization of the Company's COVID-19 regulatory asset balance as of June 30, 2021, resulting in an annual jurisdictional amortization amount of $272,812, as calculated in

[4] Exhibit 2.

[5] Tr. at 37.

[6] Stipulation at 1-4.

Staff's pre-filed adjustment. The Company will stop deferring COVID-19 related costs as of June 30, 2021, and will start amortization for book purposes as of May 1, 2022;

(5) The Company may record any amounts above or below the total Company amount of 2023 pension expense equal to $255,101 and OPEB[7] expense equal to ($437,969) authorized in rates to a regulatory asset or liability, as appropriate, from the effective date of new rates in this proceeding until the Company's next base rate case. Such deferral will be subject to earnings tests during the deferral period based on total Company earnings;

(6) The Alexandria Water and Wastewater Infrastructure Surcharge ("WWISC") Earnings Test issue in Case Nos. PUR-2019-00176 & PUR-2020-00249 will be litigated before the Commission based on the record and post-hearing briefs;

(7) To the level of write-offs for the Depreciation Reserve Deficiency, OPEB Deferral, and COVID-19 Deferral in the June 2020 Earnings Test (in Case No. PUR-2020-00249 as updated by Staff in this Rate Case (Case No. PUR-2021-00255)) as presented below:

- Depreciation Reserve Deficiency: $362,630
- OPEB Deferral: $42,827
- COVID-19 Deferral: $123,286; and

(8) The rates set forth on Attachment A to the Stipulation should be approved by the Commission and implemented by the Company effective May 1, 2022.

The public witness hearing was convened on September 27, 2022. The public evidentiary hearing was also convened on September 27, 2022, immediately following the public witness hearing, and concluded on September 28, 2022. VAWC, Alexandria, the Hopewell Committee, Consumer Counsel, and Staff participated in the hearing.

On November 2, 2022, VAWC, the Hopewell Committee, Alexandria, Consumer Counsel, and Staff filed post-hearing briefs.

[7] "OPEB" stands for "Other Post-Employment Benefits."

On December 2, 2022, the Report of Alexander F. Skirpan, Jr., Chief Hearing Examiner ("Report") was issued in the Rate Case and the AIF Proceedings. In the Report, the Chief Hearing Examiner recommended the Commission enter an Order which adopts the proposed Stipulation, subject to keeping the existing rate structure for Hopewell's potable industrial customers with each existing volumetric rate block changing by the same percentage. The Chief Hearing Examiner further recommended there be no refunds of WWISC revenues collected from Alexandria district customers. Specifically, the Report made the following findings:[8]

> (1) Based on the record and Stipulation, VAWC requires a rate increase that will produce additional annual jurisdictional revenues of $10.75 million;
>
> (2) VAWC's ROE is 9.7%, and the actual capital structure and cost of capital is as provided in the Stipulation and shown above, to be used for future cases requiring a capital structure and cost of capital until such time as VAWC files its next base rate case;
>
> (3) VAWC should move forward with the second phase of consolidation for water service rates and the [Purchase Water Surcharge] as proposed by the Company;
>
> (4) VAWC should use a 3-year amortization of the Company's COVID-19 regulatory asset balance as of June 30, 2021, stop deferring COVID-19 related costs as of June 30, 2021, and begin amortizing for book purposes as of May 1, 2022;
>
> (5) VAWC may record any amounts above or below the Company's amount of 2023 pension expense equal to $255,101 and OPEB expense equal to ($437,969) authorized in rates to a regulatory asset or liability, as appropriate, from the effective date of new rates in this proceeding until the Company's next base rate case. Such deferral will be subject to earnings tests during the deferral period based on total Company earnings;
>
> (6) VAWC should not be required to refund any WWISC revenues collected from Alexandria district customers during the Alexandria ET Period;

[8] Report at 106-107.

2022-00124

(7) As specified in the Stipulation, VAWC should be directed to write-off the Depreciation Reserve Deficiency of $362,630, OPEB Deferral of $42,837, and COVID-19 Deferral of $123,286;

(8) Except for the rates for Hopewell industrial potable water customers, VAWC should implement the rates set forth on Attachment A of the Stipulation effective May 1, 2022. The rate design for the Hopewell industrial potable water customers should be designed based on the current six-block rate structure with each existing volumetric rate block changing by the same percentage; and

(9) VAWC should refund, with interest as prescribed by the Commission, amounts collected as interim rates based on its Application in excess of the rates approved herein.

VAWC, Alexandria, the Hopewell Committee, Consumer Counsel, and Staff filed comments on the Report.

NOW THE COMMISSION, upon consideration of this matter, is of the opinion and finds as follows.[9]

Hearing Examiner's Report

After analyzing the law and weighing the evidence – and providing a thorough and detailed analysis thereof – the Hearing Examiner made the following recommendations:[10]

In accordance with the above findings, *I RECOMMEND* that the Commission enter an order that:
1. *ADOPTS* the findings in this Report and the Stipulation as amended; and
2. *DISMISSES* this case from the Commission's docket of active cases and passes the papers herein to the file for ended causes.

[9] The Commission has fully considered the evidence and arguments in the record. *See also Board of Supervisors of Loudoun County v. State Corp. Comm'n*, 292 Va. 444, 454 n.10 (2016) ("We note that even in the absence of this representation by the Commission, pursuant to our governing standard of review, the Commission's decision comes to us with a presumption that it considered all of the evidence of record.") (citation omitted).

[10] Report at 107 (emphases in original).

2012 SCC 32

Upon consideration of this matter, the Commission concludes that the Chief Hearing Examiner's findings (1)-(5), (7),[11] and (8)-(9), above, are supported by law and the evidence, have a rational basis, and are adopted herein.[12] In so concluding, the Commission approves the proposed Stipulation subject to keeping the existing rate structure for Hopewell's potable industrial customers with each existing volumetric block changing by the same percentage, as recommended by the Hearing Examiner.[13] In addition, the Commission provides further discussion below on its findings for purposes of this proceeding.

Proposed Refund of WWISC Revenues

The one exception to the Chief Hearing Examiner's findings and recommendations that the Commission does not adopt concerns Staff's recommended refund of certain WWISC revenues collected from the Alexandria district. The Chief Hearing Examiner explains:

> I believe the Commission could find that based on the Alexandria [Earnings Test] Period results, Staff's proposed refund of $419,803 of WWISC revenues collected from Alexandria customers is appropriate, based on the discussion above. However, while I find that earnings tests, by their nature, are not designed for granular causation analysis, in my opinion this case presents a situation for which the Commission should make an exception.[14]

---

[11] With respect to finding (7), the Commission approves an OPED deferral write-off amount of $42,827 as reflected in the Stipulation. *See* Staff's Comments at 5, n15 (stating that finding (7) contained an incorrect reference to an OPEB deferral write-off of $42,837, rather than the amount of $42,827 contained in the Stipulation).

[12] *See* Report at 106-107.

[13] In its Comments, VAWC indicated it would accept the Hearing Examiner's recommended modification to the Stipulation to continue the use of the existing six-block structure for Hopewell's industrial potable customers. VAWC Comments at 4. Staff similarly did not oppose this modification. Staff Comments at 5. The Hopewell Committee supported this modification. Hopewell Committee Comments at 3-4.

[14] Report at 106.

Staff, Consumer Counsel and Alexandria disagree with the Chief Hearing Examiner's recommendation not to require refunds.[15]

After fully considering all the evidence and arguments both for and against the proposed refunds, the Commission finds that the record supports requiring refunds of the WWISC revenues as proposed by Staff and will so direct. The Commission's original approval of the WWISC was expressly dependent upon the use of Earnings Tests and refunds on a going-forward basis to assure that operation thereof does not result in annual earnings above the authorized ROE.[16] In so ordering, the Commission, over the objection of VAWC, expressly directed "that the use of an Earnings Test should accompany the annual WWISC review and ... that refunds should be made to ratepayers, with interest, to the extent the WWISC collections result in annual earnings above the rate of return on common equity...approved below."[17] Indeed, the Supreme Court of Virginia – in affirming the Commission's approval of the WWISC – recognized this Earnings Test process as perhaps the most significant qualification placed by the Commission on the implementation of the WWISC.[18]

---

[15] City of Alexandria Comments at 2-3; Staff Comments at 6-11; Consumer Counsel Comments at 5-8.

[16] *Application of Virginia-American Water Company, For a general increase in rates*, Case No. PUE-2015-00097, 2017 S.C.C. Ann. Rep. 288, 290-291, Final Order (May 24, 2017) (hereinafter "2015 Final Order").

[17] 2015 Final Order at 291.

[18] *City of Alexandria v. State Corporation Commission*, 296 Va. 79, 818 S.E.2d 33 (2018) ("The SCC's review of the WWISC was not disconnected from its overall discretionary review of VAWC's request for an increase in its base rate. It was an analysis that looked at all of the facts presented in the aggregate and in light of the statutory factors. This is particularly evident in the extensive qualifications that the [Commission] placed upon the implementation of the WWISC. Perhaps the most significant is the Earnings Test, which takes into account all of the Alexandria district's revenues from base rates and from the WWISC to determine if VAWC earned more than its approved rate of return for that district.").

The Chief Hearing Examiner reasonably rejected the majority of VAWC's arguments against Staff's recommended refund.[19] The Report, however, ultimately recommends the Commission make an exception and not require a refund based on the fact that "the additional rate consolidation revenues collected from customers of the Alexandria district exceeds the level of revenues that Staff recommended be refunded."[20]

We are not persuaded to make an exception in this case. As recognized by the Chief Hearing Examiner, earnings tests are by their nature not designed for granular causation analysis, and we decline to conduct such an analysis here. The evidence in the record shows that in the Alexandria district, VAWC earned a 10.03% ROE for the 28-month WWISC period when both base rate and WWISC revenues are considered.[21] After accounting for refunds of $419,803, the Company's resulting earned return is 9.57%, which is above the weighted average benchmark of 9.55% determined by the authorized ROEs during the period.[22] Requiring refunds in this matter is supported by the record and, moreover, conforms with the Commission's original approval of the WWISC and the Court's affirmance thereof.

---

[19] Report at 104-106.

[20] Report at 106. The Report explains that "beginning in May 2019, the legislatively mandated consolidation to [single tariff pricing ("STP")] and the Commission's 2018 Rate Order 'resulted in an approximately $1,045,049 increase in annual revenue for the Company's Alexandria [d]istrict (which was balanced with decreases in other districts).'" Report at 106 (quoting Virginia-American Post-Hearing Brief at 24).

[21] Ex. 25 (Long Direct) at 18. While not dispositive to our decision herein, we note further that VAWC could have, but did not, present an alternative consolidated earnings test. The approved Stipulation in Case No. PUR-2019-00185 provided in relevant part: "To the extent the Commission approves the consolidation of the cost of service study for the Company's Alexandria district with the Company's other service districts, the Company may propose substitution of a consolidated earnings test for purposes of the WWISC subsequent to the effective date of such approval." Staff Comments at 11 n.43.

[22] Ex. 25 (Long Direct) at 18; Staff Comments at 9-10.

Rate Consolidation

As set forth in the Report, the Commission adopted the first one-third step toward statewide STP in Case No. PUR-2018-00175, including allocation of one-third of the PWS to the Hopewell and Eastern districts.[23] We agree with the Chief Hearing Examiner that based on the record of this case, the Commission should continue with the second one-third step towards statewide STP, by moving all rates, including the PWS, one-third closer to STP.[24]

Finally, the Commission notes that VAWC initially proposed a rate increase of $14.3 million.[25] Under the approved Stipulation, the Commission approves a $10.75 million rate increase,[26] which is supported by the record. In granting this approval, the Commission further notes its awareness of the ongoing rise in gas prices, inflation, and other economic pressures that are impacting all utility customers. We are sensitive to the effects of rate increases, especially in times such as these. The Commission, however, must follow the laws applicable to this case, as well as the findings of fact supported by the evidence in the record. This is what we have done herein.

Accordingly, IT IS ORDERED THAT:

(1) The Commission adopts the Chief Hearing Examiner's findings and recommendations, with the exception of adopting recommendation number (6) related to refunds of certain WWISC revenues collected from Alexandria district customers, and makes findings as set forth herein.

---

[23] Report at 101. *Application of Virginia-American Water Company, For a general increase in rates*, Case No. PUR-2018-00175, 2020 S.C.C. Ann. Rep. 236 (Nov. 6, 2020).

[24] Report at 100-102.

[25] Ex. 3 (Application) at 2.

[26] Report at 96; Ex. 2 (Stipulation).

(2) The Chief Hearing Examiner's recommendations are hereby ordered with the exception of adopting recommendation number (6) related to refunds of certain WWISC revenues collected from Alexandria district customers.

(3) The rates and charges approved herein are fixed and substituted for the rates and terms and conditions of service that the Company placed into effect on an interim basis on May 1, 2022. VAWC shall forthwith file revised tariff sheets incorporating the findings herein on rates and charges and terms and conditions of service with the Clerk of the Commission and the Commission's Division of Public Utility Regulation. The Clerk of the Commission shall retain such filing for public inspection in person and on the Commission's website: scc.virginia.gov/pages/Case-Information. Refunds of interim rates shall be made as required below.

(4) The Company shall recalculate, using the rates and charges approved herein, each bill it rendered that used, in whole or in part, the rates and charges that took effect on an interim basis and subject to refund effective May 1, 2022, and where application of the new rates results in a reduced bill, refund the difference with interest as set out below, within ninety (90) days of the issuance of this Final Order.

(5) The Company shall refund, with interest, $419,803 of WWISC revenues to the customers of the Alexandria district. Within ninety (90) days of the issuance of this Final Order, the Company shall complete refunds by check or through credits to customer bills.

(6) Refunds with interest for current customers may be made by a credit to the customers' accounts and shown on bills. If refunds with interest for current customers are made by a credit to the customers' accounts and shown on bills, the bills shall show the refund as a separate item or items.

(7) For former customers, refunds with interest that exceed $1 shall be made by check mailed to the last known address of such customers.

(8) VAWC may retain refunds owed to former customers when such refund amount is less than $1; however, if refunds owed to former customers in an amount less than $1 are retained by the Company, the Company will prepare and maintain a list detailing each of the former accounts for which refunds are less than $1, and in the event such former customers contact the Company and request refunds, such refunds shall be made promptly. All unclaimed refunds shall be handled in accordance with Code § 55-210.6:2.

(9) VAWC may offset the credit or refund to the extent no dispute exists regarding the outstanding balances of its current customers or customers who are no longer on its system. To the extent the outstanding balances of such customers are disputed, no offset shall be permitted for the disputed portion.

(10) Interest upon the ordered refunds shall be computed from the date payments on monthly bills were due as shown on the bills to the date each refund is made at the average prime rate for each calendar quarter, compounded quarterly. The average prime rate for each calendar quarter shall be the arithmetic mean, to the nearest one-hundredth of one percent, of the "Bank prime loan" values published in the Federal Reserve Bulletin of the Federal Reserve's Selected Interest Rates (Statistical Release H.15) for the three (3) months of the preceding calendar quarter.

(11) Within sixty (60) days of completing the refunds ordered herein, VAWC shall submit to the Divisions of Utility Accounting and Finance and Public Utility Regulation a report showing that all refunds have been made pursuant to this Final Order and itemizing the cost of the refund and accounts charged. The Company shall not recover the interest paid or the

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expenses incurred in making such refunds from water or wastewater rates and charges subject to the Commission's jurisdiction.

(12) The Company shall bear all costs incurred in effecting the refunds ordered herein.

(13) This matter is dismissed.

Commissioner Patricia L. West participated in this matter.

A COPY hereof shall be sent electronically by the Clerk of the Commission to all persons on the official Service List in this matter. The Service List is available from the Clerk of the Commission.

HUNTON
ANDREWS KURTH

HUNTON ANDREWS KURTH LLP
RIVERFRONT PLAZA, EAST TOWER
951 EAST BYRD STREET
RICHMOND, VIRGINIA 23219-4074

TEL 804 • 788 • 8200
FAX 804 • 788 • 8218

TIMOTHY E. BILLER
DIRECT DIAL: 804 • 788 • 8756
EMAIL: tbiller@HuntonAK.com

September 20, 2024

VIA ELECTRONIC FILING

Hon. Bernard J. Logan, Clerk
State Corporation Commission
Document Control Center
Tyler Building – First Floor
1300 East Main Street
Richmond, Virginia 23219

Re: Application of Virginia-American Water Company
For a general increase in rates
Case No.: PUR-2023-00194

Dear Mr. Logan:

Enclosed for filing in the above-referenced proceeding on behalf of Virginia-American Water Company, the Staff of the State Corporation Commission, the Office of Attorney General Division of Consumer Counsel, the City of Alexandria, Covanta Alexandria/Arlington, LLC, and the Hopewell Committee for Fair Water Rates, please find a Joint Motion to Accept Stipulation and a Proposed Stipulation.

Please do not hesitate to contact me with any questions or concerns.

Sincerely,

Timothy E. Biller
Enclosures

cc: Hon. Bryan D. Stogdale
Service List

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

APPLICATION OF

VIRGINIA-AMERICAN WATER COMPANY CASE NO. PUR-2023-00194

For a general increase in rates

JOINT MOTION TO ACCEPT STIPULATION

Pursuant to Rule 110 of the Rules of Practice and Procedure of the State Corporation Commission ("Commission"),[1] Virginia-American Water Company ("Virginia-American" or "Company"), the Staff of the Commission ("Staff"), the Office of the Attorney General's Division of Consumer Counsel ("Consumer Counsel"), the City of Alexandria ("Alexandria"), Covanta Alexandria/Arlington, LLC ("Reworld"), and the Hopewell Committee for Fair Water Rates ("HCFWR") (collectively, "Stipulating Participants") hereby request that the Hearing Examiner recommend that the Commission accept the attached Stipulation as a full and fair resolution of most of the issues in this proceeding.

This Stipulation is intended to resolve most of the issues between the Stipulating Participants regarding Virginia-American's Application for a general increase in rates. For the Company's proposal to implement a Universal Affordability Tariff, the Stipulation provides that the Commission will decide this issue based on the record and post-hearing briefs.

The Stipulating Participants respectfully request that the Hearing Examiner recommend approval of the Stipulation and that the Commission approve it.

[1] 5 VAC 5-20-110.

Dated: September 20, 2024

Respectfully submitted,

VIRGINIA-AMERICAN WATER COMPANY

/s/ Timothy E. Biller

Timothy E. Biller
James G. Ritter
Andrea D. Gardner
Hunton Andrews Kurth LLP
Riverfront Plaza, East Tower
951 East Byrd Street
Richmond, VA 23219

STAFF OF THE STATE CORPORATION COMMISSION

/s/ Mary Beth Adams

Mary Beth Adams
Kelli J. Cole
Austin Skeens
Office of the General Counsel
State Corporation Commission
Tyler Building, Tenth Floor
1300 East Main Street
Richmond, VA 23219

OFFICE OF ATTORNEY GENERAL, DIVISION OF CONSUMER COUNSEL

/s/ C. Meade Browder, Jr.

C. Meade Browder, Jr.
Carew S. Bartley
Office of the Attorney General
Division of Consumer Counsel
202 North 9th Street
Richmond, VA 23219

CITY OF ALEXANDRIA

/s/ Justin W. Curtis

Justin W. Curtis
AquaLaw PLC

6 South 5th Street
Richmond, VA 23219

COVANTA ALEXANDRIA/ARLINGTON, LLC

/s/ Theodore F. Duver
Britt Cass Steckman
Bracewell LLP
2001 M Street NW, Suite 900
Washington, D.C. 20036

Theodore F. Duver
Bracewell LLP
31 W. 52nd Street, Suite 1900
New York, NY 10019-6118

HOPEWELL COMMITTEE FOR FAIR WATER RATES

/s/ Timothy G. McCormick
Timothy G. McCormick
Christian F. Tucker
Christian & Barton, LLP
901 East Cary Street, Suite 1800
Richmond, VA 23219

CERTIFICATE OF SERVICE

I certify that on September 20, 2024, a copy of the foregoing document was served by electronic mail on:

Mary Beth Adams
Kelli J. Cole
Austin Skeens
Office of the General Counsel
State Corporation Commission
Tyler Building, Tenth Floor
1300 East Main Street
Richmond, VA 23219

C. Meade Browder, Jr.
Carew S. Bartley
Division of Consumer Counsel
Office of the Attorney General
202 North 9th Street
Richmond, VA 23219

Timothy G. McCormick
Christian F. Tucker
Christian & Barton, LLP
901 East Cary Street, Suite 1800
Richmond, VA 23219

Justin W. Curtis
AquaLaw PLC
6 South 5th Street
Richmond, VA 23219

Karen S. Snow
301 King Street, Room 1300
Alexandria, VA 22314

Don Cammarata
5301 Eisenhower Avenue
Alexandria, VA 22304

A.B. Howe
445 South Street
Morristown, N.J. 07960

Britt Cass Steckman
Bracewell LLP
2001 M Street NW, Suite 900
Washington, D.C. 20036

/s/ Timothy E. Biller

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

APPLICATION OF

VIRGINIA-AMERICAN WATER COMPANY CASE NO. PUR-2023-00194

For a general increase in rates

STIPULATION

This Stipulation represents the agreement between Virginia-American Water Company ("Virginia-American" or "Company"), the Staff of the State Corporation Commission ("Staff"), the Office of the Attorney General's Division of Consumer Counsel ("Consumer Counsel"), the City of Alexandria ("Alexandria"), Covanta Alexandria/Arlington, LLC ("Reworld"), and the Hopewell Committee for Fair Water Rates ("Committee") (collectively, "Stipulating Participants") as to the application of Virginia-American for a general increase in rates ("Application"). This Stipulation resolves most of the issues raised in this proceeding, as specifically enumerated below. The Stipulating Participants hereby agree as follows:

1. Revenue Increase: The Stipulating Participants agree to a rate increase that would produce additional annual jurisdictional revenues of $14.6 million.

2. ROE and Capital Structure: For future cases requiring a capital structure and cost of capital until such time as Virginia-American files its next base rate case, the Stipulating Participants agree to a 9.7% return on equity ("ROE") and the following capital structure and overall cost of capital:

Component	Net Amount Outstanding	Weight	Cost Rate	Weighted Cost
Short Term Debt	$10,576,370	2.86%	5.43%	0.16%
Long Term Debt	$189,011,989	51.18%	4.26%	2.18%
Common Equity	$168,645,830	45.67%	9.70%	4.43%
Job Development Credits	$1,048,774	0.28%	6.78%	0.02%
Total Capitalization	$369,282,964	100.00%		6.79%

3. Consolidated Rates: The Stipulating Participants agree to move forward with the third and final phase of consolidation for water service rates and the purchased water surcharge as proposed by the Company and consistent with the Partial Stipulation approved by the Commission in Case No. PUR-2018-00175. The rate consolidation shall include the rates associated with the Cape Charles and E.L. Goddard systems as proposed in the Company's Application, as well as the rates associated with the Waverly system.

4. Pension/OPEB Deferral: The Stipulating Participants agree that Virginia-American may record any amounts above or below the Virginia-jurisdictional amount of Rate Year pension expense equal to $261,361 and other post-employment benefits ("OPEB") expense equal to ($480,033) authorized in rates to a regulatory asset or liability, as appropriate, from the effective date of new rates in this proceeding until the Company's next base rate case. Such deferral will be subject to earnings tests during the deferral period based on total Company earnings. The Company will begin a three-year amortization as of July 1, 2023, for the jurisdictional portion of the regulatory liability as of June 30, 2023. The annual jurisdictional amortization will total ($200,114) per year.

5. Depreciation Rates: The Stipulating Participants agree to the depreciation rates in Virginia-American's depreciation study, updated to include actual data from July 2023 through

December 2023. The Company will begin recording the depreciation rates as of January 1, 2024. The depreciation rates are set forth on Attachment A.

6. Resulting Rates: The Stipulating Participants agree that the rates and fees set forth on Attachment B should be approved by the Commission and implemented by the Company.

7. Universal Affordability Tariff: The Stipulating Participants agree that Virginia-American's proposal to implement a Universal Affordability Tariff will be decided by the Commission based on the record and post-hearing briefs.

8. 2023 Earnings Test: The Stipulating Participants agree that Virginia-American will write off the remaining balance of its COVID-19 jurisdictional regulatory asset.

9. This Stipulation represents a compromise for the purposes of settlement in this proceeding only and shall not be regarded as precedent with respect to any ratemaking or any other principle in any future rate case. The Stipulating Participants agree that the resolution of the issues herein, taken as a whole, and the disposition of all other matters set forth in the Stipulation are in the public interest. This Stipulation is conditioned on and subject to acceptance by the Hearing Examiner and the Commission and is non-severable and of no force or effect and may not be used for any other purpose unless accepted in its entirety by the Hearing Examiner and the Commission, except that this paragraph shall remain in effect in any event.

10. In the event that the Hearing Examiner or the Commission does not accept the Stipulation in its entirety, including the issuance of a recommendation by the Hearing Examiner that the Commission not approve the Stipulation, the Stipulating Participants retain the right to withdraw their support for the Stipulation. In the event of such action by the Commission or the Hearing Examiner, any Stipulating Participant will be entitled to give notice exercising its right

to withdraw support for the Stipulation; provided that the Stipulating Participants may, by unanimous consent, elect to modify the Stipulation to address any modifications required, or issues raised, by the Commission or Hearing Examiner. Should the Stipulation not be approved by the Commission, it will be considered void and have no precedential effect, and the Stipulating Participants reserve their rights to participate in all relevant proceedings in the captioned case notwithstanding their agreement to the terms of the Stipulation. If the Commission or Hearing Examiner chooses to reject the Stipulation, the Stipulating Participants may request that additional evidentiary hearings be convened, at which time additional testimony and evidence may be presented by the case participants and cross-examination may occur thereon regarding any issues arising in those proceedings. Further, to the extent that the Hearing Examiner's Report has been filed, the Stipulating Participants may seek leave to file additional comments on the Hearing Examiner's Report.

Accepted and agreed to this 19th day of September, 2024.

Virginia-American Water Company

By: ___*/s/ Timothy E. Biller*_____

Staff of the State Corporation Commission

By: ___*/s/ Mary Beth Adams*_____

Office of the Attorney General, Division of Consumer Counsel

By: ___*/s/ C. Meade Browder, Jr.*_____

City of Alexandria

By: ___*/s/ Justin W. Curtis*_____

Covanta Alexandria/Arlington, LLC

By: ___*/s/ Theodore F. Duver*_____

Hopewell Committee for Fair Water Rates

By: ___*/s/ Timothy G. McCormick*_____

Virginia American Water Company

TABLE 1 - ESTIMATED SURVIVOR CURVE, ORIGINAL COST, BOOK DEPRECIATION RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO UTILITY PLANT AS OF DEC 31, 2023
DEPRECIATION RELATED TO RECOVERY OF ORIGINAL COST OF INVESTMENT
TOTAL

Account	Account Description	Truncation Date	Survivor Curve	Net Salvage	Investment Percentage	Original Cost as of Dec. 31, 2023	Book Depreciation Reserve	Future Accruals	Annual Accrual Amount	Annual Accural Rate	Composite Remaining Life
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Structures and Improvements											
304.1	Source of Supply		40-R1	-20%	1.81% *	8,406,892	1,246,115	8,842,155	228,588	2.72%	38.40
304.2	Pumping		55-R1	-10%	0.99%	4,626,725	986,182	4,103,216	85,627	1.85%	47.29
304.3	Purification		55-S0.5	-5%	3.27% *	15,225,851	2,624,932	13,362,212	309,717	2.03%	43.26
	Total Water Treatment					**28,259,468**	**4,857,229**	**26,307,583**	**623,932**	**2.21%**	
304.4	Transmission and Distribution		55-R2.5	-20%	0.78%	3,654,598	1,204,284	3,181,234	72,257	1.98%	43.08
304.5	General		35-R2	-15%	6.62% *	30,813,896	1,861,813	33,574,167	1,060,971	3.44%	31.76
304.6	Office Buildings		55-R1.5	-15%	1.24% *	5,796,674	733,287	5,932,888	120,807	2.08%	49.08
304.7	Stores, Shop and Garage		55-R1.5	-20%	0.81%	3,780,755	398,820	4,138,087	80,721	2.14%	51.14
304.8	Miscellaneous		40-S1.5	-5%	0.84%	3,899,691	694,229	3,400,447	106,071	2.72%	32.43
Total Structures and Improvements						**76,205,084**	**9,749,662**	**76,534,406**	**2,064,759**	**2.71%**	
Transmission and Distribution											
305	Collecting and Impounding Reservoirs		90-R3	0%	0.05%	253,740	28,330	225,410	2,615	1.03%	85.32
306	Lake, River, and Other Intakes		65-S4	-5%	0.05%	222,350	-32,319	265,786	4,377	1.97%	60.73
	Total Lake, River, and Other Intakes					**476,089**	**-3,989**	**491,196**	**6,992**	**1.47%**	
307	Wells and Springs		55-R3	-10%	0.38%	1,778,193	602,364	1,353,648	31,931	1.80%	41.13
309	Supply Mains		70-R1.5	0%	0.07%	318,131	10,019	308,112	4,529	1.42%	68.03
310	Power Generation Equipment		45-R3	-5%	0.89%	4,161,392	866,895	3,502,567	105,641	2.54%	33.50
	Pumping Equipment										
311.2	Pumping Equipment - Electric		42-S0.5	-5%	3.42% *	15,934,006	4,057,688	12,673,018	330,866	2.08%	36.40
311.3	Pumping Equipment - Diesel		35-S1.5	-5%	0.15%	698,692	327,604	406,023	12,389	1.77%	27.57
311.4	Pumping Equipment - Hydraulic		40-S0.5	0%	0.00%	15,567	-6,647	22,214	591	3.80%	37.61
311.5	Pumping Equipment - Other		45-S0	0%	0.52%	2,421,377	497,174	1,924,203	50,693	2.09%	37.58
311.52	Pumping Equipment - SOS & Pumping		40-S0	0%	1.46% *	6,811,257	1,371,172	5,440,085	162,794	2.39%	33.34
	Total Pumping Equipment					**25,880,899**	**6,246,991**	**20,465,543**	**557,333**	**2.15%**	
	Water Treatment Equipment										
320.1	Water Treatment Equipment - Non-Media		60-R1.5	-15%	6.26% *	29,172,042	9,912,717	23,635,131	500,616	1.72%	46.75
320.2	Water Treatment Equipment - Filter Media		20-S0.5	-10%	0.44%	2,044,996	-95,385	2,344,881	155,798	7.62%	15.43
	Total Water Treatment Equipment					**31,217,038**	**9,817,332**	**25,980,012**	**656,414**	**2.10%**	
330	Distribution Reservoirs and Standpipes		60-R2	-15%	2.84% *	13,227,184	4,856,709	10,354,553	230,079	1.74%	43.64

Virginia American Water Company

TABLE 1 - ESTIMATED SURVIVOR CURVE, ORIGINAL COST, BOOK DEPRECIATION RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO UTILITY PLANT AS OF DEC 31, 2023
DEPRECIATION RELATED TO RECOVERY OF ORIGINAL COST OF INVESTMENT
TOTAL

Account	Account Description	Truncation Date	Survivor Curve	Net Salvage	Investment Percentage	Original Cost as of Dec. 31, 2023	Book Depreciation Reserve	Future Accruals	Annual Accrual Amount	Annual Accural Rate	Composite Remaining Life
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Total Account 330					**13,227,184**	**4,856,709**	**10,354,553**	**230,079**	**1.74%**	
331	Mains- Transmission and Distribution		110-R1.5	-55%	41.42% *	192,873,409	37,115,732	261,838,052	2,648,478	1.37%	98.59
333	Services		70-R2	-90%	8.82% *	41,087,047	13,296,658	64,768,731	1,124,925	2.74%	57.66
334.1	Meters		15-S1.5	-25%	0.13%	601,053	6,110	745,206	66,594	11.08%	11.27
334.11	Meters - Bronze Case		15-R1.5	-25%	1.51% *	7,014,871	1,956,507	6,812,082	829,402	11.82%	8.71
334.12	Meters - Plastic Case		15-R1.5	-25%	0.93%	4,346,335	1,866,250	3,566,669	462,806	10.65%	7.75
334.13	Meters - Other		15-R0.5	-25%	2.15% *	10,024,808	-3,153,938	15,684,948	1,665,434	16.61%	13.03
334.131	Meter Reading Units		15-R3	-25%	0.08%	381,087	120,292	356,067	42,111	11.05%	8.50
334.2	Meter Installations		60-S2.5	-25%	2.16% *	10,080,867	7,487,598	5,113,486	190,157	1.89%	38.18
334.3	Meter Vaults		60-S2.5	-25%	0.20%	951,195	305,892	883,101	17,537	1.84%	50.01
	Total Meters					**33,400,216**	**8,588,711**	**33,161,560**	**3,274,041**	**9.80%**	
335	Fire Hydrants		70-R3	-60%	1.53% *	7,129,119	2,250,282	9,156,308	172,204	2.42%	54.15
	Miscellaneous Intangible Plant										
339.1	Miscellaneous Intangible Plant - Intangible		30-R3	0%	0.50%	2,350,300	258,642	2,091,658	76,995	3.28%	27.14
339.2	Miscellaneous Intangible Plant - Supply		30-R3	0%	0.02%	95,513	73,750	21,763	996	1.04%	16.12
339.5	Miscellaneous Intangible Plant - Transmission & Distribution		15-SQ	0%	0.01%	48,489	48,500	-11	0	0.00%	3.00
339.6	Miscellaneous Intangible Plant - Comprehensive Planning Studies		5-SQ	0%	0.18%	856,329	413,503	442,826	130,312	15.22%	3.29
	Total Miscellaneous Intangible Plant					**3,350,631**	**794,395**	**2,556,236**	**208,303**	**6.22%**	
Total Transmission and Distribution						**354,899,348**	**84,442,099**	**433,936,517**	**9,020,870**	**2.54%**	
General Plant											
340.1	Office Furniture		20-SQ	0%	0.21%	990,556	192,512	798,044	54,275	5.48%	15.11
340.2	Computer & Periphery Equipment		5-SQ	0%	0.38%	1,757,652	296,465	1,461,187	386,441	21.99%	3.80
340.22	Computer & Periphery - Personal		5-SQ	0%	0.03%	122,197	-7,800	129,997	43,333	35.46%	3.00
340.23	Computer & Periphery - Other		5-SQ	0%	0.03%	122,435	129,881	-7,446	0	0.00%	3.66
340.3	Computer Software		5-SQ	0%	1.99%	9,255,359	3,675,950	5,579,409	1,543,273	16.67%	3.52
340.31	Computer Software - Mainframe		10-SQ	0%	0.08%	391,439	391,439	0	0	0.00%	3.00
340.33	Computer Software - Other		5-SQ	0%	0.10%	456,604	456,812	-208	0	0.00%	3.00
	Total Account 340					**13,096,242**	**5,135,259**	**7,960,983**	**2,027,322**	**15.48%**	
Transportation Equipment											
341.1	Light Trucks		12-L2.5	5%	1.37% *	6,361,359	1,871,023	4,172,268	463,903	7.29%	8.73
341.2	Heavy Trucks		13-L2.5	15%	0.13%	620,879	260,411	267,336	23,994	3.86%	8.73

Virginia American Water Company

TABLE 1 - ESTIMATED SURVIVOR CURVE, ORIGINAL COST, BOOK DEPRECIATION RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO UTILITY PLANT AS OF DEC 31, 2023
DEPRECIATION RELATED TO RECOVERY OF ORIGINAL COST OF INVESTMENT
TOTAL

Account	Account Description	Truncation Date	Survivor Curve	Net Salvage	Investment Percentage	Original Cost as of Dec. 31, 2023	Book Depreciation Reserve	Future Accruals	Annual Accrual Amount	Annual Accural Rate	Composite Remaining Life
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
341.3	Autos		8-L3	5%	0.02%	72,368	139,132	0	0	0.00%	3.14
341.4	Other		15-L2	15%	0.12%	567,712	307,080	175,476	17,120	3.02%	8.68
Total Transportation Equipment						**7,622,319**	**2,577,646**	**4,615,080**	**505,017**	**6.63%**	
342	Stores Equipment		25-SQ	0%	0.01%	57,609	20,272	37,337	1,635	2.84%	21.18
343	Tools, Shop, and Garage Equipment		20-SQ	0%	0.44%	2,066,283	424,928	1,641,355	118,051	5.71%	14.78
344	Laboratory Equipment		15-SQ	0%	0.13%	593,844	213,679	380,165	36,870	6.21%	9.86
345	Power Operated Equipment		25-S3	5%	0.83%	3,872,589	362,335	3,316,624	173,121	4.47%	20.95
346	Communication Equipment - Not Classified		15-SQ	0%	0.01%	47,482	11,200	36,282	3,009	6.34%	11.96
346.1	Communication Equipment - Non-Telephone		15-SQ	0%	0.46%	2,142,970	332,118	1,810,852	141,336	6.60%	12.78
346.19	Remote Control & Instrument		15-SQ	0%	0.32%	1,490,302	608,094	882,208	142,265	9.55%	6.98
346.2	Communication Equipment - Telephone		15-SQ	0%	0.01%	27,412	22,605	4,807	356	1.30%	11.12
347	Miscellaneous Equipment		15-SQ	0%	0.47%	2,192,864	605,661	1,587,203	171,511	7.82%	9.65
348	Other Tangible Property		20-SQ	0%	0.29%	1,359,765	641,286	718,479	119,459	8.79%	8.09
Total General Plant						**34,569,679**	**10,955,083**	**22,991,373**	**3,439,952**	**9.95%**	
Total Depreciable Plant						**465,674,111**	**105,146,844**	**533,462,296**	**14,525,581**	**3.12%**	
Non-Depreciable Plant											
301	Organization					51,458					
302	Franchises and Consents					9,844					
303.2	Land and Land Rights - Source of Supply					375,283					
303.3	Land and Land Rights - Pumping					157,719					
303.4	Land and Land Rights - Water Treatment					2,786					
303.5	Land and Land Rights - Transmission and Distribution					39,168					
303.51	Land - T&D					124,791					
303.52	Land and Land Rights - T&D RoW					220,421					
303.6	Land and Land Rights - Administrative					67,775					
Total Non Depreciable Plant						**1,049,245**					
TOTAL PLANT						**466,723,356**	**105,146,844**	**533,462,296**	**14,525,581**		

Virginia American Water Company

TABLE 1A- ESTIMATED SURVIVOR CURVE, ORIGINAL COST, BOOK DEPRECIATION RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO UTILITY PLANT AS OF DEC 31, 2023
DEPRECIATION RELATED TO RECOVERY OF ORIGINAL COST OF INVESTMENT
LIFE

Account	Account Description	Truncation Date	Survivor Curve	Net Salvage	Investment Percentage	Original Cost as of Dec. 31, 2023	Book Depreciation Reserve	Future Accruals	Annual Accrual Amount	Annual Accural Rate	Composite Remaining Life
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Structures and Improvements											
304.1	Source of Supply		40-R1	0%	1.81%	8,406,892	1,472,720	6,934,172	178,766	2.13%	38.40
304.2	Pumping		55-R1	0%	0.99%	4,626,725	907,447	3,719,278	77,564	1.68%	47.29
304.3	Purification		55-S0.5	0%	3.27%	15,225,851	2,344,194	12,881,657	298,726	1.96%	43.26
	Total Water Treatment					**28,259,468**	**4,724,361**	**23,535,107**	**555,056**	**1.96%**	
304.4	Transmission and Distribution		55-R2.5	0%	0.78%	3,654,598	1,147,256	2,507,342	55,984	1.53%	43.08
304.5	General		35-R2	0%	6.62%	30,813,896	1,749,576	29,064,320	918,108	2.98%	31.76
304.6	Office Buildings		55-R1.5	0%	1.24%	5,796,674	730,676	5,065,998	102,786	1.77%	49.08
304.7	Stores, Shop and Garage		55-R1.5	0%	0.81%	3,780,755	366,389	3,414,366	66,521	1.76%	51.14
304.8	Miscellaneous		40-S1.5	0%	0.84%	3,899,691	603,282	3,296,409	103,668	2.66%	32.43
Total Structures and Improvements						**76,205,084**	**9,321,540**	**66,883,544**	**1,802,123**	**2.36%**	
Transmission and Distribution											
305	Collecting and Impounding Reservoirs		90-R3	0%	0.05%	253,740	28,330	225,410	2,615	1.03%	85.32
306	Lake, River, and Other Intakes		65-S4	0%	0.05%	222,350	-11,893	234,243	3,857	1.73%	60.73
	Total Lake, River, and Other Intakes					**476,089**	**16,437**	**459,652**	**6,472**	**1.36%**	
307	Wells and Springs		55-R3	0%	0.38%	1,778,193	618,320	1,159,873	26,674	1.50%	41.13
309	Supply Mains		70-R1.5	0%	0.07%	318,131	10,019	308,112	4,529	1.42%	68.03
310	Power Generation Equipment		45-R3	0%	0.89%	4,161,392	795,971	3,365,421	101,626	2.44%	33.50
	Pumping Equipment										
311.2	Pumping Equipment - Electric		42-S0.5	0%	3.42%	15,934,006	3,774,739	12,159,267	318,349	2.00%	36.40
311.3	Pumping Equipment - Diesel		35-S1.5	0%	0.15%	698,692	279,397	419,295	12,875	1.84%	27.57
311.4	Pumping Equipment - Hydraulic		40-S0.5	0%	0.00%	15,567	-6,647	22,214	591	3.80%	37.61
311.5	Pumping Equipment - Other		45-S0	0%	0.52%	2,421,377	497,174	1,924,203	50,693	2.09%	37.58
311.52	Pumping Equipment - SOS & Pumping		40-S0	0%	1.46%	6,811,257	1,371,172	5,440,085	162,794	2.39%	33.34
	Total Pumping Equipment					**25,880,899**	**5,915,835**	**19,965,064**	**545,302**	**2.11%**	
	Water Treatment Equipment										
320.1	Water Treatment Equipment - Non-Media		60-R1.5	0%	6.26%	29,172,042	9,621,259	19,550,783	411,896	1.41%	46.75
320.2	Water Treatment Equipment - Filter Media		20-S0.5	0%	0.44%	2,044,996	83,374	1,961,622	129,536	6.33%	15.43
	Total Water Treatment Equipment					**31,217,038**	**9,704,633**	**21,512,405**	**541,432**	**1.73%**	
330	Distribution Reservoirs and Standpipes		60-R2	0%	2.84%	13,227,184	4,442,484	8,784,700	193,961	1.47%	43.64
	Total Account 330					**13,227,184**	**4,442,484**	**8,784,700**	**193,961**	**1.47%**	
331	Mains- Transmission and Distribution		110-R1.5	0%	41.42%	192,873,409	34,206,140	158,667,269	1,592,548	0.83%	98.59
333	Services		70-R2	0%	8.82%	41,087,047	11,350,138	29,736,909	502,591	1.22%	57.66
334.1	Meters		15-S1.5	0%	0.13%	601,053	51,713	549,340	49,000	8.15%	11.27
334.11	Meters - Bronze Case		15-R1.5	0%	1.51%	7,014,871	2,345,910	4,668,961	552,162	7.87%	8.71
334.12	Meters - Plastic Case		15-R1.5	0%	0.93%	4,346,335	1,760,539	2,585,796	334,775	7.70%	7.75

Virginia American Water Company

TABLE 1A- ESTIMATED SURVIVOR CURVE, ORIGINAL COST, BOOK DEPRECIATION RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO UTILITY PLANT AS OF DEC 31, 2023
DEPRECIATION RELATED TO RECOVERY OF ORIGINAL COST OF INVESTMENT
LIFE

Account	Account Description	Truncation Date	Survivor Curve	Net Salvage	Investment Percentage	Original Cost as of Dec. 31, 2023	Book Depreciation Reserve	Future Accruals	Annual Accrual Amount	Annual Accural Rate	Composite Remaining Life
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
334.13	Meters - Other		15-R0.5	0%	2.15%	10,024,808	-203,267	10,228,075	927,170	9.25%	13.03
334.131	Meter Reading Units		15-R3	0%	0.08%	381,087	116,618	264,469	31,243	8.20%	8.50
334.2	Meter Installations		60-S2.5	0%	2.16%	10,080,867	5,777,318	4,303,549	103,671	1.03%	38.18
334.3	Meter Vaults		60-S2.5	0%	0.20%	951,195	383,408	567,787	11,102	1.17%	50.01
	Total Meters					**33,400,216**	**10,232,239**	**23,167,977**	**2,009,123**	**6.02%**	
335	Fire Hydrants		70-R3	0%	1.53%	7,129,119	1,938,131	5,190,988	93,544	1.31%	54.15
	Miscellaneous Intangible Plant										
339.1	Miscellaneous Intangible Plant - Intangible		30-R3	0%	0.50%	2,350,300	258,642	2,091,658	76,995	3.28%	27.14
339.2	Miscellaneous Intangible Plant - Supply		30-R3	0%	0.02%	95,513	73,750	21,763	996	1.04%	16.12
339.5	Miscellaneous Intangible Plant - Transmission & Distribution		15-SQ	0%	0.01%	48,489	48,500	-11	0	0.00%	3.00
339.6	Miscellaneous Intangible Plant - Comprehensive Planning Studies		5-SQ	0%	0.18%	856,329	413,503	442,826	130,312	15.22%	3.29
	Total Miscellaneous Intangible Plant					**3,350,631**	**794,395**	**2,556,236**	**208,303**	**6.22%**	
Total Transmission and Distribution						**354,899,348**	**80,024,742**	**274,874,606**	**5,826,105**	**1.64%**	
General Plant											
340.1	Office Furniture		20-SQ	0%	0.21%	990,556	192,512	798,044	54,275	5.48%	15.11
340.2	Computer & Periphery Equipment		5-SQ	0%	0.38%	1,757,652	296,465	1,461,187	386,441	21.99%	3.80
340.22	Computer & Periphery - Personal		5-SQ	0%	0.03%	122,197	-7,800	129,997	43,333	35.46%	3.00
340.23	Computer & Periphery - Other		5-SQ	0%	0.03%	122,435	129,881	-7,446	0	0.00%	3.66
340.3	Computer Software		5-SQ	0%	1.99%	9,255,359	3,675,950	5,579,409	1,543,273	16.67%	3.52
340.31	Computer Software - Mainframe		10-SQ	0%	0.08%	391,439	391,439	0	0	0.00%	3.00
340.33	Computer Software - Other		5-SQ	0%	0.10%	456,604	456,812	-208	0	0.00%	3.00
	Total Account 340					**13,096,242**	**5,135,259**	**7,960,983**	**2,027,322**	**15.48%**	
Transportation Equipment											
341.1	Light Trucks		12-L2.5	5%	1.37%	6,361,359	1,871,023	4,172,268	463,903	7.29%	8.73
341.2	Heavy Trucks		13-L2.5	15%	0.13%	620,879	260,411	267,336	23,994	3.86%	8.73
341.3	Autos		8-L3	5%	0.02%	72,368	139,132	0	0	0.00%	3.14
341.4	Other		15-L2	15%	0.12%	567,712	307,080	175,476	17,120	3.02%	8.68
Total Transportation Equipment						**7,622,319**	**2,577,646**	**4,615,080**	**505,017**	**6.63%**	
342	Stores Equipment		25-SQ	0%	0.01%	57,609	20,272	37,337	1,635	2.84%	21.18
343	Tools, Shop, and Garage Equipment		20-SQ	0%	0.44%	2,066,283	424,928	1,641,355	118,051	5.71%	14.78
344	Laboratory Equipment		15-SQ	0%	0.13%	593,844	213,679	380,165	36,870	6.21%	9.86
345	Power Operated Equipment		25-S3	5%	0.83%	3,872,589	362,335	3,316,624	173,121	4.47%	20.95
346	Communication Equipment - Not Classified		15-SQ	0%	0.01%	47,482	11,200	36,282	3,009	6.34%	11.96
346.1	Communication Equipment - Non-Telephone		15-SQ	0%	0.46%	2,142,970	332,118	1,810,852	141,336	6.60%	12.78
346.19	Remote Control & Instrument		15-SQ	0%	0.32%	1,490,302	608,094	882,208	142,265	9.55%	6.98
346.2	Communication Equipment - Telephone		15-SQ	0%	0.01%	27,412	22,605	4,807	356	1.30%	11.12
347	Miscellaneous Equipment		15-SQ	0%	0.47%	2,192,864	605,661	1,587,203	171,511	7.82%	9.65
348	Other Tangible Property		20-SQ	0%	0.29%	1,359,765	641,286	718,479	119,459	8.79%	8.09
Total General Plant						**34,569,679**	**10,955,083**	**22,991,373**	**3,439,952**	**9.95%**	

Virginia American Water Company

TABLE 1A- ESTIMATED SURVIVOR CURVE, ORIGINAL COST, BOOK DEPRECIATION RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO UTILITY PLANT AS OF DEC 31, 2023
DEPRECIATION RELATED TO RECOVERY OF ORIGINAL COST OF INVESTMENT
LIFE

Account	Account Description	Truncation Date	Survivor Curve	Net Salvage	Investment Percentage	Original Cost as of Dec. 31, 2023	Book Depreciation Reserve	Future Accruals	Annual Accrual Amount	Annual Accural Rate	Composite Remaining Life
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Total Depreciable Plant						**465,674,111**	**100,301,365**	**364,749,523**	**11,068,180**	**2.38%**	
Non-Depreciable Plant											
301	Organization					51,458					
302	Franchises and Consents					9,844					
303.2	Land and Land Rights - Source of Supply					375,283					
303.3	Land and Land Rights - Pumping					157,719					
303.4	Land and Land Rights - Water Treatment					2,786					
303.5	Land and Land Rights - Transmission and Distribution					39,168					
303.51	Land - T&D					124,791					
303.52	Land and Land Rights - T&D RoW					220,421					
303.6	Land and Land Rights - Administrative					67,775					
Total Non Depreciable Plant						**1,049,245**					
TOTAL PLANT						**466,723,356**	**100,301,365**	**364,749,523**	**11,068,180**		

Virginia American Water Company

TABLE 1B - ESTIMATED SURVIVOR CURVE, ORIGINAL COST, BOOK DEPRECIATION RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO UTILITY PLANT AS OF DEC 31, 2023
DEPRECIATION RELATED TO RECOVERY OF ORIGINAL COST OF INVESTMENT
COR

Account	Account Description	Truncation Date	Survivor Curve	Net Salvage	Investment Percentage	Original Cost as of Dec. 31, 2023	Book Depreciation Reserve	Future Accruals	Annual Accrual Amount	Annual Accural Rate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Structures and Improvements										
304.1	Source of Supply		40-R1	-20%	1.81%	8,406,892	-226,605	1,907,983	49,822	0.59%
304.2	Power and Pumping		55-R1	-10%	0.99%	4,626,725	78,735	383,938	8,063	0.17%
304.3	Purification		55-S0.5	-5%	3.27%	15,225,851	280,738	480,555	10,991	0.07%
	Total Water Treatment					**28,259,468**	**132,868**	**2,772,475**	**68,876**	**0.24%**
304.4	Transmission and Distribution		55-R2.5	-20%	0.78%	3,654,598	57,028	673,892	16,273	0.45%
304.5	General		35-R2	-15%	6.62%	30,813,896	112,237	4,509,847	142,863	0.46%
304.6	Office Buildings		55-R1.5	-15%	1.24%	5,796,674	2,611	866,890	18,021	0.31%
304.7	Stores, Shop and Garage		55-R1.5	-20%	0.81%	3,780,755	32,431	723,720	14,200	0.38%
304.8	Miscellaneous		40-S1.5	-5%	0.84%	3,899,691	90,947	104,038	2,403	0.06%
Total Structures and Improvements						**76,205,084**	**428,122**	**9,650,862**	**262,636**	**0.34%**
Transmission and Distribution										
305	Collecting and Impounding Reservoirs		90-R3	0%	0.05%	253,740	0	0	0	0.00%
306	Lake, River, and Other Intakes		65-S4	-5%	0.05%	222,350	-20,426	31,543	520	0.23%
	Total Lake, River, and Other Intakes					**476,089**	**-20,426**	**31,543**	**520**	**0.11%**
307	Wells and Springs		55-R3	-10%	0.38%	1,778,193	-15,956	193,775	5,257	0.30%
309	Supply Mains		70-R1.5	0%	0.07%	318,131	0	0	0	0.00%
310	Power Generation Equipment		45-R3	-5%	0.89%	4,161,392	70,924	137,146	4,015	0.10%
	Pumping Equipment									
311.2	Pumping Equipment - Electric		42-S0.5	-5%	3.42%	15,934,006	282,949	513,751	12,517	0.08%
311.3	Pumping Equipment - Diesel		35-S1.5	-5%	0.15%	698,692	48,207	0	0	0.00%
311.4	Pumping Equipment - Hydraulic		40-S0.5	0%	0.00%	15,567	0	0	0	0.00%
311.5	Pumping Equipment - Other		45-S0	0%	0.52%	2,421,377	0	0	0	0.00%
311.52	Pumping Equipment - SOS & Pumping		40-S0	0%	1.46%	6,811,257	0	0	0	0.00%
	Total Pumping Equipment					**25,880,899**	**331,156**	**513,751**	**12,517**	**0.05%**
	Water Treatment Equipment									
320.1	Water Treatment Equipment - Non-Media		60-R1.5	-15%	6.26%	29,172,042	291,458	4,084,348	88,720	0.30%
320.2	Water Treatment Equipment - Filter Media		20-S0.5	-10%	0.44%	2,044,996	-178,759	383,259	26,262	1.28%
	Total Water Treatment Equipment					**31,217,038**	**112,699**	**4,467,607**	**114,982**	**0.37%**
330	Distribution Reservoirs and Standpipes		60-R2	-15%	2.84%	13,227,184	414,225	1,569,853	36,118	0.27%
	Total Account 330					**13,227,184**	**414,225**	**1,569,853**	**36,118**	**0.27%**
331	Mains- Transmission and Distribution		110-R1.5	-55%	41.42%	192,873,409	2,909,592	103,170,783	1,055,930	0.55%

Virginia American Water Company

TABLE 1B - ESTIMATED SURVIVOR CURVE, ORIGINAL COST, BOOK DEPRECIATION RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO UTILITY PLANT AS OF DEC 31, 2023
DEPRECIATION RELATED TO RECOVERY OF ORIGINAL COST OF INVESTMENT
COR

Account	Account Description	Truncation Date	Survivor Curve	Net Salvage	Investment Percentage	Original Cost as of Dec. 31, 2023	Book Depreciation Reserve	Future Accruals	Annual Accrual Amount	Annual Accural Rate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
333	Services		70-R2	-90%	8.82%	41,087,047	1,946,520	35,031,822	622,334	1.51%
334.1	Meters		15-S1.5	-25%	0.13%	601,053	-45,603	195,866	17,594	2.93%
334.11	Meters - Bronze Case		15-R1.5	-25%	1.51%	7,014,871	-389,403	2,143,121	277,240	3.95%
334.12	Meters - Plastic Case		15-R1.5	-25%	0.93%	4,346,335	105,711	980,873	128,031	2.95%
334.13	Meters - Other		15-R0.5	-25%	2.15%	10,024,808	-2,950,671	5,456,873	738,264	7.36%
334.131	Meter Reading Units		15-R3	-25%	0.08%	381,087	3,674	91,598	10,868	2.85%
334.2	Meter Installations		60-S2.5	-25%	2.16%	10,080,867	1,710,280	809,937	86,486	0.86%
334.3	Meter Vaults		60-S2.5	-25%	0.20%	951,195	-77,516	315,315	17,537	1.84%
	Total Meters					**33,400,216**	**-1,643,528**	**9,993,582**	**1,276,020**	**3.82%**
335	Fire Hydrants		70-R3	-60%	1.53%	7,129,119	312,151	3,965,320	78,660	1.10%
	Miscellaneous Intangible Plant									
339.1	Miscellaneous Intangible Plant - Intangible		30-R3	0%	0.50%	2,350,300	0	0	0	0.00%
339.2	Miscellaneous Intangible Plant - Supply		30-R3	0%	0.02%	95,513	0	0	0	0.00%
339.5	Miscellaneous Intangible Plant - Transmission & Distribution		15-SQ	0%	0.01%	48,489	0	0	0	0.00%
339.6	Miscellaneous Intangible Plant - Comprehensive Planning Studies		5-SQ	0%	0.18%	856,329	0	0	0	0.00%
	Total Miscellaneous Intangible Plant					**3,350,631**	**0**	**0**	**0**	**0.00%**
Total Transmission and Distribution						**354,899,348**	**4,417,357**	**159,075,183**	**3,206,353**	**0.90%**
General Plant										
340.1	Office Furniture		20-SQ	0%	0.21%	990,556	0	0	0	0.00%
340.2	Computer & Periphery Equipment		5-SQ	0%	0.38%	1,757,652	0	0	0	0.00%
340.22	Computer & Periphery - Personal		5-SQ	0%	0.03%	122,197	0	0	0	0.00%
340.23	Computer & Periphery - Other		5-SQ	0%	0.03%	122,435	0	0	0	0.00%
340.3	Computer Software		5-SQ	0%	1.99%	9,255,359	0	0	0	0.00%
340.31	Computer Software - Mainframe		10-SQ	0%	0.08%	391,439	0	0	0	0.00%
340.33	Computer Software - Other		5-SQ	0%	0.10%	456,604	0	0	0	0.00%
	Total Account 340					**13,096,242**	**0**	**0**	**0**	**0.00%**
Transportation Equipment										
341.1	Light Trucks		12-L2.5	0%	1.37%	6,361,359	0	0	0	0.00%
341.2	Heavy Trucks		13-L2.5	0%	0.13%	620,879	0	0	0	0.00%
341.3	Autos		8-L3	0%	0.02%	72,368	0	0	0	0.00%
341.4	Other		15-L2	0%	0.12%	567,712	0	0	0	0.00%
Total Transportation Equipment						**7,622,319**	**0**	**0**	**0**	**0.00%**
342	Stores Equipment		25-SQ	0%	0.01%	57,609	0	0	0	0.00%
343	Tools, Shop, and Garage Equipment		20-SQ	0%	0.44%	2,066,283	0	0	0	0.00%

Virginia American Water Company

TABLE 1B - ESTIMATED SURVIVOR CURVE, ORIGINAL COST, BOOK DEPRECIATION RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO UTILITY PLANT AS OF DEC 31, 2023
DEPRECIATION RELATED TO RECOVERY OF ORIGINAL COST OF INVESTMENT
COR

Account	Account Description	Truncation Date	Survivor Curve	Net Salvage	Investment Percentage	Original Cost as of Dec. 31, 2023	Book Depreciation Reserve	Future Accruals	Annual Accrual Amount	Annual Accural Rate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
344	Laboratory Equipment		15-SQ	0%	0.13%	593,844	0	0	0	0.00%
345	Power Operated Equipment		25-S3	0%	0.83%	3,872,589	0	0	0	0.00%
346	Communication Equipment - Not Classified		15-SQ	0%	0.01%	47,482	0	0	0	0.00%
346.1	Communication Equipment - Non-Telephone		15-SQ	0%	0.46%	2,142,970	0	0	0	0.00%
346.19	Remote Control & Instrument		15-SQ	0%	0.32%	1,490,302	0	0	0	0.00%
346.2	Communication Equipment - Telephone		15-SQ	0%	0.01%	27,412	0	0	0	0.00%
347	Miscellaneous Equipment		15-SQ	0%	0.47%	2,192,864	0	0	0	0.00%
348	Other Tangible Property		20-SQ	0%	0.29%	1,359,765	0	0	0	0.00%
Total General Plant						**34,569,679**	**0**	**0**	**0**	**0.00%**
Total Depreciable Plant						**465,674,111**	**4,845,479**	**168,726,045**	**3,468,989**	**0.74%**
Non-Depreciable Plant										
301	Organization					51,458				
302	Franchises and Consents					9,844				
303.2	Land and Land Rights - Source of Supply					375,283				
303.3	Land and Land Rights - Pumping					157,719				
303.4	Land and Land Rights - Water Treatment					2,786				
303.5	Land and Land Rights - Transmission and Distribution					39,168				
303.51	Land - T&D					124,791				
303.52	Land and Land Rights - T&D RoW					220,421				
303.6	Land and Land Rights - Administrative					67,775				
Total Non Depreciable Plant						**1,049,245**				
TOTAL PLANT						**466,723,356**	**4,845,479**	**168,726,045**	**3,468,989**	

Virginia American Water Company - Wastewater

TABLE 1 - ESTIMATED SURVIVOR CURVE, ORIGINAL COST, BOOK DEPRECIATION RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO UTILITY PLANT AS OF DEC 31, 2023
DEPRECIATION RELATED TO RECOVERY OF ORIGINAL COST OF INVESTMENT
TOTAL

Account	Account Description	Estimated Survivor Curve	Net Salvage Percent	Investment Percentage	Surviving Original Cost as of Dec. 31, 2023	Book Depreciation Reserve	Future Accruals	Annual Accural Amount	Annual Accural Rate	Composite Remaining Life
(1)	(2)	(3)	(4)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Structures and Improvements										
354.4	Treatment	65-R4	-5%	22.47% *	25,794,560	18,158,471	8,925,817	182,889	0.71%	41.85
354.5	General	65-R4	-5%	20.25% *	23,246,047	12,166,064	12,242,285	221,328	0.95%	51.82
Total Structures and Improvements					**49,040,607**	**30,324,535**	**21,168,102**	**404,217**	**0.82%**	
Collecting, Treatment, and General Plant										
355.4	Power Generation Equipment - Treatment	30-S2.5	-5%	0.40%	463,530	341,660	145,047	9,432	2.03%	13.57
361.1	Collection Mains	70-R4	-20%	26.87% *	30,841,666	18,930,439	18,079,560	363,616	1.18%	43.91
361.101	Collection Mains - Other	70-R4	-20%	0.40%	455,348	216,692	329,725	11,534	2.53%	31.82
363	Services	65-R4	-55%	3.32% *	3,811,638	841,634	5,066,405	107,820	2.83%	49.66
364	Flow Measuring Devices	25-S1.5	0%	0.01%	14,530	14,311	219	12	0.08%	8.02
365	Flow Measuring Installations	35-S2.5	0%	0.06%	71,216	68,791	2,425	224	0.31%	9.22
371.1	Pumping Equipment - Electric	25-S2	-10%	2.52% *	2,891,134	1,474,795	1,705,452	114,193	3.95%	14.52
371.3	Pumping Equipment - Miscellaneous	25-S2	-10%	0.16%	183,125	71,269	130,168	9,607	5.25%	15.12
380	Treatment and Disposal Equipment	35-L2.5	-10%	11.21% *	12,869,100	7,865,622	6,290,388	283,630	2.20%	20.58
380.2	Treatment and Disposal Equipment - Sludge and Effluent Removal	35-L2.5	-10%	0.19%	222,004	47,980	196,225	7,377	3.32%	26.65
380.3	Treatment and Disposal Equipment - Sludge Drying and Filtering	35-L2.5	-10%	0.24%	272,981	2,294	297,985	11,049	4.05%	28.28
380.5	Treatment and Disposal Equipment - Chemical Treatment Plant	35-L2.5	-10%	0.15%	166,614	115,592	67,683	3,267	1.96%	19.54
381	Plant Sewers	50-R2.5	0%	0.20%	229,034	74,590	154,444	4,224	1.84%	34.82
382	Outfall Sewer Lines	50-R3	0%	0.01%	13,813	8,563	5,250	558	4.04%	9.41
389.6	Other Plant and Miscellaneous Equipment - CPS	5-SQ	0%	1.82%	2,089,080	436,001	1,653,079	519,997	24.89%	3.19
390	Office Furniture and Equipment	20-SQ	0%	0.13%	145,671	-9,979	155,650	9,266	6.36%	17.30
390.2	Computers and Peripheral	5-SQ	0%	0.27%	310,371	255,692	54,679	12,151	3.91%	3.66
390.3	Computer Software	5-SQ	0%	0.62%	714,469	-79,634	794,103	176,467	24.70%	4.50
391	Transportation Equipment	8-L3	5%	1.57% *	1,803,354	1,005,609	707,577	117,202	6.50%	4.81
391.2	Transportation Equipment - Heavy Duty Trucks	12-L3	15%	0.29%	335,105	225,636	59,203	14,073	4.20%	4.21
393	Tools, Shop and Garage Equipment	25-SQ	0%	0.85%	981,250	149,443	831,807	40,481	4.13%	20.63
394	Laboratory Equipment	20-SQ	0%	0.06%	66,292	-11,631	77,923	4,377	6.60%	18.65
396	Communication Equipment	15-SQ	0%	2.30%	2,634,408	370,097	2,264,311	180,336	6.85%	12.67
397	Miscellaneous Equipment	20-SQ	0%	3.62%	4,159,766	-327,343	4,487,109	254,303	6.11%	17.89
Total Collecting, Treatment, and General Plant					**65,745,498**	**32,088,123**	**43,556,417**	**2,255,196**	**3.43%**	
Total Depreciable Plant					**114,786,104**	**62,412,658**	**64,724,519**	**2,659,413**	**2.32%**	
Non Depreciable Plant										
353.4	Land and Land Rights - Treatment				2,159,707					
353.5	Land and Land Rights - General				10,000					
Total Non Depreciable Plant					**2,169,708**					
TOTAL PLANT					**116,955,812**	**62,412,658**	**64,724,519**	**2,659,413**		

Virginia American Water Company - Wastewater

TABLE 1A - ESTIMATED SURVIVOR CURVE, ORIGINAL COST, BOOK DEPRECIATION RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO UTILITY PLANT AS OF DEC 31, 2023
DEPRECIATION RELATED TO RECOVERY OF ORIGINAL COST OF INVESTMENT
LIFE

Account	Account Description	Estimated Survivor Curve	Net Salvage Percent	Surviving Original Cost as of Dec. 31, 2023	Book Depreciation Reserve	Future Accruals	Annual Accural Amount	Annual Accural Rate	Composite Remaining Life
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Structures and Improvements									
354.4	Treatment	65-R4	0%	25,794,560	18,063,649	7,730,911	156,067	0.61%	41.85
354.5	General	65-R4	0%	23,246,047	12,238,729	11,007,318	196,855	0.85%	51.82
Total Structures and Improvements				**49,040,607**	**30,302,378**	**18,738,229**	**352,922**	**0.72%**	
Collecting, Treatment, and General Plant									
355.4	Power Generation Equipment - Treatment	30-S2.5	0%	463,530	333,423	130,107	8,255	1.78%	13.57
361.1	Collection Mains	70-R4	0%	30,841,666	19,208,927	11,632,739	213,010	0.69%	43.91
361.101	Collection Mains - Other	70-R4	0%	455,348	290,916	164,432	4,554	1.00%	31.82
363	Services	65-R4	0%	3,811,638	1,426,790	2,384,848	43,196	1.13%	49.66
364	Flow Measuring Devices	25-S1.5	0%	14,530	14,311	219	12	0.08%	8.02
365	Flow Measuring Installations	35-S2.5	0%	71,216	68,791	2,425	224	0.31%	9.22
371.1	Pumping Equipment - Electric	25-S2	0%	2,891,134	1,516,327	1,374,807	87,627	3.03%	14.52
371.3	Pumping Equipment - Miscellaneous	25-S2	0%	183,125	72,696	110,429	7,267	3.97%	15.12
380	Treatment and Disposal Equipment	35-L2.5	0%	12,869,100	7,877,013	4,992,087	215,615	1.68%	20.58
380.2	Treatment and Disposal Equipment - Sludge and Effluent Removal	35-L2.5	0%	222,004	46,395	175,609	6,599	2.97%	26.65
380.3	Treatment and Disposal Equipment - Sludge Drying and Filtering	35-L2.5	0%	272,981	23,419	249,562	9,092	3.33%	28.28
380.5	Treatment and Disposal Equipment - Chemical Treatment Plant	35-L2.5	0%	166,614	116,198	50,416	2,340	1.40%	19.54
381	Plant Sewers	50-R2.5	0%	229,034	74,590	154,444	4,224	1.84%	34.82
382	Outfall Sewer Lines	50-R3	0%	13,813	8,563	5,250	558	4.04%	9.41
389.6	Other Plant and Miscellaneous Equipment - CPS	5-SQ	0%	2,089,080	436,001	1,653,079	519,997	24.89%	3.19
390	Office Furniture and Equipment	20-SQ	0%	145,671	-9,979	155,650	9,266	6.36%	17.30
390.2	Computers and Peripheral	5-SQ	0%	310,371	255,692	54,679	12,151	3.91%	3.66
390.3	Computer Software	5-SQ	0%	714,469	-79,634	794,103	176,467	24.70%	4.50
391	Transportation Equipment	8-L3	5%	1,803,354	1,005,609	707,577	117,202	6.50%	4.81
391.2	Transportation Equipment - Heavy Duty Trucks	12-L3	15%	335,105	225,636	59,203	14,073	4.20%	4.21
393	Tools, Shop and Garage Equipment	25-SQ	0%	981,250	149,443	831,807	40,481	4.13%	20.63
394	Laboratory Equipment	20-SQ	0%	66,292	-11,631	77,923	4,377	6.60%	18.65
396	Communication Equipment	15-SQ	0%	2,634,408	370,097	2,264,311	180,336	6.85%	12.67
397	Miscellaneous Equipment	20-SQ	0%	4,159,766	-327,343	4,487,109	254,303	6.11%	17.89
Total Collecting, Treatment, and General Plant				**65,745,498**	**33,092,250**	**32,512,815**	**1,931,226**	**2.94%**	
Total Depreciable Plant				**114,786,104**	**63,394,628**	**51,251,043**	**2,284,148**	**1.99%**	
Non Depreciable Plant									
353.2	Land and Land Rights - Source of Supply			2,159,707					
353.4	Land and Land Rights - Treatment			10,000					
Total Non Depreciable Plant				**2,169,708**					
TOTAL PLANT				**116,955,812**	**63,394,628**	**51,251,043**	**2,284,148**		

Virginia American Water Company - Wastewater

TABLE 1B - ESTIMATED SURVIVOR CURVE, ORIGINAL COST, BOOK DEPRECIATION RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO UTILITY PLANT AS OF DEC 31, 2023
DEPRECIATION RELATED TO RECOVERY OF ORIGINAL COST OF INVESTMENT
COR

Account	Account Description	Estimated Survivor Curve	Net Salvage Percent	Surviving Original Cost as of Dec. 31, 2023	Book Depreciation Reserve	Future Accruals	Annual Accural Amount	Annual Accural Rate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Structures and Improvements								
354.4	Treatment	65-R4	-5%	25,794,560	94,822	1,194,906	26,822	0.10%
354.5	General	65-R4	-5%	23,246,047	-72,665	1,234,967	24,473	0.11%
Total Structures and Improvements				**49,040,607**	**22,157**	**2,429,873**	**51,295**	**0.10%**
Collecting, Treatment, and General Plant								
355.4	Power Generation Equipment - Treatment	30-S2.5	-5%	463,530	8,237	14,940	1,177	0.25%
361.1	Collection Mains	70-R4	-20%	30,841,666	-278,488	6,446,821	150,606	0.49%
361.101	Collection Mains - Other	70-R4	-20%	455,348	-74,224	165,294	6,980	1.53%
363	Services	65-R4	-55%	3,811,638	-585,156	2,681,557	64,624	1.70%
364	Flow Measuring Devices	25-S1.5	0%	14,530	0	0	0	0.00%
365	Flow Measuring Installations	35-S2.5	0%	71,216	0	0	0	0.00%
371.1	Pumping Equipment - Electric	25-S2	-10%	2,891,134	-41,532	330,645	26,566	0.92%
371.3	Pumping Equipment - Miscellaneous	25-S2	-10%	183,125	-1,427	19,739	2,340	1.28%
380	Treatment and Disposal Equipment	35-L2.5	-10%	12,869,100	-11,391	1,298,301	68,015	0.53%
380.2	Treatment and Disposal Equipment - Sludge and Effluent Removal	35-L2.5	-10%	222,004	1,585	20,615	778	0.35%
380.3	Treatment and Disposal Equipment - Sludge Drying and Filtering	35-L2.5	-10%	272,981	-21,125	48,423	1,957	0.72%
380.5	Treatment and Disposal Equipment - Chemical Treatment Plant	35-L2.5	-10%	166,614	-606	17,267	927	0.56%
381	Plant Sewers	50-R2.5	0%	229,034	0	0	0	0.00%
382	Outfall Sewer Lines	50-R3	0%	13,813	0	0	0	0.00%
389.6	Other Plant and Miscellaneous Equipment - CPS	5-SQ	0%	2,089,080	0	0	0	0.00%
390	Office Furniture and Equipment	20-SQ	0%	145,671	0	0	0	0.00%
390.2	Computers and Peripheral	5-SQ	0%	310,371	0	0	0	0.00%
390.3	Computer Software	5-SQ	0%	714,469	0	0	0	0.00%
391	Transportation Equipment	8-L3	0%	1,803,354	0	0	0	0.00%
391.2	Transportation Equipment - Heavy Duty Trucks	12-L3	0%	335,105	0	0	0	0.00%
393	Tools, Shop and Garage Equipment	25-SQ	0%	981,250	0	0	0	0.00%
394	Laboratory Equipment	20-SQ	0%	66,292	0	0	0	0.00%
396	Communication Equipment	15-SQ	0%	2,634,408	0	0	0	0.00%
397	Miscellaneous Equipment	20-SQ	0%	4,159,766	0	0	0	0.00%
Total Collecting, Treatment, and General Plant				**65,745,498**	**-1,004,127**	**11,043,603**	**323,970**	**0.49%**
Total Depreciable Plant				**114,786,104**	**-981,970**	**13,473,476**	**375,265**	**0.33%**
Non Depreciable Plant								
353.2	Land and Land Rights - Source of Supply			2,159,707				
353.4	Land and Land Rights - Treatment			10,000				
Total Non Depreciable Plant				**2,169,708**				
TOTAL PLANT				**116,955,812**	**-981,970**	**13,473,476**	**375,265**	

2023 Jurisdictional Rate Design Summary
Jurisdictional Revenue Proof

Revenue Summary

District	Class		Present Base Rate Revenue		Proposed Base Rate Revenue at General Increase	Increase		Proposed Base Rate Revenue	Increase
Alexandria	Residential	$	8,951,156	$	10,902,016	22%	$	11,858,712	32%
	Commercial	$	14,224,531	$	17,324,697	22%	$	18,805,889	32%
	Industrial - Potable	$	428,843	$	522,308	22%	$	606,792	41%
		$	23,604,530	$	28,749,021	22%	$	31,271,393	32%
Hopewell	Residential	$	3,458,158	$	4,211,846	22%	$	3,883,690	12%
	Commercial	$	980,191	$	1,193,819	22%	$	947,669	-3%
	Industrial - Potable	$	4,436,830	$	5,403,815	22%	$	4,891,552	10%
	Industrial - Non Potable Large	$	4,472,825	$	5,447,655	22%	$	5,232,807	17%
	Industrial - Non Potable Small	$	1,226,767	$	1,494,135	22%	$	1,340,446	9%
		$	14,574,771	$	17,751,271	22%	$	16,296,165	12%
Prince William	Residential	$	8,893,568	$	10,831,877	22%	$	11,212,476	26%
	Commercial	$	1,618,269	$	1,970,962	22%	$	1,662,951	3%
		$	10,511,837	$	12,802,839	22%	$	12,875,427	22%
Eastern	Residential	$	1,706,298	$	2,078,177	22%	$	1,069,351	-37%
Waverly	Residential	$	321,655	$	391,758	22%	$	506,655	58%
	Commercial	$	60,781	$	74,028	22%	$	87,811	44%
		$	382,436	$	465,786	22%	$	594,466	55%
Cape Charles	Residential	$	583,416	$	710,569	22%	$	440,996	-24%
	Commercial	$	88,165	$	107,380	22%	$	133,599	52%
		$	671,581	$	817,949	22%	$	574,595	-14%
E.L. Goddard	Residential	$	122,040	$	148,638	22%	$	132,285	8%
Total	All Classes	$	51,573,493	$	62,813,681	22%	$	62,813,681	22%

District	Class		Present Revenue		Proposed Revenue at General Increase	Increase		Proposed Revenue	Increase
All	Residential	$	24,036,291	$	29,274,882	22%	$	29,104,164	21%
All	Commercial	$	16,971,937	$	20,670,887	22%	$	21,637,919	27%
All	Industrial - Potable	$	4,865,673	$	5,926,123	22%	$	5,498,344	13%
All	Industrial - Non Potable Large	$	4,472,825	$	5,447,655	22%	$	5,232,807	17%
All	Industrial - Non Potable Small	$	1,226,767	$	1,494,135	22%	$	1,340,446	9%
	Total	$	51,573,493	$	62,813,681	22%	$	62,813,681	22%
All	Other Operating Revenues		$822,854		$859,878	4%		$859,878	4%
	Total Water Revenues		$52,396,347		$63,673,559	22%		$63,673,559	22%

Wastewater

District	Class		Present Revenue		Proposed Revenue at General Increase	Increase		Proposed Revenue	Increase
Prince William	Residential	$	9,577,782	$	12,056,540	26%	$	12,632,400	32%
	Commercial	$	2,017,959	$	2,540,213	26%	$	2,724,971	35%
		$	11,595,741	$	14,596,752		$	15,357,371	
Cape Charles									
Cape Charles	Residential	$	1,037,664	$	1,306,215	26%	$	523,600	-50%
	Commercial	$	157,033	$	197,674	26%	$	219,670	40%
		$	1,194,698	$	1,503,889		$	743,270	

District	Class		Present Revenue		Proposed Revenue at General Increase	Increase		Proposed Revenue	Increase
All	Residential	$	10,615,447	$	13,362,755	26%	$	13,156,001	24%
All	Commercial	$	2,174,992	$	2,737,887	26%	$	2,944,641	35%
PW	Other Operating Revenues	$	48,058	$	60,644	26%	$	60,644	26%
	Total Wastewater Revenues	$	12,838,497	$	16,161,285	26%	$	16,161,285	26%
	Total VAWC Revenues	**$**	**65,234,844**	**$**	**79,834,844**	**22%**	**$**	**79,834,844**	**22%**
					Total Increase		**$**	**14,600,000**	

*Impacts do not include Purchased Water Surcharge

2023 Jurisdictional Rate Design Summary
Jurisdictional Rates

Water Rate Summary - Present & Proposed Rates

Meter	Present Statewide	Present Eastern	Present Waverly	Present Cape Charles	Proposed Statewide	Proposed Cape Charles
5/8"	$ 15.00	$ 30.00	$ 23.00	$ 33.46	$ 18.00	$ 18.00
5/8" Irrigation			$ 19.00		$ 18.00	$ 18.00
3/4"	$ 22.50	$ 30.00			$ 27.00	$ 27.00
1"	$ 37.50	$ 37.50			$ 45.00	$ 45.00
1 1/2"	$ 75.00			$ 33.46	$ 75.00	$ 75.00
2"	$ 120.00			$ 33.46	$ 120.00	$ 120.00
3"	$ 225.00				$ 225.00	$ 225.00
4"	$ 375.00				$ 375.00	$ 375.00
6"	$ 750.00				$ 750.00	$ 750.00
8"	$ 1,200.00				$ 1,200.00	$ 1,200.00
10"	$ 1,650.00				$ 1,650.00	$ 1,650.00
12"	$ 3,225.00				$ 3,225.00	$ 3,225.00
16"	$ 6,870.00				$ 6,870.00	$ 6,870.00

E.L Goddard Area	Present	Proposed Statewide
Area 1 (5/8")	$ 35.00	$ 18.00
Area 2 (5/8")	$ 36.00	$ 18.00
Area 3 (5/8")	$ 37.00	$ 18.00
Area 4 (5/8")	$ 37.50	$ 18.00
Area 5 (5/8")	$ 39.00	$ 18.00

Wastewater Summary - Present & Proposed Rates

Meter	Present P.W.	Present Cape Charles	Proposed P.W.	Proposed Cape Charles
5/8"	$ 20.00	$ 63.12	$ 25.00	$ 25.00
3/4"	$ 30.00	$ -	$ 38.00	$ 38.00
1"	$ 50.00	$ -	$ 63.00	$ 63.00
1 1/2"	$ 100.00	$ 63.12	$ 125.00	$ 125.00
2"	$ 160.00	$ 63.12	$ 200.00	$ 200.00
3"	$ 300.00	$ -	$ 375.00	$ 375.00
4"	$ 500.00	$ -	$ 625.00	$ 625.00
Unmetered	$ 37.00		$ 46.60	$ 46.60

Present & Proposed Volumetric Step Rates

District	Class	Gallons	Rate Per Hundred Gallons Present	Proposed
Alexandria	Res	First 2000	$ -	$ -
	Res	Over 2000	$ 0.66101	$ 0.97130
	Com	First 2000	$ -	$ -
	Com	Over 2000	$ 0.32392	$ 0.45750
Hopewell	Res	First 2000	$ -	$ -
	Res	Over 2000	$ 0.91763	$ 0.97130
	Com	First 2000	$ -	$ -
	Com	Over 2000	$ 0.49788	$ 0.45750
P.W.	Res	First 2000	$ -	$ -
	Res	Over 2000	$ 0.74564	$ 0.97130
	Com	First 2000	$ -	$ -
	Com	Over 2000	$ 0.44805	$ 0.45750
Eastern	Res	First 2000	$ -	$ -
	Res	Over 2000	$ 1.48293	$ 0.97130
Waverly	Res	First 2000	$ -	$ -
	Res	Next 3000	$ -	$ 0.97130
	Res	Over 5000	$ 0.26000	$ 0.97130
	Com	First 2000	$ -	$ -
	Com	Next 3000	$ -	$ 0.45750
	Com	Over 5000	$ 0.26000	$ 0.45750
Cape Charles	Res	First 2000	$ -	$ -
	Res	Next 3000	$ 0.26300	$ 0.97130
	Res	Next 5000	$ 0.37500	$ 0.97130
	Res	Next 5000	$ 0.50000	$ 0.97130
	Res	Over 15000	$ 0.75000	$ 0.97130
	Com	First 2000	$ -	$ -
	Com	Next 8000	$ 0.25000	$ 0.45750
	Com	Next 5000	$ 0.37500	$ 0.45750
	Com	Over 15000	$ 0.50000	$ 0.45750
E.L. Goddard	Res	First 2000	$ -	$ -
	Res	Over 2000	$ -	$ 0.97130

Present & Proposed Volumetric Step Rates

District	Class	Gallons	Rate Per Hundred Gallons Present	Proposed
Prince William	Res	First 2000	$ -	$ -
	Res	Over 2000	$ 0.67408	$ 0.93650
	Com	First 2000	$ -	$ -
	Com	Over 2000	$ 0.67408	$ 0.93650
Cape Charles	Res	First 2000	$ -	$ -
	Res	Next 3000	$ 0.41100	$ 0.93650
	Res	Next 5000	$ 0.58500	$ 0.93650
	Res	Next 5000	$ 0.78000	$ 0.93650
	Res	Over 15000	$ 1.17000	$ 0.93650
	Com	First 2000	$ -	$ -
	Com	Next 8000	$ 0.39000	$ 0.93650
	Com	Next 5000	$ 0.58500	$ 0.93650
	Com	Over 15000	$ 0.78000	$ 0.93650

Industrial Potable	Present Alexandria	Present Hopewell	Proposed Alexandria	Proposed Hopewell
1st 2,000 Gal.	$ 0.27110	$ -	$ -	$ -
Next 13,000 Gal.	$ 0.27110	$ 0.89275	$ 0.91310	$ 0.91310
Next 2,229,000 Gal.	$ 0.27110	$ 0.63201	$ 0.66370	$ 0.66370
Next 5,236,000 Gal.	$ 0.27110	$ 0.37003	$ 0.39280	$ 0.39280
Next 37,400,000 Gal.	$ 0.17623	$ 0.14475	$ 0.16710	$ 0.16710
Over 44,880,000 Gal.	$ 0.17623	$ 0.19470	$ 0.22110	$ 0.22110

Non-Potable Large	Present Hopewell	Proposed Hopewell
1st 7,480,000 Gal.	$ 0.17497	$ 0.20470
Over 7,480,000 Gal.	$ 0.14437	$ 0.16890

Non-Potable Small	Present Hopewell	Proposed Hopewell
1st 7,480,000 Gal.	$ 0.23307	$ 0.25500
Over 7,480,000 Gal.	$ 0.18188	$ 0.19900

Service Connection Fee	Present	Proposed
Alexandria	$ 7,430	$ 2,000
Hopewell	$ 870	$ 2,000
Prince William	$ 1,765	$ 2,000
Eastern	$ 860	$ 2,000
Waverly	$ 2,000	$ 2,000
E.L. Goddard	$ 860	$ 2,000
Cape Charles	$ 870	$ 2,000

Residential Bill Impacts
Water

Alexandria - 5/8-inch Meter	Monthly Usage	Present Rates	Proposed Rates	Increase
	-	$ 15.00	$ 18.00	20%
	1,000	$ 15.00	$ 18.00	20%
	2,000	$ 15.00	$ 18.00	20%
	3,000	$ 21.61	$ 27.71	28%
	4,000	$ 28.22	$ 37.43	33%
	5,000	$ 34.83	$ 47.14	35%
	6,000	$ 41.44	$ 56.85	37%
	7,000	$ 48.05	$ 66.57	39%
	8,000	$ 54.66	$ 76.28	40%
	9,000	$ 61.27	$ 85.99	40%
	10,000	$ 67.88	$ 95.70	41%

Hopewell - 5/8-inch Meter	Monthly Usage	Present Rates	Proposed Rates	Percent Increase
	-	$ 15.00	$ 18.00	20%
	1,000	$ 15.00	$ 18.00	20%
	2,000	$ 15.00	$ 18.00	20%
	3,000	$ 24.18	$ 27.71	15%
	4,000	$ 33.35	$ 37.43	12%
	5,000	$ 42.53	$ 47.14	11%
	6,000	$ 51.71	$ 56.85	10%
	7,000	$ 60.88	$ 66.57	9%
	8,000	$ 70.06	$ 76.28	9%
	9,000	$ 79.23	$ 85.99	9%
	10,000	$ 88.41	$ 95.70	8%

Prince William - 5/8-inch Meter	Monthly Usage	Present Rates	Proposed Rates	Percent Increase
	-	$ 15.00	$ 18.00	20%
	1,000	$ 15.00	$ 18.00	20%
	2,000	$ 15.00	$ 18.00	20%
	3,000	$ 22.46	$ 27.71	23%
	4,000	$ 29.91	$ 37.43	25%
	5,000	$ 37.37	$ 47.14	26%
	6,000	$ 44.83	$ 56.85	27%
	7,000	$ 52.28	$ 66.57	27%
	8,000	$ 59.74	$ 76.28	28%
	9,000	$ 67.19	$ 85.99	28%
	10,000	$ 74.65	$ 95.70	28%

Eastern - 5/8-inch Meter	Monthly Usage	Present Rates	Proposed Rates	Percent Increase
	-	$ 30.00	$ 18.00	-40%
	1,000	$ 30.00	$ 18.00	-40%
	2,000	$ 30.00	$ 18.00	-40%
	3,000	$ 44.83	$ 27.71	-38%
	4,000	$ 59.66	$ 37.43	-37%
	5,000	$ 74.49	$ 47.14	-37%
	6,000	$ 89.32	$ 56.85	-36%
	7,000	$ 104.15	$ 66.57	-36%
	8,000	$ 118.98	$ 76.28	-36%
	9,000	$ 133.81	$ 85.99	-36%
	10,000	$ 148.63	$ 95.70	-36%

Waverly General - 5/8-inch Meter	Usage	Present Rates	Proposed Rates	Percent Increase
	-	$ 23.00	$ 18.00	-22%
	1,000	$ 23.00	$ 18.00	-22%
	2,000	$ 23.00	$ 18.00	-22%
	3,000	$ 23.00	$ 27.71	20%
	4,000	$ 23.00	$ 37.43	63%
	5,000	$ 23.00	$ 47.14	105%
	6,000	$ 25.60	$ 56.85	122%
	7,000	$ 28.20	$ 66.57	136%
	8,000	$ 30.80	$ 76.28	148%
	9,000	$ 33.40	$ 85.99	157%
	10,000	$ 36.00	$ 95.70	166%

Waverly Irrigation - 5/8-inch Meter	Usage	Present Rates	Proposed Rates	Percent Increase
	-	$ 19.00	$ 18.00	-5%
	1,000	$ 19.00	$ 18.00	-5%
	2,000	$ 19.00	$ 18.00	-5%
	3,000	$ 19.00	$ 27.71	46%
	4,000	$ 19.00	$ 37.43	97%
	5,000	$ 19.00	$ 47.14	148%
	6,000	$ 21.60	$ 56.85	163%
	7,000	$ 24.20	$ 66.57	175%
	8,000	$ 26.80	$ 76.28	185%
	9,000	$ 29.40	$ 85.99	192%
	10,000	$ 32.00	$ 95.70	199%

E.L. Goddard (Area 1) - 5/8-inch Meter	Usage	Present Rates	Proposed Rates	Percent Increase
	-	$ 35.00	$ 18.00	-49%
	1,000	$ 35.00	$ 18.00	-49%
	2,000	$ 35.00	$ 18.00	-49%
	3,000	$ 35.00	$ 27.71	-21%
	4,000	$ 35.00	$ 37.43	7%
	5,000	$ 35.00	$ 47.14	35%
	6,000	$ 35.00	$ 56.85	62%
	7,000	$ 35.00	$ 66.57	90%
	8,000	$ 35.00	$ 76.28	118%
	9,000	$ 35.00	$ 85.99	146%
	10,000	$ 35.00	$ 95.70	173%

E.L. Goddard (Area 2) - 5/8-inch Meter	Usage	Present Rates	Proposed Rates	Percent Increase
	-	$ 36.00	$ 18.00	-50%
	1,000	$ 36.00	$ 18.00	-50%
	2,000	$ 36.00	$ 18.00	-50%
	3,000	$ 36.00	$ 27.71	-23%
	4,000	$ 36.00	$ 37.43	4%
	5,000	$ 36.00	$ 47.14	31%
	6,000	$ 36.00	$ 56.85	58%
	7,000	$ 36.00	$ 66.57	85%
	8,000	$ 36.00	$ 76.28	112%
	9,000	$ 36.00	$ 85.99	139%
	10,000	$ 36.00	$ 95.70	166%

E.L. Goddard (Area 3) - 5/8-inch Meter	Usage	Present Rates	Proposed Rates	Percent Increase
	-	$ 37.00	$ 18.00	-51%
	1,000	$ 37.00	$ 18.00	-51%
	2,000	$ 37.00	$ 18.00	-51%
	3,000	$ 37.00	$ 27.71	-25%
	4,000	$ 37.00	$ 37.43	1%
	5,000	$ 37.00	$ 47.14	27%
	6,000	$ 37.00	$ 56.85	54%
	7,000	$ 37.00	$ 66.57	80%
	8,000	$ 37.00	$ 76.28	106%
	9,000	$ 37.00	$ 85.99	132%
	10,000	$ 37.00	$ 95.70	159%

E.L. Goddard (Area 4) - 5/8-inch Meter	Usage	Present Rates	Proposed Rates	Percent Increase
	-	$ 37.50	$ 18.00	-52%
	1,000	$ 37.50	$ 18.00	-52%
	2,000	$ 37.50	$ 18.00	-52%
	3,000	$ 37.50	$ 27.71	-26%
	4,000	$ 37.50	$ 37.43	0%
	5,000	$ 37.50	$ 47.14	26%
	6,000	$ 37.50	$ 56.85	52%
	7,000	$ 37.50	$ 66.57	78%
	8,000	$ 37.50	$ 76.28	103%
	9,000	$ 37.50	$ 85.99	129%
	10,000	$ 37.50	$ 95.70	155%

E.L. Goddard (Area 5) - 5/8-inch Meter	Usage	Present Rates	Proposed Rates	Percent Increase
	-	$ 39.00	$ 18.00	-54%
	1,000	$ 39.00	$ 18.00	-54%
	2,000	$ 39.00	$ 18.00	-54%
	3,000	$ 39.00	$ 27.71	-29%
	4,000	$ 39.00	$ 37.43	-4%
	5,000	$ 39.00	$ 47.14	21%
	6,000	$ 39.00	$ 56.85	46%
	7,000	$ 39.00	$ 66.57	71%
	8,000	$ 39.00	$ 76.28	96%
	9,000	$ 39.00	$ 85.99	120%
	10,000	$ 39.00	$ 95.70	145%

*Impacts do not include Purchased Water Surcharge

Commercial Bill Impacts
Water

Alexandria - 5/8-inch Meter	Monthly Usage	Present Rates	Proposed Rates	Percent Increase
	-	$ 15.00	$ 18.00	20%
	1,000	$ 15.00	$ 18.00	20%
	2,000	$ 15.00	$ 18.00	20%
	3,000	$ 18.24	$ 22.58	24%
	4,000	$ 21.48	$ 27.15	26%
	5,000	$ 24.72	$ 31.73	28%
	6,000	$ 27.96	$ 36.30	30%
	7,000	$ 31.20	$ 40.88	31%
	8,000	$ 34.44	$ 45.45	32%
	9,000	$ 37.67	$ 50.03	33%
	10,000	$ 40.91	$ 54.60	33%
	11,000	$ 44.15	$ 59.18	34%
	12,000	$ 47.39	$ 63.75	35%
	13,000	$ 50.63	$ 68.33	35%
	14,000	$ 53.87	$ 72.90	35%
	15,000	$ 57.11	$ 77.48	36%

Hopewell - 5/8-inch Meter	Monthly Usage	Present Rates	Proposed Rates	Percent Increase
	-	$ 15.00	$ 18.00	20%
	1,000	$ 15.00	$ 18.00	20%
	2,000	$ 15.00	$ 18.00	20%
	3,000	$ 19.98	$ 22.58	13%
	4,000	$ 24.96	$ 27.15	9%
	5,000	$ 29.94	$ 31.73	6%
	6,000	$ 34.92	$ 36.30	4%
	7,000	$ 39.89	$ 40.88	2%
	8,000	$ 44.87	$ 45.45	1%
	9,000	$ 49.85	$ 50.03	0%
	10,000	$ 54.83	$ 54.60	0%
	11,000	$ 59.81	$ 59.18	-1%
	12,000	$ 64.79	$ 63.75	-2%
	13,000	$ 69.77	$ 68.33	-2%
	14,000	$ 74.75	$ 72.90	-2%
	15,000	$ 79.72	$ 77.48	-3%

Prince William - 5/8-inch Meter	Monthly Usage	Present Rates	Proposed Rates	Percent Increase
	-	$ 15.00	$ 18.00	20%
	1,000	$ 15.00	$ 18.00	20%
	2,000	$ 15.00	$ 18.00	20%
	3,000	$ 19.48	$ 22.58	16%
	4,000	$ 23.96	$ 27.15	13%
	5,000	$ 28.44	$ 31.73	12%
	6,000	$ 32.92	$ 36.30	10%
	7,000	$ 37.40	$ 40.88	9%
	8,000	$ 41.88	$ 45.45	9%
	9,000	$ 46.36	$ 50.03	8%
	10,000	$ 50.84	$ 54.60	7%
	11,000	$ 55.32	$ 59.18	7%
	12,000	$ 59.81	$ 63.75	7%
	13,000	$ 64.29	$ 68.33	6%
	14,000	$ 68.77	$ 72.90	6%
	15,000	$ 73.25	$ 77.48	6%

Waverly General - 5/8-inch Meter	Monthly Usage	Present Rates	Proposed Rates	Percent Increase
	-	$ 23.00	$ 18.00	-22%
	1,000	$ 23.00	$ 18.00	-22%
	2,000	$ 23.00	$ 18.00	-22%
	3,000	$ 23.00	$ 22.58	-2%
	4,000	$ 23.00	$ 27.15	18%
	5,000	$ 23.00	$ 31.73	38%
	6,000	$ 25.60	$ 36.30	42%
	7,000	$ 28.20	$ 40.88	45%
	8,000	$ 30.80	$ 45.45	48%
	9,000	$ 33.40	$ 50.03	50%
	10,000	$ 36.00	$ 54.60	52%
	11,000	$ 38.60	$ 59.18	53%
	12,000	$ 41.20	$ 63.75	55%
	13,000	$ 43.80	$ 68.33	56%
	14,000	$ 46.40	$ 72.90	57%
	15,000	$ 49.00	$ 77.48	58%

Waverly Irrigation - 5/8-inch Meter	Monthly Usage	Present Rates	Proposed Rates	Percent Increase
	-	$ 19.00	$ 18.00	-5%
	1,000	$ 19.00	$ 18.00	-5%
	2,000	$ 19.00	$ 18.00	-5%
	3,000	$ 19.00	$ 22.58	19%
	4,000	$ 19.00	$ 27.15	43%
	5,000	$ 19.00	$ 31.73	67%
	6,000	$ 21.60	$ 36.30	68%
	7,000	$ 24.20	$ 40.88	69%
	8,000	$ 26.80	$ 45.45	70%
	9,000	$ 29.40	$ 50.03	70%
	10,000	$ 32.00	$ 54.60	71%
	11,000	$ 34.60	$ 59.18	71%
	12,000	$ 37.20	$ 63.75	71%
	13,000	$ 39.80	$ 68.33	72%
	14,000	$ 42.40	$ 72.90	72%
	15,000	$ 45.00	$ 77.48	72%

*Impacts do not include Purchased Water Surcharge

Residential & Commercial Bill Impacts
Wastewater

Prince William - 5/8-inch Meter	Monthly Usage	Present Rates	Proposed Rates	Percent Increase
	-	$ 20.00	$ 25.00	25%
	1,000	$ 20.00	$ 25.00	25%
	2,000	$ 20.00	$ 25.00	25%
	3,000	$ 26.74	$ 34.37	29%
	4,000	$ 33.48	$ 43.73	31%
	5,000	$ 40.22	$ 53.10	32%
	6,000	$ 46.96	$ 62.46	33%
	7,000	$ 53.70	$ 71.83	34%
	8,000	$ 60.44	$ 81.19	34%
	9,000	$ 67.19	$ 90.56	35%
	10,000	$ 73.93	$ 99.92	35%
	11,000	$ 80.67	$ 109.29	35%
	12,000	$ 87.41	$ 118.65	36%
	13,000	$ 94.15	$ 128.02	36%
	14,000	$ 100.89	$ 137.38	36%
	15,000	$ 107.63	$ 146.75	36%

Prince William - 2-inch Meter	Monthly Usage	Present Rates	Proposed Rates	Percent Increase
	11,000	$ 220.67	$ 284.29	29%
	12,000	$ 227.41	$ 293.65	29%
	13,000	$ 234.15	$ 303.02	29%
	14,000	$ 240.89	$ 312.38	30%
	15,000	$ 247.63	$ 321.75	30%
	16,000	$ 254.37	$ 331.11	30%
	17,000	$ 261.11	$ 340.48	30%
	18,000	$ 267.85	$ 349.84	31%
	19,000	$ 274.59	$ 359.21	31%
	20,000	$ 281.33	$ 368.57	31%
	21,000	$ 288.08	$ 377.94	31%
	22,000	$ 294.82	$ 387.30	31%
	23,000	$ 301.56	$ 396.67	32%
	24,000	$ 308.30	$ 406.03	32%
	25,000	$ 315.04	$ 415.40	32%

Attachment 5

Agenda Date: 9/4/24
Agenda Item: 5C

STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 1st Floor
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

WATER

IN THE MATTER OF THE PETITION OF NEW JERSEY-AMERICAN WATER COMPANY, INC. FOR APPROVAL OF INCREASED TARIFF RATES AND CHARGES FOR WATER AND WASTEWATER SERVICE, CHANGE IN DEPRECIATION RATES, AND OTHER TARIFF MODIFICATIONS	))))))	ORDER ADOPTING INITIAL DECISION AND STIPULATION BPU DOCKET NO. WR24010056 OAL DOCKET NO. PUC 02409-24

Parties of Record:

Brian O. Lipman, Esq., Director, New Jersey Division of Rate Counsel
Bruce V. Miller, Esq., Cullen and Dykman LLP, on behalf of New Jersey-American Water Company, Inc.
Jay L. Kooper, Esq., on behalf of Middlesex Water Company
Martin C. Rothfelder, Esq., Rothfelder Stern, LLC, on behalf of Johanna Foods, Inc., Rutgers, The State University of New Jersey, Cogen Technologies Linden Venture, L.P., Phillips 66 Company and the Trustees of Princeton University
Anthony R. Francioso, Esq., Fornaro Francioso LLC, on behalf of Mount Laurel Township Municipal Utilities Authority

BY THE BOARD:[1]

By this Decision and Order, the New Jersey Board of Public Utilities ("Board") considers an Initial Decision ("Initial Decision") issued by Administrative Law Judge ("ALJ") Tricia M. Caliguire approving a Stipulation of Settlement ("Stipulation") resolving all issues in controversy in this matter.

BACKGROUND/PROCEDURAL HISTORY

On January 19, 2024, New Jersey-American Water Company, Inc. ("NJAWC" or "Company") filed a petition with the Board seeking approval of an increase in its base rates for water and wastewater service of approximately $161.7 million, or 16.89%, for services rendered on and after February 21, 2024 ("Petition").

NJAWC is engaged in the production, treatment, and distribution of water and the collection of wastewater within its defined service territory within the State of New Jersey. The Company's

[1] Commissioner Michael Bange recused himself due to a potential conflict of interest and as such took no part in the discussion or deliberation of this matter.

service territory includes portions of Atlantic, Bergen, Burlington, Camden, Cape May, Essex, Gloucester, Hunterdon, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic, Salem, Somerset, Union, and Warren counties. As of December 31, 2023, the Company provides service to approximately 668,000 water and fire service customers and 64,200 wastewater service customers.

PETITION

By the Petition, NJAWC requested an increase in its base rates of approximately 16.89%. According to the Petition, the Company's request is largely driven by capital investment required to maintain and improve the Company's infrastructure.

Additionally, NJAWC sought authorization to: a) reset the current Distribution System Improvement Charge ("DSIC") and Wastewater System Improvement Charge ("WSIC") charges; b) implement a Universal Affordability tariff with tiered rate discounts; c) continue deferred accounting treatment for pension and other post-employment benefits ("OPEB") costs; d) defer costs for accounting treatment of production costs; e) implement a revenue decoupling mechanism; and f) implement an uncollectible adjustment clause.

By Order dated February 14, 2024, the Board suspended the proposed rates until June 21, 2024.[2] The Board subsequently transmitted this matter to the Office of Administrative Law for hearing as a contested case where it was assigned to ALJ Caliguire.

Middlesex Water Company, Johanna Foods, Inc., Rutgers, The State University of New Jersey, Cogen Technologies Linden Venture, L.P., Phillips 66 Company, the Trustees of Princeton University, and the Mount Laurel Township Municipal Utilities Authority filed Motions to Intervene in this matter. All motions were unopposed and granted by ALJ Caliguire.

After proper notice in newspapers of general circulation throughout the Company's service territory and service of notice upon affected municipalities and counties within the Company's service territory, two (2) virtual public hearings were held on April 10, 2024 at 4:30 p.m. and 5:30 p.m. Two (2) members of the public attended, one (1) of whom provided comments. The Board received no written comments in this matter.

On April 23, 2024, and supplemented on May 3, 2024, NJAWC updated the Petition to include nine (9) months of actual data, and three (3) months of estimated data ("9+3 Update"). Based upon the 9+3 Update, NJAWC updated its proposed revenue requirement to an increase of $165.7 million.

By Order dated May 22, 2024, the Board further suspended implementation of the requested rates until October 21, 2024, unless prior to that date the Board made a determination disposing of the Petition or entered an Order further suspending the proposed revisions.[3]

[2] In re the Petition of New Jersey-American Water Company, Inc. for Approval of Increased Tariff Rates and Charges for Water and Wastewater Service, Change in Depreciation Rates, and Other Tariff Modifications, BPU Docket No. WR24010056, Order dated February 14, 2024.

[3] In re the Petition of New Jersey-American Water Company, Inc. for Approval of Increased Tariff Rates and Charges for Water and Wastewater Service, Change in Depreciation Rates, and Other Tariff Modifications, BPU Docket No. WR24010056, Order dated May 22, 2024.

On July 18, 2024, NJAWC updated its schedules to include twelve (12) months of actual data ("12+0 Update"). Based upon the 12+0 Update, NJAWC updated its proposed revenue requirement to $157.7 million.

STIPULATION

Following comprehensive discovery and settlement discussions, the Company, Board Staff ("Staff"), and the New Jersey Division of Rate Counsel ("Rate Counsel") (collectively, "Stipulating Parties"), executed the Stipulation, the key elements of which are as follows:[4]

A. Rate Increase

1. As of the effective date, defined below in the Stipulation, NJAWC will be permitted to increase its base rates in a manner designed to produce a total annual operating revenue increase for water and wastewater service of $79.5 million, an overall revenue increase of 8.53%.

2. The Stipulating Parties agree that the post-test year present rate revenues to which the $79.5 million increase will apply is $932,446,899.

3. The annual revenue requirement increase is based upon a rate base of $5,050,637,912.

4. The Stipulating Parties agree to an overall rate of return of 7.1522% and the Company's actual capital structure, as reflected in the Company's 12+0 Update at post-test year end of September 30, 2024, as follows:

Type of Capital	% of Total	Cost Rate	Weighted Cost Rate
Long-term Debt	45.00%	4.1604%	1.8722%
Common Equity	55.00%	9.6000%	5.2800%
Total Capital	100.00%		7.1522%

5. The Stipulating Parties acknowledge that the stipulated revenue requirement increase reflects consideration of a Consolidated Tax Adjustment.

6. The revenue expansion factor used to gross-up costs for income taxes, uncollectible expense, and Board and Rate Counsel assessments, is 1.47640, which consists of factors for state gross receipts and franchise taxes of 13.58692%, federal income taxes of 21.00%, for uncollectibles of 0.41279%, and for the Board/Rate Counsel assessments of 0.26313%.

7. The calculation of the revenue requirement is set forth in Attachment A of the Stipulation.

[4] Although summarized in this Order, should there be any conflict between this summary and the Stipulation, the terms of the Stipulation control, subject to the findings and conclusions in this Order. Paragraphs are numbered to coincide with the Stipulation.

B. Depreciation

8. The Stipulating Parties agree that NJAWC's water composite depreciation rate will be established at 2.44% and the wastewater composite depreciation rate will be established at 2.07%. With the conclusion of this proceeding, the Company will align the deprecation rates formerly of Environmental Disposal Corp. to the stipulated wastewater depreciation rates. Additionally, the Company will no longer utilize the units of production depreciation method for certain plant accounts. This water depreciation rate reflects the continued return to customers of a Non-Legal Asset Retirement Obligation of $48,000,000 at $1,200,000 a year over a forty (40)-year period as established in the Stipulation of Settlement in NJAWC's 2008 base rate proceeding at Docket No. WR08010020. A schedule detailing the stipulated depreciation rates is found in Attachment B of the Stipulation.

C. Amortization of Debits and Credits

9. The Stipulating Parties agree that the rate increase set forth in the Stipulation reflects an amortization of unamortized balance sheet accounts, in accordance with the following chart:

Account	Amortization Start / Revised Date	Amortization Ending Date	
Gain on Land Sales	9/1/2024	8/31/2026	
Acquisition Adjustments (excludes Haddonfield. Shorelands and Roxbury)	Various	Various	
Deferred Rate Case Expense (includes previous cases remaining balances)	9/1/2024	8/31/2026	(a)
Acquisition Adjustment - Appellate	9/1/2024	8/31/2026	
2019 BPU Management Audit	11/1/2020	10/31/2030	
Pre 1971 Investment Credit	Various	Various	
1986 Excess Deferred Income Taxes	Various	Various	
TCJA Excess Deferred Income Taxes - Protected (Grossed Up)	11/1/2020	Various	(b)
TCJA Excess Deferred Income Taxes - Unprotected (Grossed Up)	11/1/2020	10/31/2032	
MTBE	1/1/2011	12/31/2050	
Aluminum Sulfate	11/1/2020	10/31/2060	
Refund of COR	12/1/2008	11/30/2048	
WIPA Transaction Costs	9/1/2024	8/31/2026	
Energy Efficiency Program	9/1/2024	8/31/2026	

Notes:

(a) 50% of rate case expenses

(b) Monthly amortization will vary based upon Adjusted Rate Amortization Method ("ARAM").

D. Other Items

10. The Stipulating Parties agree that NJAWC withdraws from this proceeding, without prejudice, the Company's requests for a revenue decoupling mechanism, an uncollectible adjustment clause, and deferred accounting treatment of production costs.

11. The Stipulating Parties agree that the Company will continue deferred accounting treatment to record as a regulatory asset/liability, as appropriate, the difference between the pension and OPEB expense and the actual expense recorded for financial reporting purposes. The Stipulating Parties agree that the newly established annual authorized

levels of pension and OPEB expense will be $3,422,707 and ($5,375,690), respectively effective with the approved rates in this proceeding. The Company will defer the difference between the authorized amount and the actual amount recorded for financial reporting purposes as determined in accordance with generally accepted accounting principles, provided that such amounts are known, final, and not subject to updates or adjustments. The amortization of any approved deferral will be decided in the Company's next base rate case. Nothing in the Stipulation is intended to impair the ability of any stipulating party to challenge the prudence of the Company's calculated levels of pension and OPEB amounts that it proposes to recover from the regulatory asset/liability account in NJAWC's next rate case proceeding.

12. The Stipulating Parties agree that the Company use reasonable efforts to remove and provide testing to the retired meters. The Company shall provide quarterly reports to Staff and Rate Counsel stating the number of meters retired in place for that quarter, the number of meters replaced that quarter, the reason the meter was not removed at the time of replacement, and total meters retired in place.

E. <u>Tariff and Rate Design</u>

13. The Stipulating Parties agreed to the changes to the Company's tariff found in Attachment C of the Stipulation. The Stipulating Parties agree that within ten (10) days of a Board Order approving the Stipulation, NJAWC will file Attachment C of the Stipulation with the Board.

14. The Stipulating Parties agree that the present rate revenues to be used by rate class are those reflected in Attachment D of the Stipulation, which includes the agreed upon revenue increases by customer class. The bill impact for a residential customer, with a 5/8" meter, on Rate Schedule A-1, using 5,642 gallons of water per month, will be $5.33 or 7.05%. The bill impact for an Ocean City sewer customer using 5,642 of water per month will be $7.75 or 9.82%. The bill impact for a Statewide Collection System wastewater customer using 5,642 of water per month will be $5.12 or 7.62%.

15. The Stipulating Parties agree to the implementation of the Company's Universal Affordability tariff with the tiered rate discounts as reflected on Rate Schedule O-4 for water customers and Rate Schedule 9-A.2 for wastewater customers effective September 15, 2024, concurrent with the new rates agreed upon in this proceeding. The Company agrees to maintain its current Help to Others grant program.

16. The Stipulating Parties agree that Attachment E of the Stipulation represents the present rates and the stipulated rates to be utilized in this matter.

17. The Stipulating Parties agree that NJAWC's DSIC Foundational Filing, submitted on March 18, 2024 in BPU Docket No. WR24030187, must be approved by the Board before any new DSIC investment and/or DSIC rate recovery can occur and that the DSIC rate approved in BPU Docket No. WR22030230 shall be reset to zero on the effective date of new base rates in this case. The Company, under BPU Docket No. WR22030230[5], had implemented a DSIC surcharge annual revenue of $39,969,461, which was under the five percent (5%) cap.

[5] Due to a typographical error, the Stipulation incorrectly states the BPU Docket No. as WE22030230.

18. The Stipulating Parties agree NJAWC's WSIC Foundational Filing, submitted on March 27, 2024 in BPU Docket No. WR24030203, must be approved by the Board before any new WSIC investment and/or WSIC rate recovery can occur and that the WSIC rate approved in BPU Docket No. WR21060917 shall be reset to zero on the effective date of new base rates in this case. The Company, under BPU Docket No. WR21060917, had implemented a WSIC surcharge annual revenue of $1,882,593, which reached the five percent (5%) cap.

19. The Stipulating Parties agree that NJAWC's first Resiliency and Environmental System Investment Charge ("RESIC") Foundational Filing, submitted on April 19, 2024 in BPU Docket No. WR24040240, must be approved by the Board before the RESIC investment continues through the RESIC period. The RESIC will be reset in NJAWC's next base rate proceeding.

On August 13, 2024, Middlesex Water Company, Johanna Foods, Inc., Rutgers, The State University of New Jersey, Cogen Technologies Linden Venture, L.P., Phillips 66 Company, the Trustees of Princeton University, and the Mount Laurel Township Municipal Utilities submitted letters of non-objection.

INITIAL DECISION

By the Initial Decision, ALJ Caliguire found that the Stipulating Parties voluntarily agreed to the Stipulation and that the Stipulation fully disposes of all issues and is consistent with the law. As such, ALJ Caliguire ordered that the Stipulating Parties comply with the terms of the Stipulation and recommended the Initial Decision to the Board for adoption, modification, or rejection in accordance with N.J.S.A. 52:14B-10.

DISCUSSION AND FINDINGS

The Board, upon careful review of the record in this matter, including the Petition, Updates, and the Stipulation, agrees that the Stipulation is just and reasonable, voluntarily agreed to by the Stipulating Parties, and fully disposes of all issues in controversy in this matter.

In evaluating a proposed settlement for a requested rate increase pursuant to N.J.S.A. 48:2-21, the Board must independently review the record and determine, based upon substantial evidence therein, that the figures to which the Stipulating Parties have stipulated are just and reasonable.[6] The Board recognizes that the Stipulating Parties worked diligently to negotiate a compromise that meets the needs of as many stakeholders as possible. The Board further recognizes that the Stipulation represents a balanced solution considering the many complex issues addressed during the pendency of this proceeding.

Therefore, based upon the Board's review and consideration of the record in this proceeding, the Board **HEREBY FINDS** the Initial Decision and Stipulation to be reasonable, in the public interest, and in accordance with the law. Accordingly, the Board **HEREBY ADOPTS** the Initial Decision and Stipulation in their entirety, and **HEREBY INCORPORATES** the terms and conditions as though fully set forth herein, subject to any terms and conditions set forth in this Order.

[6] In re Petition of Pub. Serv. Elec. & Gas, 304 N.J. Super. 247, 270 (App. Div.), certif. denied, 152 N.J. 12 (1997); N.J.S.A. 48:2-21(d).

As a result of the Stipulation, an average residential water customer with a 5/8" meter, on Rate Schedule A-1, using 5,642 gallons of water per month, will see an increase in their monthly bill of $5.33 or 7.05%. For an Ocean City sewer customer using 5,642 gallons of water per month, the monthly impact will be an increase of $7.75 or 9.82%. For a Statewide Collection System wastewater customer using 5,642 gallons of water per month, the monthly impact will be an increase of $5.12 or 7.62%.

The Board **HEREBY ORDERS** the Company to submit revised tariffs conforming to the terms and conditions of the Stipulation and this Order by September 14, 2024 for rates effective September 15, 2024.

The Company's rates remain subject to audit by the Board. This Decision and Order shall not preclude the Board from taking any actions deemed to be appropriate as a result of any Board audit.

This Order shall be effective on September 11, 2024.

DATED: September 4, 2024

BOARD OF PUBLIC UTILITIES
BY:

CHRISTINE GUHL-SADOVY
PRESIDENT

DR. ZENON CHRISTODOULOU
COMMISSIONER

MARIAN ABDOU
COMMISSIONER

ATTEST:

SHERRI L. GOLDEN
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities.

IN THE MATTER OF THE PETITION OF NEW JERSEY-AMERICAN WATER COMPANY, INC. FOR APPROVAL OF INCREASED TARIFF RATES AND CHARGES FOR WATER AND WASTEWATER SERVICE, CHANGE IN DEPRECIATION RATES, AND OTHER TARIFF MODIFICATIONS

BPU DOCKET NO. WR24010056
OAL DOCKET NO. PUC 02409-24

SERVICE LIST

New Jersey-American Water Company, Inc.
1 Water Street
Camden, New Jersey 08102

Stephen R. Bishop
VP, Managing General Counsel and Secretary
stephen.bishop@amwater.com

Christopher M. Arfaa, Director, Corporate Counsel
Chris.arfaa@amwater.com

Jamie Hawn, Director, Rates and Regulatory
jamie.hawn@amwater.com

Michael McKeever, Senior Director
Rates and Regulatory
michael.mckeever@amwater.com

Donna Carney, Principal Paralegal
donna.carney@amwater.com

Cullen and Dykman LLP

Bruce V. Miller, Esq.
333 Earle Ovington Blvd, 2nd Floor
Uniondale, NY 11553
bmiller@cullenllp.com

Zachary A. Klein, Esq.
229 Nassau Street
Princeton, New Jersey 08542
zklein@cullenllp.com

Department of Law and Public Safety
Division of Law
Public Utilities Section
25 Market Street, Post Office Box 112
Trenton, NJ 08625

Daren Eppley, Section Chief, DAG
daren.eppley@law.njoag.gov

Pamela Owen, DAG, Assistant Section Chief
pamela.owen@law,njoag.gov

Meliha Arnautovic, DAG
meliha.arnautovic@law.njoag.gov

Terel Klein, DAG
terel.klein@law.njoag.gov

Board of Public Utilities
44 South Clinton Avenue, 1st Floor
Post Office Box 350
Trenton, NJ 08625-0350

Sherri L. Golden, Board Secretary
board.secretary@bpu.nj.gov

Stacy Peterson, Deputy Executive Director
stacy.peterson@bpu.nj.gov

Office of General Counsel

Carol Artale, Deputy General Counsel
carol.artale@bpu.nj.gov

Michael Hunter, Regulatory Officer
michael.hunter@bpu.nj.gov

Kit Burnette, Regulatory Officer
kit.burnette@bpu.nj.gov

Division of Revenue and Rates

Kofi Ocansey
kofi.ocansey@bpu.nj.gov

Anthony DeAnni
anthony.deanni@bpu.nj.gov

Cindy Bianco
cindy.bianco@bpu.nj.gov

Division of Engineering

Dean Taklif, Director
dean.taklif@bpu.nj.gov

Magdy Mekhaeil
magdy.mekhaeil@bpu.nj.gov

Office of the Chief Economist

Dr. Benjamin Witherell, Chief Economist
benjamin.witherell@bpu.nj.gov

Division of Rate Counsel
140 East Front Street, 4th Floor
Post Office Box 003
Trenton, NJ 08625-0003

Brian O. Lipman, Esq., Director
blipman@rpa.nj.gov

Susan McClure, Esq., Assistant Deputy Rate Counsel
smcclure@rpa.nj.gov

Christine Juarez, Esq.
cjuarez@rpa.nj.gov

Emily Lam, Esq.
esmithman@rpa.nj.gov

Felecia Jackson-Rodgers
frodgers@rpa.nj.gov

Rate Counsel Consultants

Larkin & Associates PLLC
15728 Farmington Road
Livonia, MI 48154

Ralph Smith, Sr. Regulatory Consultant
rsmithla@aol.com

Mark Dady, Analyst
mdady@gmail.com

Megan Cranston-Eliasz, Analyst
mcranston29@gmail.com

Dawn Bisdorf, Analyst
dawn.bisdorf@gmail.com

Karl Pavlovic
PCMG and Associates
22 Brooks Avenue
Gaithersburg, MD 20877
kpavlovic@pcmgregcon.com

James Garren
GDS Associates, Inc.
1850 Parkway Place, Suite 800
Marietta, GA 30067
james.garren@gdsassociates.com

J. Randall Woolridge. Professor of Finance
The Goldman Sachs and Frank P. Smeal Endowed University Fellow
The Pennsylvania State University
University Park, PA 16802
jrwoolridge@gmail.com

Rutgers University
Johanna Foods, Inc.
Cogen Technologies Linden Venture, L.P.
Trustees of Princeton University

Rothfelder Stern, L.L.C.

407 Greenwood Avenue, Unit #301
Trenton, NJ 08609

Bradford M. Stern, Esq.
bstern@rothfelderstern.com

Martin C. Rothfelder, Esq.
mrothfelder@rothfelderstern.com

Middlesex Water Company

Jay L. Kooper, Esq.
485C Route One South, Suite 400
Iselin, New Jersey 08830
jkooper@middlesexwater.com

MSW Consultant

Tim Lyons, Partner
ScottMadden
3 Speen Street, Suite 150
Framingham, MA01701
tylons@scottmadden.com

Mount Laurel Township Municipal Utilities Authority

Anthony R. Francioso, Esq.
Fornaro Francioso LLC
1540 Kuser Road, A-1
Hamilton, New Jersey 08619
afrancioso@fornarofrancioso.com

State of New Jersey
OFFICE OF ADMINISTRATIVE LAW

INITIAL DECISION

SETTLEMENT

OAL DKT. NO. PUC 02409-24

AGENCY DKT. NO. WR24010056

IN THE MATTER OF THE PETITION OF NEW JERSEY-AMERICAN WATER COMPANY, INC. FOR APPROVAL OF INCREASED TARIFF RATES AND CHARGES FOR WATER AND WASTEWATER SERVICE, DEPRECIATION RATES AND OTHER TARIFF MODIFICATIONS, PURSUANT TO N.J.S.A. 48:2-18, N.J.S.A. 48:2-21, AND N.J.S.A. 48:2-21.1, N.J.A.C. 14:1-5.7, AND N.J.A.C. 14:1-5.12

Stephen R. Bishop, Vice President, Managing General Counsel and Secretary, and **Christopher M. Arfaa**, Director and Corporate Counsel, for petitioner, New Jersey-American Water Company, Inc.

Bruce V. Miller, Esq., and **Zachary A. Klein**, Esq., for petitioner, New Jersey-American Water Company, Inc. (Cullen and Dykman, LLP, attorneys)

Meliha Arnautovic and **Terel Klein**, Deputy Attorneys General, for Staff of the Board of Public Utilities (Matthew J. Platkin, Attorney General of New Jersey, attorney)

Susan E. McClure, Managing Attorney of Water and Wastewater and Deputy Rate Counsel, and **Christine Juarez** and **Emily Lam**, Assistant Deputy Rate

Counsels, for New Jersey Division of Rate Counsel (Brian O. Lipman, Director)

Jay L. Kooper, Vice President, General Counsel, and Secretary, for intervenor, Middlesex Water Company

Martin C. Rothfelder, Esq. and **Bradford M. Stern**, Esq., for intervenors, Rutgers, The State University of New Jersey, Johanna Foods, Inc., Cogen Technologies Linden Venture, L.P., the Trustees of Princeton University, and Phillips 66 Company (Rothfelder Stern, L.L.P., attorneys)

Anthony R. Francioso, Esq., for intervenor Mount Laurel Township Municipal Utilities Authority (Fornaro Francioso LLC, attorneys)

Record Closed: August 13, 2024 Decided: August 15, 2024

BEFORE **TRICIA M. CALIGUIRE**, ALJ:

On January 19, 2024, New Jersey-American Water Company, Inc. (NJAW) filed a petition with the Board of Public Utilities (Board) for approval of increases in tariff rates and charges for water and wastewater service, change in depreciation rates, and other tariff modifications. On February 21, 2024, the Board transmitted the matter to the Office of Administrative Law (OAL), where it was filed as a contested case, pursuant to N.J.S.A. 52:14B-1 to -15 and N.J.S.A. 52:14F-1 to -13. A telephone prehearing conference was conducted on March 6, 2024, and a prehearing order was issued on April 1, 2024.

Motions to Intervene were filed by Middlesex Water Company (Middlesex); Johanna Foods, Inc.; Cogen Technologies Linden Venture, L.P.; Rutgers, the State University; Phillips 66 Company; the Trustees of Princeton University; and the Mount Laurel Township Municipal Utilities Authority (MLTMUA). With no objections, the motions were granted by orders issued on March 8, 2024; March 26, 2024; April 5, 2024; April 19, 2024; and August 6, 2024.

On April 10, 2024, two duly-noticed public hearings[1] were conducted by the OAL using Zoom Video Communications, Inc., a remote video and audio platform. The petitioner, Staff of the Board, the Division of Rate Counsel, and members of the public participated in the public hearings and provided comments. At the first hearing, counsel for Howell Township explained his client's objections to the petition, and three private citizens joined the hearing but did not make comments. No members of the public appeared at the second hearing. All comments were transcribed and made part of the record.

On August 13, 2024, the parties filed a Stipulation of Settlement which resolves all issues in this proceeding. (J-1). Said Stipulation of Settlement has been signed by petitioner, Staff of the Board; and the New Jersey Division of Rate Counsel. On August 13, 2024, a letter of non-opposition to the Stipulation of Settlement was submitted by intervenors Cogen Technologies Linden Venture, L.P., Phillips 66 Company, Johanna Foods, Inc., the Trustees of Princeton University, and Rutgers, the State University of New Jersey. On August 13, 2024, Middlesex and MLTMUA submitted letters of non-opposition to the Stipulation of Settlement.

The Stipulation of Settlement indicates the terms of settlement and is attached and fully incorporated herein.

I have reviewed the terms of settlement and I **FIND:**

1. The parties have voluntarily agreed to the settlement as evidenced by their signatures or their representatives' signatures on the attached document.

2. The settlement fully disposes of all issues in controversy between the parties and is consistent with the law.

I hereby **FILE** my initial decision with the **BOARD OF PUBLIC UTILITIES** for consideration.

[1] Proof of publication was provided by petitioner to the court reporter, to all parties, and to me; the public notice and proof of its publication are part of the record transmitted to the Board with this Initial Decision.

This recommended decision may be adopted, modified or rejected by the **BOARD OF PUBLIC UTILITIES,** which by law is authorized to make a final decision in this matter. If the Board of Public Utilities does not adopt, modify or reject this decision within forty-five days and unless such time limit is otherwise extended, this recommended decision shall become a final decision in accordance with N.J.S.A. 52:14B-10.

August 15, 2024
DATE

TRICIA M. CALIGUIRE, ALJ

Date Received at Agency: _____

Date Mailed to Parties: _____

TMC/kl

APPENDIX

EXHIBITS

Jointly Submitted:

J-1 Stipulation of Settlement

Attachment 5

NEW JERSEY AMERICAN WATER

August 13, 2024

Via Email
The Honorable Tricia Caliguire
Administrative Law Judge
State of New Jersey
Office of Administrative Law
P.O. Box 049
Trenton, NJ 08625-0049

Re: In the Matter of the Petition of New Jersey-American Water Company, Inc. for Approval of Increased Tariff Rates and Charges for Water and Wastewater Service, Change in Depreciation Rates, and Other Tariff Modifications
BPU Docket No. WR24010056
OAL Docket No. PUC 02409-2024 S

Dear Judge Caliguire:

Enclosed for filing in the above-referenced proceeding is a Stipulation of Settlement with Attachments executed by and among New Jersey-American Water Company, Inc., the Office of the Attorney General of New Jersey, attorney for the Staff of the Board of Public Utilities, and the Division of Rate Counsel. With their permission, we are also filing letters of no objection to the Stipulation of Settlement on behalf of intervenors Middlesex Water Company and Mount Laurel Township Municipal Utility Authority. It is also our understanding that a letter of no objection will be forthcoming under separate cover on behalf of Rutgers, The State University of New Jersey, The Trustees of Princeton University, Johanna Foods, Inc., Cogen Technologies Linden Ventures, L.P., and Phillips 66 Company (collectively, the "OIW Customer Coalition").

We have also taken the liberty of preparing a proposed form of an Initial Decision for Your Honor's use and consideration.

Very truly yours,

Christopher M. Arfaa
CMA:dlc
Enc.

c: Attached service list (via email, w/enc.)
Hon. Sherri L. Golden, Secretary to the Board of Public Utilities (via email, w/enc)

Christopher M. Arfaa
Director, Corporate Counsel
1 Water Street
Camden, NJ 08102
O 856.955.4116
M 610.517.3360

Attachment 5

I/M/O the Petition of New Jersey American Water Company, Inc. for Approval of Increased Base Tariff Rates and Charges for Water and Wastewater Service, Change in Depreciation Rates and Other Tariff Revisions
OAL DKT. NO. PUC 02409-24 / BPU Docket No. WR24010056

OAL Service List

Board of Public Utilities

Stacy Peterson, Deputy Executive Director
Board of Public Utilities
44 South Clinton Avenue
PO Box 350
Trenton, NJ 08625
Stacy.Peterson@bpu.nj.gov

Meliha Arnautovic, DAG
Division of Law
R.J. Hughes Justice Complex, 7th Fl. West
25 Market Street, P.O. Box 112
Trenton, NJ 08625
Meliha.Arnautovic@law.njoag.gov

Terel Klein, DAG
Division of Law
R.J. Hughes Justice Complex, 7th Fl. West
25 Market Street, P.O. Box 112
Trenton, NJ 08625
Terel.Klein@law.njoag.gov

Division of Rate Counsel

Brian O. Lipman, Director
Division of Rate Counsel
140 East Front Street, 4th Floor
P.O. Box 003
Trenton, NJ 08625
blipman@rpa.nj.gov

Susan E. McClure
Division of Rate Counsel
140 East Front Street, 4th Floor
P.O. Box 003
Trenton, NJ 08625
smcclure@rpa.nj.gov

Middlesex Water Company

Jay L. Kooper
Middlesex Water Company
485C Route One South, Suite 400
Iselin, NJ 08830
jkooper@middlesexwater.com

Rutgers, The State University of New Jersey, Cogen Technologies Linden Venture, L.P., Johanna Foods, Inc., Princeton University, Phillips 66 Company

Bradford M. Stern, Esq.
Rothfelder Stern, L.L.C.
407 Greenwood Avenue, Unit #301
Trenton, NJ 08609
bstern@rothfelderstern.com

Martin C. Rothfelder, Esq.
Rothfelder Stern, L.L.C.
407 Greenwood Avenue, Unit #301
Trenton, NJ 08609
mrothfelder@rothfelderstern.com

Vitoria Veno
Rothfelder Stern, L.L.C.
407 Greenwood Avenue, Unit #301
Trenton, NJ 08609
vveno@rothfelderstern.com

Attachment 5

I/M/O the Petition of New Jersey American Water Company, Inc. for Approval of Increased Base Tariff Rates and Charges for Water and Wastewater Service, Change in Depreciation Rates and Other Tariff Revisions
OAL DKT. NO. PUC 02409-24 / BPU Docket No. WR24010056

OAL Service List

Mt. Laurel Township Municipal Utilities Authority

Anthony R. Francioso
Fornaro Francioso LLC
Center City Office Park
1540 Kuser Rd, Suite A1
Hamilton, New Jersey 08619
afrancioso@fornarofrancioso.com

New Jersey American Water

Bruce V. Miller, Esq.
Cullen and Dykman LLP
100 Quentin Roosevelt Boulevard
Garden City, NY 11530
bmiller@cullenllp.com

Zachary A. Klein, Esq.
Cullen and Dykman LLP
229 Nassau Street
Princeton, New Jersey 08542
zklein@cullenllp.com

Stephen R. Bishop, Esq.
New Jersey American Water
1 Water Street
Camden, NJ 08102
Stephen.Bishop@amwater.com

Christopher M. Arfaa, Esq.
New Jersey American Water
1 Water Street
Camden, NJ 08102
Chris.Arfaa@amwater.com

Donna Carney
Principal Paralegal
American Water
149 Yellowbrook Road
Farmingdale, NJ 07727
Donna.Carney@amwater.com

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES
OFFICE OF ADMINISTRATIVE LAW

IN THE MATTER OF THE PETITION OF NEW JERSEY-AMERICAN WATER COMPANY, INC. FOR APPROVAL OF INCREASED TARIFF RATES AND CHARGES FOR WATER AND WASTEWATER SERVICE, CHANGE IN DEPRECIATION RATES, AND OTHER TARIFF MODIFICATIONS	**:**	**STIPULATION OF SETTLEMENT** **BPU Docket No.: WR24010056** **OAL Docket No.: PUC 02409-2024 S**

APPEARANCES:

Christopher M. Arfaa, Esq., Director, Corporate Counsel, New Jersey-American Water Company, Inc.

Bruce Miller, Esq. and **Zachary Klein, Esq.,** Cullen and Dykman LLP, Attorneys for Petitioner, New Jersey-American Water Company, Inc.

Brian O. Lipman, Esq., Director, New Jersey Division of Rate Counsel, **Susan E. McClure, Esq.,** Deputy Rate Counsel, and **Christine Juarez, Esq.** and **Emily Lam, Esq.**, Assistant Deputy Rate Counsels, New Jersey Division of Rate Counsel

Meliha Arnautovic, Esq. and **Steven Chaplar,** Deputy Attorneys General for the Staff of the New Jersey Board of Public Utilities (**Matthew J. Platkin,** Attorney General of New Jersey)

Martin C. Rothfelder, Esq. and Bradford M. Stern, Esq., Rothfelder Stern, L.L.C. for Intervenors, Cogen Technologies Linden Venture, L.P., Merck & Co., Inc., Phillips 66 Company, Johanna Foods, Inc., The Trustees of Princeton University, and Rutgers, The State University of New Jersey

Anthony R. Francioso, Esq., Fornaro Francioso for Intervenor, the Mount Laurel Township Municipal Utilities Authority

Jay L. Kooper, Esq., Middlesex Water Company, Counsel for Intervenor, Middlesex Water Company

TO: THE HONORABLE TRICIA CALIGUIRE, ADMINISTRATIVE LAW JUDGE

BACKGROUND

On January 19, 2024, New Jersey-American Water Company, Inc. ("NJAWC" or "Company") filed a petition, testimony, and exhibits (collectively, "Petition") with the New Jersey Board of Public Utilities ("Board" or "BPU") requesting an increase in operating revenues of $161.7 million, or approximately 16.89% over post-test year present rate revenues.

The Petition was based upon a twelve (12)-month test year ending June 30, 2024 and contained five (5) months of actual data and seven (7) months of projected data, including proposed post-test year adjustments that reflected changes in capital expenditures through December 31, 2024. The Petition also included changes in certain revenues and expenses through March 31, 2025.

On April 23, 2024, and supplemented on May 3, 2024, NJAWC submitted a "9+3 Update" filing containing actual data for the nine (9) months ending March 31, 2024, and revised projections through the post-test year period. On July 18, 2024, NJAWC submitted its final "12+0 Update" filing containing actual data for the twelve (12) months ending June 30, 2024, and revised projections through the post-test year period.

On February 21, 2024, the Board transmitted this matter to the Office of Administrative Law ("OAL") as a contested case where it was assigned to Administrative Law Judge ("ALJ") Tricia Caliguire. On February 14, 2024, the Board issued an Order suspending NJAWC's proposed rate increase until June 21, 2024.[1] By way of a second suspension Order issued May 22,

[1] In re the Petition of New Jersey-American Water Company, Inc. for Approval of Increased Tariff Rates and Charges for Water and Wastewater Service, Change in Depreciation Rates, and Other Tariff Modifications, BPU Docket No. WR24010056, OAL Docket No. PUC 02409-2024 S, Order dated February 14, 2024.

2024, the proposed rate increase was further suspended until October 21, 2024.[2] On April 1, 2024, ALJ Caliguire issued a Prehearing Order establishing procedures and hearing dates for the conduct of this case.

After appropriate motions, Middlesex Water Company ("Middlesex"), Johanna Foods, Inc., Cogen Technologies Linden Venture, L.P., Rutgers, The State University, Phillips 66 Company, Merck and Co., Inc., The Trustees of Princeton University (collectively, "OIW"), and the Mount Laurel Township Municipal Utilities Authority ("MLMUA") were granted intervenor status.

After proper public notice in newspapers of general circulation within the Company's service territory and after service of notice upon affected municipalities and counties within NJAWC's service territory, two (2) virtual public comment hearings were held on April 10, 2024, at 4:30 p.m. and 5:30 p.m. Two (2) members of the public attended, one (1) of whom provided comments at the 4:30 p.m. virtual public hearing and no members of the public provided comments at the 5:30 p.m. virtual public hearing.

Extensive discovery was conducted, and several settlement discussions were held after notice to all parties. As a result of these discussions, NJAWC, Board Staff and Rate Counsel (collectively, "Stipulating Parties") reached this stipulation of settlement ("Stipulation") resolving all issues in this proceeding subject to the terms and conditions stated herein. It is the Stipulating Parties' understanding that Middlesex, MLMUA, and OIW will file letters stating that they have no objection to adoption of this Stipulation.

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[2] In re the Petition of New Jersey-American Water Company, Inc. for Approval of Increased Tariff Rates and Charges for Water and Wastewater Service, Change in Depreciation Rates, and Other Tariff Modifications, BPU Docket No. WR24010056, OAL Docket No. PUC 02409-2024 S, Order dated May 22, 2024.

STIPULATED MATTERS

A. Rate Increase

1. As of the Effective Date defined below, NJAWC will be permitted to increase its base rates in a manner designed to produce a total annual operating revenue increase for water and wastewater service of $79.5 million, an overall revenue increase of 8.53%.

2. The Stipulating Parties agree that the post-test year present rate revenues to which the $79.5 million increase will apply is $932,446,899.

3. The annual revenue requirement increase is based upon a rate base of $5,050,637,912.

4. The Stipulating Parties agree to an overall rate of return of 7.1522% and the Company's actual capital structure, as reflected in the Company's 12+0 Update at post-test year end of September 30, 2024, as follows:

Type of Capital	% of Total	Cost Rate	Weighted Cost Rate
Long-term Debt	45.00%	4.1604%	1.8722%
Common Equity	55.00%	9.6000%	5.2800%
Total Capital	100.00%		7.1522%

5. The Stipulating Parties acknowledge that the stipulated revenue requirement increase reflects consideration of a Consolidated Tax Adjustment.

6. The revenue expansion factor used to gross-up costs for income taxes, uncollectible expense, and Board and Rate Counsel assessments, is 1.47640, which consists of factors for state gross receipts and franchise taxes of 13.58692%, federal income taxes of 21.00%, for uncollectibles of 0.41279%, and for the Board/Rate Counsel assessments of 0.26313%.

7. The calculation of the revenue requirement is set forth in Attachment A to this Stipulation.

B. Depreciation

8. The Parties agree that NJAWC's water composite depreciation rate will be established at 2.44% and the wastewater composite depreciation rate will be established at 2.07%. With the conclusion of this base rate proceeding, the Company will align the deprecation rates formerly of Environmental Disposal Corp. ("EDC") to the stipulated wastewater depreciation rates. Additionally, the Company will no longer utilize the units of production depreciation method for certain plant accounts. This water depreciation rate reflects the continued return to customers of a Non-Legal Asset Retirement Obligation of $48,000,000 at $1,200,000 a year over a forty (40)-year period as established in the Stipulation of Settlement in NJAWC's 2008 base rate proceeding at Docket No. WR08010020. Attachment B hereto is a schedule detailing the stipulated depreciation rates.

C. Amortization of Debits and Credits

9. The Stipulating Parties agree that the rate increase set forth above in this Stipulation reflects an amortization of unamortized balance sheet accounts, in accordance with the following chart:

Account	Amortization Start / Revised Date	Amortization Ending Date	
Gain on Land Sales	9/1/2024	8/31/2026	
Acquisition Adjustments (excludes Haddonfield, Shorelands and Roxbury)	Various	Various	
Deferred Rate Case Expense (includes previous cases remaining balances)	9/1/2024	8/31/2026	(a)
Acquisition Adjustment - Appellate	9/1/2024	8/31/2026	
2019 BPU Management Audit	11/1/2020	10/31/2030	
Pre 1971 Investment Credit	Various	Various	
1986 Excess Deferred Income Taxes	Various	Various	
TCJA Excess Deferred Income Taxes - Protected (Grossed Up)	11/1/2020	Various	(b)
TCJA Excess Deferred Income Taxes - Unprotected (Grossed Up)	11/1/2020	10/31/2032	
MTBE	1/1/2011	12/31/2050	
Aluminum Sulfate	11/1/2020	10/31/2060	
Refund of COR	12/1/2008	11/30/2048	
WIPA Transaction Costs	9/1/2024	8/31/2026	
Energy Efficiency Program	9/1/2024	8/31/2026	

Notes:
(a) 50% of rate case expenses
(b) Monthly amortization will vary based upon Adjusted Rate Amortization Method ("ARAM").

D. Other Items

10. The Company stipulates, and the Parties agree, that it hereby withdraws from this proceeding, without prejudice, the Company's requests for a revenue decoupling mechanism, an uncollectible adjustment clause, and deferred accounting treatment of production costs.

11. The Stipulating Parties agree that the Company will continue deferred accounting treatment to record as a regulatory asset/liability, as appropriate, the difference between the pension and other post-employment benefits ("OPEB") expense and the actual expense recorded for financial reporting purposes. The Stipulating Parties agree that the newly established annual authorized levels of pension and OPEB expense will be $3,422,707 and ($5,375,690), respectively effective with the approved rates in this proceeding. The Company will defer the difference between the authorized amount and the actual amount recorded for financial reporting purposes as determined in accordance with generally accepted accounting principles, provided that such amounts are known, final, and not subject to updates or adjustments. The amortization of any approved deferral will be decided in the Company's next base rate case. Nothing in this Stipulation is intended to impair the ability of any stipulating party to challenge the prudence of the Company's calculated levels of pension and OPEB amounts that it proposes to recover from the regulatory asset/liability account in NJAWC's next rate case proceeding.

12. The Stipulating Parties further agree that the Company use reasonable efforts to remove and provide testing to the retired meters. The Company shall provide quarterly reports to Board Staff and Rate Counsel stating the number of meters retired in place for that quarter, the number of meters replaced that quarter, the reason the meter was not removed at the time of replacement, and total meters retired in place"

E. Tariff and Rate Design

13. Attachment C hereto is the agreed upon tariff reflecting changes implementing the revenue increase and other tariff changes agreed upon by the Stipulating Parties. The Stipulating Parties agree that within ten (10) days of a Board Order approving this Stipulation, NJAWC will file Attachment C with the Board.

14. The Stipulating Parties agree that the present rate revenues to be used by rate class are those reflected in Attachment D hereto, which includes the agreed upon revenue increases by customer class. The bill impact for a residential customer, with a 5/8" meter, on Rate Schedule A-1, using 5,642 gallons of water per month, will be $5.33 or 7.05%.[3] The bill impact for an Ocean City sewer customer using 5,642 of water per month will be $7.75 or 9.82%. The bill impact for a Statewide Collection System wastewater customer using 5,642 of water per month will be $5.12 or 7.62%.

15. The Stipulating Parties agree to implementation of the Company's Universal Affordability tariff with the tiered rate discounts as reflected on Rate Schedule O-4 for water customers and Rate Schedule 9-A.2 for wastewater customers effective September 15, 2024, concurrent with the new rates agreed upon in this proceeding. The Company agrees to maintain its current Help to Others grant program.

16. Attachment E hereto is "New Jersey American Water, Comparative Schedule of Present and Stipulated Rates." The Stipulating Parties agree that Attachment E represents the present rates and the stipulated rates to be utilized in this matter.

[3] Rate Schedule A-1 applies to "general metered residential, commercial, industrial, and municipal service throughout Service Area 1, Service Area 1A, Service Area 1B, Service Area 1C, Service Area 1D, Service Area 1E, Service Area 2, and Service Area 3, except as specifically provided elsewhere in this tariff."

17. The Stipulating Parties agree that NJAWC's Distribution System Improvement Charge ("DSIC") Foundational Filing, submitted on March 18, 2024 in BPU Docket No. WR24030187, must be approved by the Board before any new DSIC investment and/or DSIC rate recovery can occur and that the DSIC rate approved in BPU Docket No. WR22030230 shall be reset to zero on the effective date of new base rates in this case. The Company, under BPU Docket No. WE22030230, had implemented a DSIC surcharge annual revenue of $39,969,461, which was under the five percent (5%) cap.

18. The Stipulating Parties agree that NJAWC's Wastewater System Improvement Charge ("WSIC") Foundational Filing, submitted on March 27, 2024 in BPU Docket No. WR24030203, must be approved by the Board before any new WSIC investment and/or WSIC rate recovery can occur and that the WSIC rate approved in BPU Docket No. WR21060917 shall be reset to zero on the effective date of new base rates in this case. The Company, under BPU Docket No. WR21060917, had implemented a WSIC surcharge annual revenue of $1,882,593, which reached the five percent (5%) cap.

19. The Stipulating Parties agree that NJAWC's first Resiliency and Environmental System Investment Charge ("RESIC") Foundational Filing, submitted on April 19, 2024 in BPU Docket No. WR24040240, must be approved by the Board before the RESIC investment continues through the RESIC period. The RESIC will be reset in the NJAWC's next base rate proceeding.

F. Effective Date

20. The Stipulating Parties agree that they will use their best efforts to ensure that this Stipulation is presented to the Board for approval at its September 4, 2024, public agenda meeting, and that rates shall be effective September 15, 2024.

21. The Stipulating Parties agree that service of the Board Order approving this Stipulation shall be in accordance with N.J.S.A. 48:2-40 and will be effective ten (10) days from a Board Order accepting this Stipulation or upon electronic service of said Order on all parties, as permitted by the Board in Docket No. EO20030254 or on September 15, 2024, whichever is sooner.

G. Miscellaneous

22. The Stipulating Parties agree that this Stipulation has been made exclusively for the purpose of this proceeding and that this Stipulation, in total or by specific item, is in no way binding upon them in any other proceeding, except to enforce the terms of the Stipulation.

23. The Stipulating Parties agree that this Stipulation contains a mutual balancing of interests, contains interdependent provisions and, therefore, is intended to be accepted and approved in its entirety. In the event any particular aspect of this Stipulation is not accepted and approved in its entirety by the Board, or modified by the Board, each party that is adversely affected by the modification can either accept the modification or declare this Stipulation to be null and void, and the Stipulating Parties shall be placed in the same position that they were in immediately prior to its execution.

24. It is the intent of the Stipulating Parties that the provisions hereof be approved by the Board as being in the public interest. The Stipulating Parties further agree that they consider the Stipulation to be binding on them for all purposes herein.

25. The Stipulating Parties agree that this Stipulation represents a negotiated agreement and has been made exclusively for the purpose of this proceeding. Except as expressly provided herein, the Stipulating Parties shall not be deemed to have approved, agreed to, or consented to any principle or methodology underlying or supposed to underlie any agreement provided herein, in total or by specific item. The Stipulating Parties further agree that this Stipulation is in no way binding upon them in any other proceeding, except to enforce the terms of this Stipulation.

26. This Stipulation may be executed in as many counterparts as there are Parties to this Stipulation, and each such counterpart shall be considered an original; however, all such counterparts will constitute one and the same instrument.

NEW JERSEY-AMERICAN WATER COMPANY, INC.

By: _____
Christopher M. Arfaa, Esq.

BRIAN O. LIPMAN, ESQ., DIRECTOR, DIVISION OF RATE COUNSEL

By: _____
Christine M. Juarez
Assistant Deputy Rate Counsel

MATTHEW J. PLATKIN, ATTORNEY GENERAL OF NEW JERSEY
Attorney for the Staff of the Board of Public Utilities

By: _____
Steven Chaplar, Esq.
Deputy Attorney General

DATED: August 12, 2024

Attachment 5

New Jersey-American Water Company, Inc.
Revenue Requirement Computation **Attachment A**
Docket No. WR24010056 **Page 1 of 1**

Line No.			Revenue Requirement
1			
2	Rate Base		$5,050,637,912
3			
4	Rate of Return Required		7.1522%
5			
6	Utility Operating Income Under Proposed Rates		$361,231,725
7			
8	Utility Operating Income at Post-Test Year Present Rates		$307,384,499
9			
10	Utility Operating Income Deficiency		$53,847,226
11			
12	Gross Revenue Conversion Factor[1]		1.47640
13			
14	Revenue Increase Requested		$79,500,000
15			
16			
17	[1] Gross Revenue Conversion Factor Calculation		Gross-up Factor
18			100.00000%
19	Less: Uncollectible Expense		0.41279%
20	Less: Utility Assessment Fee		0.26313%
21	Less: GRAFT Tax		13.58692%
22	Sub-total	Statutory Rate	85.73716%
23	Less: FIT	21.00%	18.00480%
24	Revenue Income Percent		67.73236%
25	Revenue Gross-up Factor		1.47640

New Jersey-American Water Company, Inc. **Attachment B**
Docket No. WR24010056 **Page 1 of 3**
Depreciation Rates

Utility Account	NARUC Account	Description	Rate
Water Depreciation Rates			
304100	304.2	Struct & Imp-Supply	2.00%
305000	305.2	Collect & Impound Reservoirs	1.73%
306000	306.2	Lake, River & Other Intakes	2.47%
307000	307.2	Wells & Springs	2.14%
308000	308.2	Infiltratn Galleries & Tunne	1.14%
309000	309.2	Supply Mains	1.36%
339200	339.2	Other P/E-Supply	3.40%
304200	304.2	Struct & Imp-Pumping	1.69%
310000	310.2	Power Generation Equip	2.08%
310200	311.2	Boiler Plant Equip P	4.88%
311200	311.2	Pump Eqp Electric	2.34%
311300	311.2	Pump Eqp Diesel	10.61%
311400	311.2	Pump Eqp Hydraulic	3.44%
311500	311.2	Pump Eqp Other	1.48%
311530	311.3	Pumping Equipment WT	1.48%
311540	311.4	Pumping Equipment TD	1.48%
304300	304.3	Struct & Imp-Treatment	1.87%
304310	304.3	Struct & Imp-Treatment-Handl	1.87%
320100	320.3	WT Equip Non-Media	2.20%
320200	320.3	WT Equip Filter Media	14.03%
339300	339.3	Other P/E-Treatment	1.92%
339400	339.3	Other P/E-WT Res Hand Equip	3.18%
304400	304.4	Struct & Imp-T&D	2.88%
330000	330.4	Dist Reservoirs & Standpipes	1.09%
330002	330.4	Tank Original Painting	1.09%
330100	330.4	Elevated Tanks & Standpipes	1.09%
330200	330.4	Ground Level Tanks	1.09%
330300	330.4	Below Ground Tanks	1.09%
330400	330.4	Clearwell	1.09%
331001	331.4	TD Mains Not Classified	0.80%
331100	331.4	TD Mains 4in & Less	2.76%
331200	331.4	TD Mains 6in to 8in	1.64%
331300	331.4	TD Mains 10in to 16in	1.11%
331400	331.4	TD Mains 18in & Grtr	1.26%
332000	331.4	Fire Mains	10.12%
333000	333.4	Services	2.09%
334100	334.4	Meters	3.96%
334200	334.4	Meter Installations	8.32%
334300	334.4	Meter Vaults	8.32%

New Jersey-American Water Company, Inc. **Attachment B**
Docket No. WR24010056 **Page 2 of 3**
Depreciation Rates

Utility Account	NARUC Account	Description	Rate
Water Depreciation Rates (continued)			
335000	335.4	Hydrants	2.92%
336000	336.4	Backflow Prevention Devices	2.74%
339500	339.4	Other P/E-TD	19.35%
339600	339.1	Other P/E-CPS	17.05%
304500	304.5	Struct & Imp-General	3.45%
304510	304.5	Struct & Imp-Cap Lease	3.45%
304600	304.5	Struct & Imp-Offices	1.26%
304610	304.5	Struct & Imp-HVAC	1.26%
304700	304.5	Struct & Imp-Store,Shop,Gar	2.09%
304800	304.5	Struct & Imp-Misc	0.92%
339100	339.1	Other P/E-Intangible	3.40%
340100	340.5	Office Furniture & Equip	5.40%
340200	340.5	Comp & Periph Equip	12.36%
340300	340.5	Computer Software	12.26%
340310	340.5	Comp Software Mainframe	0.00%
340400	340.5	Data Handling Equipment	0.56%
340500	340.5	Other Office Equipment	0.72%
341001	341.5	Trans Equip Not Classified	3.98%
341100	341.5	Trans Equip Lt Duty Trks	-1.64%
341200	341.5	Trans Equip Hvy Duty Trks	5.83%
341300	341.5	Trans Equip Autos	7.93%
341400	341.5	Trans Equip Other	4.63%
342000	342.5	Stores Equipment	8.03%
343000	343.5	Tools,Shop,Garage Equip	5.50%
344000	344.5	Laboratory Equipment	11.82%
345000	345.5	Power Operated Equipment	4.05%
346000	346.5	Comm Equip Not Classified	3.44%
346100	346.5	Comm Equip Non-Telephone	3.44%
346190	346.5	Remote Control & Instrument	3.44%
346200	346.5	Comm Equip Telephone	3.44%
347000	347.5	Misc Equipment	5.03%
348000	348.5	Other Tangible Property	7.36%

New Jersey-American Water Company, Inc. **Attachment B**
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Depreciation Rates

Utility Account	NARUC Account	Description	Rate
Wastewater Depreciation Rates			
354200	354.2	WW Struct & Imp Collection	2.69%
354300	354.3	WW Struct & Imp Pumping	2.56%
354400	354.4	WW Struct & Imp Treatment	1.98%
354500	354.7	WW Struct & Imp General	2.61%
354510	354.7	WW Struct & Imp Gen Leased	2.64%
355200	355.2	WW Pwr Gen Equip Collection	4.21%
355400	355.4	WW Pwr Gen Equip Treatment	4.06%
360000	360.2	WW Collection Sewers Forced	1.28%
361100	361.2	WW Collecting Mains	1.03%
361101	361.2	WW Collecting Mains Other	1.99%
362000	362.2	WW Special Coll Struct	2.08%
363000	363.2	WW Services Sewer	2.25%
364000	364.2	WW Flow Measuring Devices	2.52%
370000	370.3	WW Receiving Wells	3.95%
371100	371.3	WW Pump Equip Elect	5.19%
371200	371.3	WW Pump Equip Oth Pwr	4.11%
371300	371.3	WW Pump Equip Misc	6.43%
380000	380.4	WW TD Equipment	3.86%
380050	380.4	WW TD Equip Grit Removal	2.64%
380100	380.4	WW TD Equip Sed Tanks/Acc	2.64%
380200	380.4	WW TD Equip Sldge/Effl Rmv	2.64%
380250	380.4	WW TD Equip Sldge Dig Tnk	2.64%
380300	380.4	WW TD Equip Sldge Dry/Filt	2.64%
380350	380.4	WW TD Equip Sec Trmt Filt	2.64%
380400	380.4	WW TD Equip Aux Effl Trmt	2.64%
380450	380.4	WW TD Equip Oth Sew Rem	2.64%
380500	380.4	WW TD Equip Chem Trmt Plt	2.64%
380600	380.4	WW TD Equip Oth Disp	2.64%
381000	381.4	WW Plant Sewers	1.84%
382000	382.4	WW Outfall Sewer Lines	1.49%
389100	389.1	WW Oth Plt & Misc Eqp Intang	4.59%
389200	389.2	WW Oth Plt & Misc Eqp Coll	1.32%
389600	389.1	WW Other P/E - CPS	10.43%
390000	390.7	WW Office Furniture & Equip	1.77%
390200	390.7	WW Computers & Peripheral	31.07%
390300	390.7	WW Computer Software	0.00%
391000	391.7	WW Trans Equipment	4.94%
391200	391.7	WW Trans Equip Hvy Dty Trks	2.62%
393000	393.7	WW Tool Shop & Garage Equip	14.03%
394000	394.7	WW Laboratory Equipment	3.34%
395000	395.7	WW Power Operated Equip	3.95%
396000	396.7	WW Communication Equip	8.71%
397000	397.7	WW Misc Equipment	3.09%
398000	398.7	WW Other Tangible Plant	2.93%

Attachment 5

NEW JERSEY-AMERICAN WATER COMPANY, INC.

TARIFF FOR WATER AND WASTEWATER SERVICE

By: Mark K. McDonough, President
1 Water Street, Camden, New Jersey 08102

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AN INTRODUCTION TO CUSTOMERS

The approved tariff located in the Company's office at 1 Water Street, Camden, NJ, and on its website at https://www.amwater.com/njaw/customer-service-billing/your-water-and-wastewater-rates, is available for your review. The Company is obligated to keep its tariff current, including any changes approved by the Board of Public Utilities. The Company is required to maintain it in exactly the same format as the Company's tariff on file at the Board of Public Utilities, 44 South Clinton Avenue, 1st Floor, Trenton, NJ.

Through the Company's My Account portal, customers can complete some of the most common functions associated with their accounts and schedule some appointments. The Company's Customer Service personnel can also be reached at 1-800-272-1325 for assistance. If, after you review this tariff and discuss it with appropriate Company employees, you still have questions regarding clarification or interpretations, please contact the Board of Public Utilities, Division of Water at 1-609-633-9800 or the Board's Division of Customer Assistance at www.nj.gov/bpu/ or 1-800-624-0241.

You have the right to review this tariff at the Company's offices or at the Board's office in Trenton. Your inquiries will be handled by the Board's Staff in an expeditious manner in order to protect your rights as well as those of the water and/or wastewater Company. Please feel free to exercise this right by telephone or by visiting the Board's offices at any time between the hours of 9:00 a.m. and 4:00 p.m., Monday through Friday, or by writing a letter. The letter should contain the writer's name, address and phone number, including the area code. If the writer is a customer of record, the account number should be included.

The Company also has available in its office a leaflet entitled "The Utility Customer's Bill of Rights." This is a summary document; it does not include all customer rights or utility obligations.

New Jersey-American Water hereby adopts the rules and regulations promulgated by the Board of Public Utilities of the State of New Jersey, some of which are referenced herein, and all of which are herein adopted and incorporated by reference. New Jersey-American Water provides water and wastewater service to various municipalities, all in the State of New Jersey.

The Board of Public Utilities is responsible for the final interpretation and enforcement of a utility's tariff provisions and rates. The utility is bound by New Jersey's statutes and the Board's regulations. If a conflict should exist in the tariff that is detrimental to the customer, the Board's regulations supersede the tariff provision absent specific approval to the contrary by the NJ Board of Public Utilities. A utility company may provide for more liberal treatment than that provided for in the Board's regulations.

Tariff B.P.U. No. 8 - Water and Wastewater is divided into a water section and a wastewater section, preceded by standard terms and conditions which are universally applicable, standard terms and conditions applicable to water service only, and standard terms and conditions applicable to wastewater service only. Tables of contents for each section precede a series of sequentially numbered and lettered tariff rate schedules. The tables of contents denote the appropriate rate schedule applicability for all classes of service and are an integral part of this tariff.

DEFINITIONS - WATER

The following are definitions of specific terms that are used in this document:

1- "Board" or "BPU" shall mean the New Jersey Board of Public Utilities.

2- "Company" or "New Jersey-American Water" shall mean New Jersey-American Water Company, Inc. or, as applicable, any predecessor entity.

3- "Connecting line" is the portion of pipe that starts at the curb stop and conveys domestic water and/or fire service to the customer. The customer and/or premises owner owns, and is responsible for the operation and maintenance of the connecting line.

4- "Curb stop" is the fitting attached to the service line on the roadside utility right-of-way of the property and is used primarily for turning on and shutting off water at the curb in emergencies, for purposes of repair or to discontinue service to a customer.

5- "Customer" means a person that is an end-user, a customer of record or both, as defined in N.J.A.C. 14:3-1.1. "Customer of Record" means the person that applies for utility service and is identified in the account records of a public utility as the person responsible for payment of the public utility bill. A customer may or may not be an end-user. "End User" means a person who receives, uses, or consumes water or wastewater service. An end user may or may not be a customer of record.

6- "DEP" shall mean the New Jersey Department of Environmental Protection.

7- "End User" means a person who receives, uses, or consumes water or receives wastewater or fire protection service. An end user may or may not be a customer or a premises owner.

8- "Extension" is an addition to the existing system of mains, intended to service more than one customer, either at the time of installation or in the future.

9- "Interruptible Service" means service which may be interrupted in the sole discretion of the Company on not less than three (3) hours' notice to the customer by telephone or otherwise.

10- "Main" is a pipe or conduit for conveying water or wastewater. A "water main" will exclusively convey water and a "wastewater main" will exclusively convey wastewater.

11- "Meter" is a device to measure the quantity of water, wastewater and/or the rate of flow delivered to or from a customer.

12- "Meter pit" is a structure that houses a small meter or meters less than or equal to 2-inches. Unless agreed to by the Company and the customer, it is installed, furnished and maintained by the Company.

13- "Meter vault" is a structure that houses a meter or meters larger than 2-inches. Unless explicitly agreed to by the Company and the customer in writing, it is located and designed by the Company, and constructed, installed, furnished and maintained by the Customer at the sole expense to the customer. The Company will ensure that the vault is kept clear of any of its equipment that is no longer in service, to the extent possible.

14- "Person" means an individual, firm, joint venture, partnership, co-partnership, corporation, association, State, county, municipality, public agency or authority, bi-state or interstate agency or authority, public utility, regulated entity, cable television company, cooperation association, or joint stock association, trust, limited liability company, governmental entity, or other legal entity, and includes any trustee, receiver, assignee, or personal representative thereof. (N.J.A.C. 14:3-1.1)

15- "Premises" is defined as follows:

a) A building under one-roof, owned or leased by one customer and occupied as one place of business or residence.
b) A combination of buildings, owned or leased by one customer in one common enclosure, occupied by one family or business.

DEFINITIONS – WATER (Continued)

c) A combination of buildings, such as a garden type apartment, owned or leased by one customer, in one common enclosure, none of the individual buildings of which is adapted to separate ownership.
d) The one side of a double house having a solid vertical partition wall, so that it may be adapted to separate ownership.
e) A building owned or leased by one person, of more than one apartment and using in common one hall and one entrance.
f) A building owned or leased by one person, having a number of apartments or offices, and using a common one hall and one or more means of entrance.
g) A public building or a single plot such as a park or a playground.
h) A building or combination of buildings owned by one customer or entity located on contiguous property not intersected or intervened by another customer or entity.

16- "Premises owner" is the party who possesses the exclusive right to hold, use, benefit from, enjoy, convey, transfer, and otherwise dispose of the property. A premises owner may or may not be the customer of record or end-user, as defined in N.J.A.C. 14:3-1.1.

17- "PWAC" or "Purchased water adjustment clause" is a provision that authorizes a utility to adjust its rates to compensate for an increase or decrease in the cost of water purchased from a water purveyor. (N.J.A.C. 14:9-7.2)

18- "PWAC Year" shall mean the twelve-month period beginning each April 1 and ending March 31 of the following calendar year.

19- "Residential customer" means a customer who receives service from a regulated entity for use in a residence. (N.J.A.C. 14:3-1.1)

20- "Sales for Resale Customer" means a municipal water system, a Municipal Utilities Authority, a County Utilities Authority, a Water Supply Authority, district or commission or a water utility regulated by the Board.

21- "Service line" is the portion of pipe that starts from a main and ends at the curb stop. The service line is owned, operated and maintained by the Company. (N.J.A.C. 14:3-8)

22- "Tap" is the fitting inserted in the main to which the service line is attached. It is used to facilitate the tapping of the main and for shutting off water in case of repairs to the service line.

23- "Tariff," as referred to herein, is the entire "Tariff for Water and Wastewater Service" as the same may be amended or revised from time to time in accordance with N.J.A.C. 14:3-1.3, Tariffs.

24- "Water connection" includes all service line, taps and curb stops necessary to supply customers with water at their premises from the Company's water mains.

25- "Water service" is the act of providing water to a customer.

DEFINITIONS - WASTEWATER

The following are definitions of specific terms that used hereafter in the tariff. Additional definitions are set forth in the Definitions section of the tariff for water and wastewater service.

1- "New Account" as herein used shall be defined as an account opened as the result of the construction of a new building.

2- "Building Drain" shall mean that part of the lowest horizontal piping of a drainage system which receives the discharge from drainage pipes inside the walls of the building terminating five (5) feet outside the face of the building wall from whence it becomes known as the building sewer.

3- "Building Sewer" shall mean the extension from the building drain to service lateral line and/or other point of connection to the Company wastewater collection system.

4- "Biochemical Oxygen Demand", denoted hereinafter as "B.O.D.", shall mean the quantity of oxygen utilized (demanded) in the biochemical oxidation of organic matter under standard laboratory procedure in five (5) days when incubated at 20°C.

5- “Bulk User” means a municipality which has contracted with the utility for wastewater treatment services. The utility has no responsibility for construction of the mains connecting the Bulk User to the utility nor in the collection of payments of customers of the bulk user. Bulk User customers are not in the service territory of the utility.

6- "Suspended Solids" shall mean solids that either float on the surface of or are carried in suspension in water, wastewater or industrial wastes, and which are removable by laboratory filtering.

7- "pH" shall mean the logarithm to the base ten of the reciprocal of the weight of hydrogen ions in moles per liter of solution.

8- "Garbage" shall mean solid wastes from domestic and commercial preparation, cooking, dispensing or marketing of food or food products and from the handling, storage and sale of produce.

9- "Properly Shredded Garbage" shall mean garbage that has been shredded to such a degree that all particles will be carried freely under the flow conditions normally prevailing in the wastewater system with no particle greater than one-half inch (1/2") in any dimension.

10- “PSTAC” or “Purchased wastewater treatment adjustment clause” is a provision that authorizes a utility to adjust its rates to compensate for an increase or decrease in the cost of wastewater treatment purchased from a wastewater treatment purveyor. (N.J.A.C. 14:9-7.2)

11- “PSTAC Year” shall mean the twelve-month period beginning each April 1 and ending March 31 of the following calendar year.

12- "Slug" shall mean the discharge of water, sewage, or industrial waste which in concentration of any constituent or in quantity of flow exceeds for any period of duration longer than fifteen (15) minutes more than five (5) times the average twenty-four hour flow or concentration under normal operating conditions.

AN OVERVIEW OF CUSTOMER RIGHTS

(1) No public utility shall refuse to furnish or supply service to a qualified applicant. N.J.A.C. 14:3-3.1

(2) The utility shall not place the name of a second individual on the account of a residential customer unless specifically requested by said second individual. (N.J.A.C. 14:3-3.2(b))

(3) A customer has the right to have any complaint against the utility handled promptly by that utility. (Board Order, Docket No. CO8602155)

(4) Each utility shall, upon request, furnish its customers with such information as is reasonable in order that the customers may obtain safe, adequate and proper service. N.J.A.C. 14:3-3.3(a)) Each utility shall inform its customers, where peculiar or unusual circumstances prevail, as to the conditions under which sufficient and satisfactory service may be secured from its system. (N.J.A.C. 14:3-3.3(c)) Each utility shall supply its customers with information on the furnishing and performance of service in a manner that tends to conserve energy resources and water resources and preserve the quality of the environment. N.J.A.C. 14:3-3.3(d)

GENERAL RULES

1- The location of meters and the arrangement of the fittings and piping are subject to inspection and approval of the Company and should meet Company's requirements presented herein.

2- The Company will endeavor to provide a regular and uninterrupted supply of water through its facilities. However, if service shall be interrupted, irregular, or defective, or fail because of breakdown or emergency, the Company will not be liable for damage, inconvenience or lost income resulting there from.

3- A customer's responsibility to pay for service continues from the time service is commenced, pursuant to his/her application, until notice is received by the Company of a change of ownership or occupancy of the premises or notice is received by the Company to discontinue the applicable service. Upon receipt of such notice, the Company will arrange for a final meter reading and billing. No allowance will be made in case of non-occupancy, unless the Company is notified as stated above.

4- The Company does not undertake to render any special service or maintain any fixed pressure. In the event of an accident or for other reasons, the Company may shut off the water in its mains and pipes and may restrict the use of water whenever the public welfare may require it. All customers requiring an uninterrupted supply or a uniform pressure of water for any purpose, such as steam boilers, are cautioned to provide their own means of providing such special uninterrupted service. When the supply is to be interrupted or curtailed, the Company will endeavor to give notice.

5- The Company does not undertake to supply any uniform quality of water for special purposes, such as laboratories, manufacturing or processing plants, swimming pools, bleaching or dyeing plants, or laundries. Customers requiring water of special quality, or water free from discoloration or turbidity, are required to provide their own means of treating water, or provide such other protection as may be deemed necessary for the purpose required.

6- From time to time, the Company may provide public notices, specific notices, correspondence or other notifications ("Notices") regarding the presence of conditions affecting the quality and/or quantity of water service provided by the Company. (Examples of such Notices include, but are not limited to, boil water alerts, notice of hydrant and main flushing, and notice of water quality testing results.) These Notices may contain information about actions members of the public may wish to, are recommended to, or should take in response to the conditions identified in the Notice. In the event the Company issues a Notice, the Company will not be liable for any expenses or costs incurred by a customer or end-user for any action taken in response to any condition identified in the Notice.

GENERAL RULES (Continued)

7- Neither by inspection approval nor failure to approve, nor in any other way, does the Company give any guarantee, or assume any responsibility, expressed or implied, as to the adequacy, safety or characteristics of any structures, equipment, pipes, appliances or devices owned, installed or maintained by the customer or leased by the customer from third parties.

8- The Company will not be liable for any loss, injury, casualty, or damage resulting from the supply or use of water service, or from the presence or operation of the Company's structures, equipment, pipes, appliances or devices on the customer's premises.

9- No unauthorized person is permitted to turn the water on or off at any street valve, corporation stop, curb stop, or other street connection, or disconnect or remove any meter without the consent of the Company.

10- No agent or employee of the Company shall have authority to bind it, by any promise, agreement, or representation not provided in this tariff, or in any way inconsistent therewith.

GENERAL RULES (Continued)

11- Exempt rates are charged for service rendered to those customers entitled to statutory relief pursuant to N.J.S.A. 54:30A-50, et seq.

12- The quantity of water recorded by the meter shall be taken to be the amount delivered to the customer, except where the meter has been found to be registering fast by more than one and one-half percent (1.5%) or has ceased to register.

13- All service provided by the Company except public fire protection shall be metered. Thus, no unmetered water service connections are permitted except as otherwise set forth herein or approved by the Company.

14- The Company shall own and provide without charge for each customer supplied on a measured basis, a meter and such appurtenances related to the meter as are customarily furnished by the Company, such as encoders, radio transmitters, meter pits (but not meter vaults), or other devices designed to facilitate the collection of accurate and efficient meter reads.

15- The Company requires that all meters be housed inside meter pits (for meters that are less than or equal to 2-inches) or meter vaults (for meters that are larger than 2-inches). Where more than one service type exists (domestic, private fire protection or irrigation) all meters shall be housed inside a meter vault if any one meter is greater than two inches. The Customer is responsible for the installation and maintenance of meter vaults. All meter pits and meter vaults will be located outside of the Customer's structure in a location acceptable to the express approval of the Water Company. Notwithstanding the foregoing, the Company may grant an exception to this rule on a case by case basis at the Company's discretion.

16- The Company maintains and repairs meters except in case of misuse or damage by the customer or the customer's invitees, agents, representatives or contractors, in which case the Company shall charge the customer for repairing and replacing the meter, said charge to be based on the costs related to the removing, repairing, replacing and/or resetting the meter. The charge will be made in accordance with Rate Schedule P-2.

17- Where more than one rate schedule is available to particular customers, the utility shall have at all times the duty to assist such customers in the selection of the rate schedule most favorable for their individual requirements and to make every reasonable effort to ensure that such customers are served under the most advantageous schedule.

18- Upon the request of a customer, the Company shall send a Spanish language version of the notice of discontinuance for nonpayment. N.J.A.C. 14:3-3A.3(e)

19- The Company reserves the right to require any customer having unusual requirements of demand, services or supply to enter into a special written contract, which contract shall provide for the mutual obligations of the customer and Company. Special contracts will be filed with the Board.

20- In case of fraud, deception, illegal use, or when it is clearly indicated that the customer is preparing to leave, the Company may demand immediate payment of accounts and terminate service without further notice.

21- The Company reserves the right to change, take from or add to this tariff and the Standard Terms and Conditions, to the extent permitted by law, or permitted by the applicable regulations of the state regulatory body having jurisdiction.

22- For all materials furnished or services rendered to any governmental agency or unit of the United States, New Jersey, or sub-unit thereof, that is not covered by any other tariff provision or rate schedule, and which pertain to hydrants, meters or situations involving emergencies, the charges will be 10% more than the total of the following applicable items:

(a) Equipment and materials: actual costs;
(b) Labor charges: actual costs (including base plus fringe); and,
(c) Other charges: actual costs (such as permits, police protection, contractor labor, restoration, etc.).

STANDARD TERMS AND CONDITIONS
WATER AND WASTEWATER

DEPOSITS

1. If after notice of the methods of establishing credit and being afforded an opportunity, a customer has not established satisfactory credit, the utility may require a deposit. The deposit amount shall be determined in accordance with N.J.A.C. 14:3-3.4.
2. The utility must furnish a receipt to any customer posting a deposit. The deposit will be returned with simple interest at a rate established annually by the Board of Public Utilities. Once the customer has established satisfactory credit with the utility, the deposit shall be returned to the customer with interest due. The customer has the option of receiving the deposit refund either by a check or a credit on the account. If a residential customer's deposit is not returned, the utility shall credit the customer's account with the accrued interest once every twelve months, in accordance with N.J.A.C. 14:3-3.5.
3. Where a water or wastewater utility furnishes unmetered service, for which payment is received in advance, it may not require a deposit. N.J.A.C. 14:3-3.4(j)
4. The Company shall review a residential customer's account at least once every year and a nonresidential customer's account at least once every two years to determine whether the customer has established credit satisfactory to the Company. If this review indicates that the customer has met the utility's standard requirements for establishing credit, the utility shall refund the customer's deposit. N.J.A.C. 14:3-3.5, Return of deposits, interest on deposits.
5. If the deposit has remained with the Company for at least three months, without default, it will be returned to the customer with simple interest on an annual basis at a rate established annually by the Board of Public Utilities. Deposits shall cease to bear interest upon the discontinuance of service.

FORM OF BILL FOR METERED SERVICE

6. All bills will be computed in accordance with the rates of the Company as shown in this Tariff, and as the same may be amended or revised from time to time. Rates are subject to such changes as the state regulatory body having jurisdiction may require, authorize or allow.
7. A customer has twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted, or electronic transmission date for customers on electronic billing, to pay a bill. A water and/or wastewater company may not discontinue water or wastewater service unless it has provided written notice giving the customer at least ten (10) days' notice prior to the proposed discontinuance. The 10 days shall begin on the postmark date of the notice. This written notice shall be sent by first class mail, apart from the bill and as a separate mailing. (N.J.A.C. 14:3-3A.3 (c)) The notice shall not be given until after the expiration of the said twenty (20) days' time to pay a bill. (N.J.A.C. 14:3-3A.3(b)) The notice shall contain sufficient information for the customer to notify the Board of Public Utilities of the nature of the dispute. The utility shall make a good faith effort to determine which of its residential customers are over 65 years of age, and shall make good faith efforts to notify such customers of discontinuance of service by telephone in addition to notice by regular mail. This effort may consist of an appropriate inquiry set forth on the notice informing customers that they may designate a third party to receive notice of discontinuance.
8. Bills rendered must contain the following information: (a) the meter readings at the beginning and end of the billing period; (b) the dates on which the meter is read; (c) the number and kind of units measured; (d) identification of applicable rate schedule or statement that the applicable rate schedule will be furnished upon request; (e) the amount of the bill; (f) a distinctive marking to indicate an estimated, averaged, or remote meter index and web address and telephone number where the customer can obtain a description of the method used; (g) an explanation or statement of any conversion from meter reading to billing units or any other calculations or factors used in determining the bill; and (h) the gross receipts and franchise tax statement. N.J.A.C. 14:3-7.2

STANDARD TERMS AND CONDITIONS
WATER AND WASTEWATER

FORM OF BILL FOR METERED SERVICE (Continued)

9. Estimated Billing. If for any reason a utility cannot read a customer's meter, the utility may use estimated billing in accordance with N.J.A.C. 14:3-7.2(c). Customers may request a special reading for a meter where a high bill or other reason exists to believe the meter reading used for billing purposes is in error. Rules concerning estimated bills for residential customers are as follows:

   a. The Company shall maintain a regular meter reading schedule and make a reasonable effort to read all meters.

   b. The Company, upon request, must make available to all customers a postage-paid business reply card on which the customer may mark the meter reading. Said card shall have appropriate explanation. The utility must permit the customer to telephone the meter reading to the utility. The customer reading is to be used in lieu of an estimated reading, provided the reading is received in time for billing.

   c. When the Company estimates an account for four consecutive billing periods (monthly accounts), or two consecutive billing periods (bi-monthly and quarterly accounts), the Company must initiate a program to mail a notice marked "Important Notice" to the customer on the fifth and seventh months explaining that a meter reading must be obtained and said notice must explain the penalty for failure to complete an actual meter reading. After all reasonable means to obtain a meter reading have been exhausted, the Company may discontinue service provided at least eight months have passed since the last meter reading was obtained, the Board of Public Utilities has been so notified, and the customer has been properly notified by prior mailing. If service is discontinued and subsequently restored, the utility may charge a reconnection charge equal to the reconnection charge for restoring service after discontinuance for non-payment. The reconnection charge shall become due when service is restored, whether the Company or an authorized professional physically restores service. Unauthorized reconnections shall be considered theft of service. Unauthorized reconnections by a customer no longer in arrears, shall be considered tampering with utility facilities.

   d. The Company must submit to the Board of Public Utilities a statement detailing their estimating procedures.

   e. An estimated bill must be clearly designated as such.

   f. If low estimates result in a customer receiving an actual bill that is at least twenty five percent (25%) greater than the prior estimated bill, the Company shall allow the customer to amortize the excess amount. The amortization will be in equal installments over a period of time equal to the period when no actual meter reading was taken by the customer or the Company. (7) Annually, the Company shall notify all customers of their rights to amortize as set forth in N.J.A.C. 14:3-7.2.

BUDGET BILLING

10. The Company will make available to residential customers whose accounts do not reflect past-due balances the option to pay their bills on a monthly, budgeted basis. The budget billing plan year will be a twelve (12)-month time frame and allows a customer to pay a predetermined monthly amount, based upon the customer's average usage. If a customer is a new customer with little or no prior history of utility use, the monthly budget amount shall be determined using a reasonable estimate of likely usage. The budget billing plan will be made available to eligible customers by bill insert or bill message at least twice in each twelve (12)-month period.

STANDARD TERMS AND CONDITIONS
WATER AND WASTEWATER

BUDGET BILLING (Continued)

11. The Company will "true up" the actual cost of service rendered as determined by actual meter readings and the actual monthly budgeted amount at the beginning of the budget plan year, and at least once during the budget plan year if the true-up performed during the customer's budget plan year reveals an increase or decrease of twenty-five (25) percent or more in the monthly budget amount, the Company will adjust the budget billing plan up or down, if necessary. There shall be no more than one such adjustment during the budget plan year. The Company will notify the customer of any change in the budget billing amount prior to such change.

12. A final bill for the budget plan year shall be issued in the last month of the budget plan year, and shall contain the month's monthly budget amount, plus an adjustment of any difference between said amount and the actual cost of service rendered during the budget plan year. Payment of this final balance due is required before the customer will be allowed to participate in the budget billing program for the upcoming budget billing plan year.

13. The Company shall notify the budget billing plan customers in writing of a revised monthly budget amount at least ten (10) working days before the due date the initial bill of the next budget plan year. Should the customer opt out of the budget billing plan, payment of the total charges incurred to date will be due immediately, or, in the alternative, agree to enter into a deferred payment agreement according to N.J.A.C. 14:3-7.7; or a credit will be applied to the account, whichever is applicable. The plan bill shall contain the information required by N.J.A.C. 14:3-7.2, Form of Bill for Metered Service, N.J.A.C. 14:3-7.3 Form of Bill for Unmetered Service, and N.J.A.C. 14:3-7.4, Method of Billing.

14. Should the customer breach the terms of the budget billing plan by failing to make the monthly payments as required under the plan or by having a budget billing plan payment returned due to insufficient funds, the Company reserves the right to terminate the customer's participation from the program; payment of total charges incurred to date will be due immediately, or, in the alternative, the Company and the customer will agree to enter into a deferred payment agreement according to N.J.A.C. 14:3-7.7.

FINANCIAL AID

15. The Company understands that from time to time its customers may have difficulty paying their water and/or wastewater bills issued by the Company. If at any time customers find that they cannot pay their water and/or wastewater bill by the due date, the Company requests that the customers contact the Company's Customer Service Center, prior to the due date, to work out a payment arrangement with the Company to avoid a shut-off of service, at 1-800-272-1325.

16. In addition to working out payment arrangements with customers in times of financial difficulty, the Company has also established a residential customer assistance program for its low-income customers who are having difficulty paying their water and/or wastewater bills issued by the Company. This residential customer assistance program, called the H2O Help to Others Assistance Program, is designed to provide financial assistance to qualified residential customers to pay their water and/or wastewater bills and protect them from an unnecessary discontinuance of their water and/or wastewater service. A grant from the H2O Help to Others Assistance Program may be awarded to cover a portion or all of the residential customer's outstanding bill based on the customer's ability to pay, income level and the availability of funds in the program. For more information about this program, please contact NJ Shares at 1-877-652-9426 or any subsequent program administrator whose contact information may be found on the Company's web site. Customers who qualify for the program are required to recertify income eligibility every two years.

STANDARD TERMS AND CONDITIONS
WATER AND WASTEWATER

DEFERRED PAYMENT ARRANGEMENTS

17. A customer is entitled to at least one deferred payment plan in one year. In the case of a residential customer who receives more than one utility service from the same utility (ex: water and wastewater; gas and electric) and the amount which is in arrears is a combination of those services, the utility shall offer a separate deferred payment agreement for each service based on the outstanding balance for that service. (N.J.A.C. 14:3-7.7(b)2) The Company must renegotiate the deferred payment agreement should the customer document a significant change in financial situation. The Company must also issue a new discontinuance notice each time it intends to shut off service, including defaults on the terms of the agreement. In the case of a residential customer who receives more than one utility service from the same utility and has subsequently entered into an agreement for each separate service, default on one such payment agreement shall constitute grounds for discontinuance of only that service. N.J.A.C. 14:3-7.7(f)

DISCONTINUANCE OF SERVICE

18. A water and wastewater utility shall not discontinue service because of nonpayment of bills in cases where a charge is in dispute provided the undisputed charges are paid (N.J.A.C. 14:3-3A.2(e)5) and a request is made to the Board within five (5) days for investigation of the disputed charge. The Company must advise the customer of their right to appeal to the Board of Public Utilities. N.J.A.C. 14:3-7.6(b)

19. Basis for Discontinuance of Service. The Company shall have the right to suspend or curtail or discontinue service for any of the following reasons (N.J.A.C. 14:3-3A.1(a)):

    a. For the purpose of making permanent or temporary repairs, changes or improvement in any part of its system;

    b. For compliance in good faith with any governmental order or directive, regardless of whether such order or directive subsequently may be held to be invalid;

    c. For non-payment of a valid bill due for service furnished at a present or previous location, in accordance with N.J.A.C. 14:3-3A.2. However, non-payment for business service shall not be a reason for discontinuance of residence service except in cases of diversion of service pursuant to N.J.A.C. 14:3-7.8;

    d. For nonpayment of a deposit, in accordance with N.J.A.C. 14: 3-3A.9;

    e. For any of the following acts or omissions on the part of the customer:

        (i) Refusal of reasonable access to the customer's premises in accordance with N.J.A.C. 14:3-3.6;
        (ii) tampering with any facility of the Company;
        (iii) fraudulent representation in relation to the use of service;
        (iv) customer moving from the premises, unless the customer requests that service be continued;
        (v) providing service to others without approval of the Company;
        (vi) refusal to contract for service where such contract is required;
        (vii) connecting and operating equipment in such manner as to produce disturbing effects on the service of the Company or other customers;
        (viii) failure of the customer to comply with reasonable Standard Terms and Conditions;
        (ix) where the condition of the customer's installation presents a hazard to life or property; or
        (x) failure of a customer to repair any faulty facility of the customer.

STANDARD TERMS AND CONDITIONS
WATER AND WASTEWATER

DISCOUNTINUANCE OF SERVICE (Continued)

20. Public Utilities shall not discontinue residential service except between the hours of 8:00 a.m. and 4:00 p.m. Monday through Thursday unless there is a safety-related emergency. There shall be no involuntary discontinuance of service on Fridays, Saturdays or Sundays or on the day before a New Jersey State holiday or on a New Jersey State holiday, absent such emergency. N.J.A.C. 14:3-3A.1(c)

21. Should a customer be more than 20 days delinquent in paying the monthly bill for service, or violate one or more of the standard terms and conditions of service contained in this or subsequent tariffs of the Company, the Company may discontinue service by giving 10 days' written notice of disconnection to the customer and, for wastewater service, a copy of such notice to the local Board of Health.

22. Notices herein of discontinuance of service shall be sent by first class mail, apart from the bill and as a separate mailing. (N.J.A.C. 14:3-3A.3(b)2) Customers are advised that it is illegal to operate a dwelling without adequately functioning wastewater facilities, and that the Company is required to notify local health authorities of wastewater service termination.

23. Medical Emergency. Notwithstanding the following, at the end of the period of medical emergency the customer remains liable to the Company for the charges for services rendered during the period of non-discontinuance, subject to the provisions of N.J.A.C. 14:3-7.6. (N.J.A.C. 14:3-3A.2(i)). Residential service may not be discontinued for non-payment for a period of 90 days if a medical emergency exists within the premises and which would be aggravated by the shut off so long as the customer provides the Company with reasonable proof of his or her inability to pay and a licensed medical professional's written statement as to the existence of the emergency, its nature and probable duration, and how the termination of service will aggravate the medical emergency. This period of non-discontinuance may be extended as set forth in N.J.A.C. 14:3-3A.2(j). The Company reserves the right to contest the validity of any claimed medical emergency before the BPU.

24. Utilities shall annually notify all residential customers that, upon request, notice of discontinuance of service will be sent to a designated third party as well as to the customer of record. This provision shall not apply if Company makes a good faith effort to contact all residential customers by telephone prior to discontinuance and file with the Board a statement setting forth such procedure. N.J.A.C. 14:3-3A.4)

25. The Company shall make every reasonable attempt to determine when a landlord-tenant relationship is known to exist, and if the tenants are not the customers of record but are end-users, as these terms are defined at N.J.A.C. 14:3-1.1. Discontinuance of service is prohibited unless the utility has given a 30-day written notice to the owner of the premises or to the customer of record to whom the last preceding bill was rendered. The utility shall use its best efforts to determine the names and addresses of each tenant, in order to provide such notice, for example, through mailings to landlords requesting a list of tenants. The utility shall use its best efforts to provide copies of the discontinuance notice to all tenants. In addition, the utility shall provide the tenant(s) with thirty (30) days' notice, which shall be hand delivered, mailed, or posted in a conspicuous area of the premises and in the common areas of multiple family premises. N.J.A.C. 14:3-3A.6.(a) If a utility uses posting as the method of notice, each utility shall use its best efforts to also place a copy of the notice on each tenant's car windshield or under the door of each tenant's dwelling. In the case of tenants of single and two-family dwellings, each tenant shall also be provided with a 30-day individual notice. Each utility shall offer the tenant(s) continued service to be billed to the tenant(s) unless the utility demonstrates that such billing is not feasible. Tenants seeking continuation of service under this provision shall supply the utility with a copy of a valid lease or rental agreement. The continuation of service to a tenant shall not be conditioned upon payment by the tenant of any outstanding bills due upon the account of any other person. The utility shall not be held to the requirements of this provision if the existence of a landlord-tenant relationship could not be reasonably ascertained. N.J.A.C. 14:3-3A.6.(b).

STANDARD TERMS AND CONDITIONS
WATER AND WASTEWATER

DISCOUNTINUANCE OF SERVICE (Continued)

26. The utility or its designated contractor shall have the right of reasonable access to customer's premises, and to all property furnished by the utility, at all reasonable times for the purpose of inspection of customer's premises incident to the rendering of service, reading meters, or inspecting, testing, repairing or conducting markouts, either itself or through its contractor designated to perform said markouts, in compliance with the Underground Facility Protection Act, N.J.S.A. 48:2-73 et seq., and N.J.A.C. 14:2, also known as the "One-Call rules," of its facilities used in connection with supplying the service, for the discontinuance of service for nonpayment after proper notice, or for the removal of its property. (N.J.A.C. 14:3-3.6(a)) Service can be discontinued for refusal of reasonable access to customer's premises for necessary purposes in connection with rendering of service, including meter and remote reading device installation, reading or testing, or the maintenance or removal of the utility's property. (N.J.A.C. 14:3-3A.1(a)5.i) Reconnection fees as shown on Rate Schedule P-2 and Rate Schedule 9-A will be charged upon restoration of service.

27. It is the responsibility of a customer who wishes to voluntarily discontinue his or her service to notify the Company and request a final reading. A customer wishing to discontinue service shall give notice to the utility. Within 48 hours of said notice, the utility shall discontinue service or obtain a meter reading for the purpose of calculating a final bill. Where such notice is not received by the utility, the customer shall be liable for service until the final reading of the meter is taken. Notice to discontinue service will not relieve a customer from any minimum or guaranteed payment under any contract or rate in accordance with the Standard Terms and Conditions on Sheet Nos. 23 and 24, nor will it mitigate any of the obligations on the Company's General Metered Rate Schedules. In accordance with N.J.A.C. 14:3-3A.1(b).

28. If a customer wishes to have his service physically disconnected, then notice as set forth within this tariff is required prior to such disconnection provided, however, that nothing herein shall operate to prevent the Company from discontinuing service at any time under conditions and for reasons set forth in this tariff; and provided further, that nothing herein shall be construed to prevent the making of contracts for extension of service or other special conditions.

29. When a customer is physically disconnected (water service) or the service lateral is plugged (wastewater service) for non-payment of a bill for, or violation of the standard terms and conditions of service, the customer will be required to pay, in addition to any outstanding or delinquent amount, the Company's actual cost of reconnection or $350.00, whichever is more, before service is restored. See Rate Schedules P-2 and 9-A. Wastewater service customers who remove plugs from their service laterals, and water customers who operate the curb stop to restore service after disconnection are tampering with Company property and may be charged with theft of service.

STANDARD TERMS AND CONDITIONS
WATER AND WASTEWATER

RESTORATION OF SERVICE

30. Service shall be restored within 12 hours upon proper application when: 1. all of the conditions under which service was discontinued are corrected; and 2. payment of all charges due is received at the utility or at an authorized payment center and the utility has received notice of the payment. Any other provision notwithstanding, the utility shall restore service within 12 hours if there is a complaint involving such matters before the Board and Board staff so directs the utility. N.J.A.C. 14:3-3A.9. See Rate Schedules P-2 and 9-A for restoration of service charges. Restoration of water service performed outside of normal business hours as shown on Rate Schedule P-2 will be subject to the Emergency Reconnection service charge of $100 as shown on that Rate Schedule P-2.

THEFT OF SERVICE

31. Whenever the Company reconnects service to a customer under the following conditions, a charge will be rendered for providing this service as described in Rate Schedule P-2 or 9-A.

    a. Whenever the Company has determined that a customer's service has been reconnected without the permission of the Company after service has been terminated for non-payment of bills or violation of the Company's tariff, the Company will terminate the customer's service for a second time and give written notice to the customer that if service is reconnected again without the permission of the Company, it will be necessary for the Company to excavate and physically disconnect service. A reconnection charge will be applied as set forth in Rate Schedules P-2 or 9-A of the present tariff.

    b. Customers in default in the payment of a bill may be required to furnish a deposit or increase their existing deposit in an amount sufficient to secure the payment of future bills. Service shall not be discontinued for failure to make such deposit except after proper notice to the customer. If a customer who has made a deposit fails to pay a bill, the Company may apply such deposit insofar as is necessary to liquidate the bill and may require that the deposit be restored to its original amount. N.J.A.C. 14:3-3.4(f)

32. The Company has certain rights under the law to obtain the cessation of acts constituting theft of service that have been committed in violation of N.J.S.A. 2C:20-8, as well as complete restitution for any losses or damages it has suffered as a result of said acts. Customers who tamper with Company property to illegally restore service after being shut off for nonpayment or any other reason under N.J.A.C. 14:3-3A et seq. may be subject to fees pursuant to Rate Schedule P-2 and Rate Schedule 9-A and responsible for payment of any resulting damages.

LATE PAYMENT CHARGE

33. Should a nonresidential customer fail to make payment as specified under Terms of Payment in the Rate Schedules the Company may, on the twenty-sixth (26th) day, assess a late charge at the rate of 0.35%. Service to state, county or municipal government entities will not be subject to a late payment charge. The charge will be applied to all amounts billed and unpaid finance charges applied to previous bills. The amount of the late payment charge to be applied to the Customer's account shall be calculated by multiplying the previous unpaid bill amount by the late payment charge rate. When payment is received by the Company from a Customer who has an unpaid balance which includes charges for late payment, the Customer's payment shall be applied first to the oldest aged unpaid bill amount and its applicable late charge, and then to the next oldest aged bill amount and late charge. Notwithstanding the foregoing shut off provisions in accordance with N.J.A.C. 14:3-3A will still apply to past due accounts.

STANDARD TERMS AND CONDITIONS
WATER AND WASTEWATER

METER

34. The utility must provide for one free water meter test during any twelve (12) month period if the customer so requests it. (N.J.A.C. 14:3-4.5) A meter of a customer who has a complaint filed with the Board reflecting on the accuracy of the meter shall not be removed from service by the utility during the pendency of said complaint or during the following thirty (30) days unless otherwise authorized or directed by the Board. (N.J.A.C. 14:3-4.8(c)) When a billing dispute is known to exist, the water utility shall, prior to removing the meter, advise the customer that they may have the meter tested by the utility or may have the Board witness a testing of the meter by the utility, and that in any event the customer may have the test witnessed by a third party. (N.J.A.C. 14:3-4.5(c)) A meter test arising from a billing dispute may be appropriate in instances which include, but not limited to, unexplained increased consumption, crossed meters, consumption while an account is vacant or any other instance where the meter's accuracy might be an issue in a bill dispute. (N.J.A.C. 14:3-4.5 (d)) The customer can apply to the Board for a Board inspector to test the customer's meter. (N.J.A.C. 14:3-4.5(e)) All costs for such a test shall be borne by the Company. N.J.A.C. 14:3-4.5(e)

35. If more than one meter test is made within a twelve (12) month period at the request of the customer and the meter is found to be accurate, the Company shall charge the customer for this meter test at the rate set forth in Rate Schedule P-2 for each additional test. (N.J.A.C. 14:3-4.5). If the meter is found to register fast by more than one and one-half percent (1.5%) of the water passed through the meter at full capacity, the customer will not be charged for the test. N.J.A.C. 14:3-4.6

36. Whenever a water meter is found to be registering fast by more than one and one-half percent, an adjustment of charges shall be made in accordance with the regulations which can be found at N.J.A.C. 14:3-4.6.

37. If a meter is found to be registering less than 100 percent of the service provided, an adjustment of charges may be made in accordance with the regulations which can be found at N.J.A.C. 14:3-4.6. In cases where the meter registers zero usage for an entire billing period, and the customer has knowingly taken and received water service, the customer shall be deemed to have reasonable knowledge that the meter may be defective or malfunctioning.

38. A water utility must maintain records of customers' accounts for each billing period occurring within a six year period. Such records shall contain all information necessary to permit computation of the bill. N.J.A.C. 14:3-6.1(b)

39. When the meter is not located inside the customer's building but outside in a meter pit, the customer shall not make connections or alterations inside the meter pit. All such connections are to be made outside of the meter pit on the customer's side of the meter. The meter pit or vault shall be installed at a location acceptable to, and with the express approval of, the Company. The Company may install, at the Company's discretion, radio transmitters or other remote meter reading devices on its meters and appurtenances as needed to promote efficient and accurate meter reads. Failure to comply with this requirement will be considered tampering with facilities of the Company and the customer will be subject to charges for repairs to damaged equipment and/or discontinuance of service.

40. When the customer's usage is obtained through an electronic ("encoder") read, that usage shall be deemed actual. No adjustment shall be made for a meter that is found to be registering less than 100 percent except in the case of meter tampering, non-registering meters or in circumstances in which the customer should reasonably have known that the bill did not reflect the actual usage. N.J.A.C. 14:3-4.6(d)

STANDARD TERMS AND CONDITIONS
WATER AND WASTEWATER

METER (Continued)

41. A customer having two or more meters (excluding meters for Service to Privately Owned Fire Protection Systems under applicable Rate Schedules set forth in the tariff) on the same premises will be charged at the tariff rate for the quantity of water equivalent to the sum registered on all of the meters on the premises, subject to a facilities charge equal to the sum of the facilities charges for each meter. Private Fire Protection services will be charged separately, in agreement to the present tariff.

APPLICATIONS FOR SERVICE

42. Inquiry for a water or wastewater service connection may be made by mail, telephone (888.237.1333) or via the Company's website at www.amwater.com/njaw, and the Company will provide and submit to the applicant, if necessary, any and all forms required to be filled out and signed by the owner, or their agents, for the premises to be supplied, including the identity of the customer of record before any new connection shall be installed. The application will not be processed until all forms are completed in full and any required supporting documentation is provided. Customers must agree to the terms, conditions and rates for service as set forth in this and subsequent tariffs of the Company.

43. Such inquiry shall be made in a reasonable time before such service is required for new buildings and premises not previously supplied to allow for the installation of service lines and accessories by the Company, as hereinafter defined.

44. Separate inquiry shall be made for each premises and for each type of service requested to be furnished (*i.e.* consumptive, irrigation, construction, wastewater, etc.)

45. Water and wastewater connections shall be made by the Company subject to the prior existence of a main that is adequately sized in terms of capacity and pressure required for the specific water connection within a public right of way or company easement abutting the property or premises to be served except in the case where the location of the connection is proposed to be on the long side of a divided (raised or grass) state highway, in which case the customer will be required to enter into an extension agreement. The acceptance of such inquiries for service shall in no way obligate the Company to extend its distribution or collection mains to abut the property or premises except as hereinafter provided.

46. The connection shall be in accordance with the applicable laws including but not limited to those of the BPU, DEP and all federal, state and local agencies.

47. In areas where the billing for wastewater service is based on the volume of water supplied to the premise by the Company, the Company will provide wastewater service only where the water used on the premises is measured by a water meter, subject to the limitations described within this paragraph, below. Where wastewater service is provided and water used on the premises is not supplied by the Company, then the water so used shall be measured by a meter furnished and installed by the Company at a location approved by the Company subject to the limitations described within this paragraph, below. Said wastewater charges shall be based on the volume of water supplied to the premises and measured by the water meter, unless the Company determines that, due to such issues as adverse ground conditions or due to other such unforeseen circumstances, or as required by other tariff provisions herein, it is impracticable or imprudent to install a water meter at the customer's premises in order to base wastewater service charges on the volume of water supplied to the premises as measured by said meter. In such situations, wastewater service billing will be based upon a flat rate, or a minimum usage as established by the applicable rate schedule within this tariff. In instances where a customer's water comes from a well, the Company will make a reasonable effort to install a meter on said well for purposes of determining wastewater service based on water consumption. However, if the utility determines that it is not feasible or practical to install a water meter on the well, the wastewater service billing shall be based upon a flat rate. In addition, should conditions in or around the well cause the meter to malfunction 2 times after installation, the Company has the right to remove the meter and to bill wastewater service on a flat rate, or a minimum usage as established by the applicable rate schedule within this tariff.

STANDARD TERMS AND CONDITIONS
WATER AND WASTEWATER

APPLICATIONS FOR SERVICE (CONTINUED)

48. The Company is not obligated to install more than one service and meter for each property or premises. Furthermore, in those instances where more than one service is requested the Company reserves the right to recapture all costs associated with the additional service(s).

49. Physical connections, such as cross-connections, interconnections, valves, pumps, or similar devices, either permanent or temporary, connecting the pipelines or facilities of the Company with other pipelines or facilities supplied with water from other sources will not be permitted without the express written consent of the Company. Water which has once been drawn from the Company's distribution network and used for any purpose or stored in tanks, is considered an unapproved source of supply.

50. The Company may require a cross-connection protective device on a customer's service, in accordance with N.J.A.C. 7:10-10, which will be purchased and installed at the expense of the customer. The cross-connection device shall be of the type approved by the Company. Inspection and testing at intervals, in accordance to N.J.A.C. 7:10-10, will be performed at the expense of the customer.

51. No device or connection is permitted between pipes carrying water from the mains of the Company and any portion of the plumbing system of the premises, which may under any condition permit back-flow or back-siphonage unless prior written permission has been granted by the Company.

52. Customers requesting a relocation of their service line will be required to pay a fee for the new service line and elimination of the existing service line.

53. Customers requesting a relocation of a Public Fire Hydrant will be required to pay a fee for its relocation.

54. Installation of electronic meter reading devices and other equipment designed to facilitate efficient and accurate meter reads, protect the integrity of the water system and/or quality of the water supplied by the Company may be required from any customer as a condition of service at the discretion of the Company.

55. Water sales to customers or entities using trucks or tanks that require additional attention can affect the Company's daily operations. A surcharge may be applied as listed in Rate Schedule P-1 of the present tariff.

56. A deposit may be required to guarantee payment for water service used for general construction and contracting purposes in an amount equal to the cost of the meter furnished. The deposit, less the cost of repairs to the meter, if any, will be refunded after surrender of the meter and payment of all charges for water supplied through it.

STANDARD TERMS AND CONDITIONS
WATER

WATER SERVICE AND CONNECTING LINES

Company Side – Service Lines

1. The Company is responsible for the installation and maintenance of the service line.
2. Only employees of the Company or persons duly authorized to do so by the Company are permitted to operate or otherwise access the curb stop.
3. No service line shall be used to supply more than one customer unless authorized in advance by the Company in writing.
4. Where two or more customers are supplied through a single service line, the customers and/or premises owner must provide a suitable location(s) for a separate meter and separate shut-off valve that will be dedicated to each customer. The piping of the building must be so arranged that each customer can be supplied through an independent meter, shut off valve and piping system as may be required by the Company, at the Company's sole discretion. The meter pit or vault shall be installed at a location acceptable to, and with the express approval of, the Company. Failure to comply with this provision may result in termination of service to all accounts serviced by a single connecting line when service to one account must be discontinued for non-payment or failure to otherwise comply with the terms and conditions of service provided for herein. Notice provisions outlined on Sheet No. 12, paragraph 25, will apply.
5. No single building or single group of buildings in one common enclosure and under one ownership shall be supplied by more than one of the same type of service line (i.e., only one domestic line and one fire line).

Customer Side – Connecting Lines

6. Connecting lines are owned, installed, maintained and repaired by the premises owner at the premises owner's sole expense. The connecting line should be maintained in a condition conducive for the Company to perform the services required to serve its customers. If the connecting pipe is not so maintained, any failure of this pipe following the operation of the curb stop by the Company will be the responsibility of the premises owner. While performing its duties, if the Company notices that the connecting pipe or other premises owner-owned and maintained appurtenances appear to be in poor condition, the Company will attempt to notify the premises owner of such, including that the owner may desire to contact a licensed plumber for a professional evaluation and/or repair of the connecting pipe and appurtenances. Failure to repair a leaking connecting line is grounds for termination of water service. N.J.A.C. 14:3-3A.1(a)5.
7. Notwithstanding any other provision of this tariff, the Company may, at its own expense, and with the permission of the customer, replace a customer's connecting line that is i) made of lead pipe, ii) made of pipe lined with lead or iii) made of ferrous-based pipe material capable of retaining lead particles.
   a. After the Company replaces the customer's connecting line, as described above, the customer will continue to own and be responsible for the connecting line, including maintenance of such line, in accordance with this tariff. The Company will offer the customer a warranty of the workmanship of its installation of the new connecting line for a period of 12 months following the date the customer signs the replacement agreement with the Company, with the Company's liability limited to the cost of repairing or replacing the customer's connecting line during that time. Except for the Company's limited liability under the 12-month workmanship warranty, the Company will not own nor assume any liability or responsibility with respect to the customer connecting line. The customer will agree to release and hold the Company harmless the Company, its contractors and subcontractors from and against all claims, liability and costs resulting from acts and omissions of Company and/or its approved contractors and/or subcontractors in installing the Customer service line pursuant to the replacement agreement.

STANDARD TERMS AND CONDITIONS
WATER

WATER SERVICE AND CONNECTING LINES

Customer Side – Connecting Lines (continued)

8. Connecting lines should be installed, without sharp bends, at right angles to the line of the street and shall be installed in the trench not less than 3-1/2 feet in depth to avoid damage and possible interruption to service caused by freezing. Other utility service lines shall not be installed in the same trench as the connecting line. No attachment shall be made to the connecting line between the curb stop and the meter except as otherwise authorized by the Company. Unauthorized attachments are grounds for termination of service. N.J.A.C. 14:3-3A.1(a)5.ii
9. Connecting lines should not be less than ¾ inch in inside diameter.
10. A customer must install a water pressure reducing valve where required by State of New Jersey plumbing code. If a water pressure reducing valve is required to be installed, the customer must install a pressure relief valve (collectively both are referred to as the "Valves"). In all cases, the costs of installation and maintenance of the Valves shall be borne by the customer. The customer shall own and be obligated to maintain the Valves. The Company will not be liable for damage due to meter failures if the customer is located in a high pressure zone and does not have a pressure reducing valve or has a pressure reducing valve downstream from a water meter that is installed inside the premises.
11. For meters less than or equal to 2 inches the pressure reducing valve will be located on the downstream side of the meter if the meter is located outside of the customer's premises and on the upstream side of the meter, if the meter is located inside of the customer's premises. For meters greater than 2 inches the pressure reducing valve will always be located on the upstream side of the meter.
12. The customer is required to make all changes in the connecting line due to changes in grade, relocation of mains, or other causes only if such changes are mandated by a municipality, county, state or other governmental body.

WATER MAIN EXTENSIONS

13. The Company will extend water service in accordance with all applicable laws of the State of New Jersey and Board of Public Utilities regulations and orders including N.J.A.C. 14:3-8.1 et seq. Mains will be extended to the mid-point of property frontage for residential properties, and along the entire frontage for commercial properties, regardless of where the service stub is installed.

    Information on how to apply for a water main extension can be found on the Company's website at https://www.amwater.com/njaw/About-Us/Providing-Solutions/Developers/.

CUSTOMER'S PREMISES

14. The Company may refuse to provide a water connection, or furnish water through a connection pipe already installed, when a customer's piping system is not installed in accordance with the regulations of the Company and of the municipality in which the premises are located; or when the system on the premises is not at sufficient depth to prevent freezing.
15. Customers shall not permit access to the meter and other appliances of the Company except by authorized employees of the Company or properly authorized state or local inspectors.
16. In all cases the customers should not interfere with property of the Company, but should immediately notify the Company of any problem.
17. It is the sole responsibility of each customer to ensure that all piping and appurtenances within a customer's premises comply with state, municipal and other public health regulations in force with respect hereto including state and local plumbing codes. The piping and appurtenances shall be maintained in a condition conducive for the Company to perform the services required to serve the customer.

STANDARD TERMS AND CONDITIONS
WATER

CUSTOMER'S PREMISES (CONTINUED)

18. In any premises where devices are used which might produce a back pressure, such as steam boilers, carbonation equipment for soft drinks, booster pumps, etc., a check valve shall be installed by the customer at the meter. In the event such check valve is installed, pressure relief valves should be provided by the customer in the system.

19. In any premises where an auxiliary water source is available, the pipes carrying water from the mains of the Company are required to be marked in some distinctive manner for ready identification.

PRIVATE FIRE PROTECTION SERVICE

20. Customers desiring a separate service connection for private fire service are required to make separate application for such service on forms prescribed by the Company. Private fire service installations are made in accordance with the provisions of this tariff regarding the installation of service and connecting pipes and other facilities.

21. Service lines designated for private fire protection are installed for customers requiring a private fire service to supply sprinkler heads, hydrants or hose connections. Any connection in which sprinkler heads and/or hose connections are supplied through a domestic service connection are considered "multi-use", are not considered as part of a private fire protection service, and shall not be deemed as part of this section. The utility shall have the right to suspend or curtail or discontinue service for any of the following acts or omissions on the part of the customer: tampering with any facility of the utility; fraudulent representation in relation to the use of service; and connecting and operating in such manner as to produce disturbing effects on the service of the utility or other customers. (N.J.A.C. 14:3-3A.1(a)5)

22. The connection shall be in accordance with the applicable laws including but not limited to those of the BPU, DEP and all federal, state and local agencies.

23. Unless specified by the Company, dedicated private fire service lines and facilities, including hydrants, are to be used exclusively for fire protection purposes and should be equipped with special meters.

24. No water should be used through private fire protection facilities except for permitted testing purposes or in case of fire. The use of private fire protection facilities for other reasons will result in termination of service following notification pursuant to N.J.A.C. 14:3-3A.1(d).

25. Residential customers served by a water service line of two (2) inches or less in diameter will not be imposed a standby fee for private fire protection.

26. A "multi-use" service is not a private fire service. Please refer to Schedule P-3 for the terms and conditions regarding multi-use service.

27. Private fire protection shall not be offered or charged for service to private fire hydrants connected after a master meter on a general metered or multi-use service. A master meter on a general metered or multi-use service with a hydrant will be billed pursuant to the applicable general metered rate schedule and considered as such.

28. The Company shall not be liable for any loss, injury, casualty or damage resulting from fire or water, or other agency, resulting from the supply or use of water service or the failure thereof, which may occur on account of the installation or presence of a private fire service connection, or from the presence or operation of the Company's structures, equipment, pipes, appliances or devices on the customer's premises, or connected therewith.

29. The Company may not discontinue water service unless it has provided written notice giving the customer at least thirty (30) days' notice prior to the proposed discontinuance. However, in case of fraud, illegal use, or when it is clearly indicated that the customer is preparing to leave, immediate payment of accounts may be required, and service may be discontinued without further notice.

STANDARD TERMS AND CONDITIONS
WATER

PUBLIC FIRE PROTECTION SERVICE

29. Upon application or request by a duly authorized representative of a municipality in the Company's service area, the Company will install fire hydrants for purposes of public fire protection. The locations of such hydrants are selected by agreement between officials of the municipalities and representatives of the Company after careful consideration. Municipalities or the designated customer of record (*e.g.* local fire district) shall pay the Company a charge for service to public fire hydrants within that municipality as provided in the applicable rate schedule set forth in this tariff.

MULTI-USE SERVICE

30. Multi-use service is only available to franchise customers who submit a completed application to the Company. By applying for multi-use service, the customer agrees to be responsible for all claims, costs and liability for personal injury, death and/or property damage, resulting from the customer's individual water system, unless caused by the negligence of the water utility. A "multi-use" service is not a private fire service. Please refer to Schedule P-3 for the terms and conditions regarding multi-use service.

31. All multi-use service lines shall be metered and the meter shall be located in a meter pit or vault located outside of the Customer's structure. The meter pit or vault shall be installed at a location acceptable to the express approval of the Water Company.

32. If a customer requests a change in meter size associated with a multi-service meter, the customer must re-apply for service and re-certify each item addressed below and in Rate Schedule P-3.

33. By applying for multi-use service, and operating the same, the customer agrees:

    a. The customer has complied with all of the terms and conditions set forth on Rate Schedule P-3;

    b. To include a backflow prevention device(s) as defined at N.J.A.C. 7:10-1.3, and as specified at N.J.A.C. 7:10-10.3;

    c. To be solely responsible for all costs and expenses relating to the installation, operation, maintenance, repair and replacement of the customer's water system, including the fire suppression system and backflow prevention device(s);

    d. To ensure that the customer's water system complies with the applicable requirements of the Uniform Construction Code in effect at the time of system installation, including any applicable building, plumbing and fire protection sub-codes;

    e. To ensure that the customer's water system is maintained in accordance with all applicable law so as to protect against backflow, back-siphonage and contamination of the potable water system; and

    f. To be subject to disconnection under the standard terms and conditions as apply to fire protection service or multi-use service in accordance with the Board's rules governing discontinuance of such service at N.J.A.C. 14:3-3A.4(k) and N.J.A.C. 14:9-8.3.

EMERGENCY RESPONSES DUE TO EXTRAORDINARY DEMAND AND/OR DIMINISHED SUPPLY

34. Discontinuance of service for failure to comply with use restrictions. For compliance by the utility in good faith with any governmental order or directive, notwithstanding that such order or directive subsequently may be held to be invalid, the Company may, upon reasonable notice, suspend, curtail, or discontinue service pursuant to N.J.S.A. 48:2-23, N.J.S.A. 48:2-24, and N.J.A.C. 14:3-3A for any of the following acts or omissions on the part of the customer:

    a. Connecting or operating any piping or other facility, including but not limited to, lawn sprinkling on the customer's premises in such a manner as to adversely affect the safety or adequacy of service provided to other customers present or prospective; or

STANDARD TERMS AND CONDITIONS
WATER

EMERGENCY RESPONSES DUE TO EXTRAORDINARY DEMAND AND/OR DIMINISHED SUPPLY

Discontinuance of service for failure to comply with use restrictions (continued)

b. Continuing waste of water by customers after notice from the utility through improper or imperfect pipes, fixtures, or failure to comply with restrictions; or

c. Failure to comply with the standard terms and conditions contained in this tariff or failure to comply with any state law, or the rules, regulations, orders or restrictions of any governmental authority having jurisdiction.

35. Water service shall be restored when the conditions under which such service was discontinued, as specified above, are corrected and upon the payment of the SPECIAL RESTORATION OF SERVICE CHARGE of $100.00 for each restoration.

36. The Company will endeavor to provide a regular and uninterrupted supply of water through its facilities. However, if because of emergencies beyond the control of the Company, including governmental mandate, service is interrupted, irregular, defective or fails, the Company will not be liable for damages or inconvenience resulting there from. In the event of an extraordinary demand and/or diminished supply, or when operational issues make such actions desirable, including, among other things, protecting the integrity of the system and permit conditions, the Company may restrict the use of water whenever the public welfare may require it and, if necessary, may shut off the water in its mains and pipes. In such cases the Company shall advise its customers by placing a prominent advertisement detailing the conditions and restrictions in a newspaper of general circulation in the utility service area. The notice will state the purpose and probable duration of the restriction or discontinuance. Failure to provide regular and uninterrupted service due to breakdowns is covered under other sections of this tariff.

37. The Company may restrict water service during certain periods, where the Company advises the Board of Public Utilities, in order to protect the public water supply, or otherwise to comply with any regulations, orders or decrees issued by the Governor of New Jersey or the Department of Environmental Protection, or any successor agency or department pursuant to the Water Supply Management Act, or other statutes or regulations of the state or federal government. Such interruptions or restrictions shall be reported to the Department of Environmental Protection, if necessary, and the Board by each utility by the speediest means of communications available, promptly followed by a detailed written report, pursuant to the provisions of N.J.A.C. 14:3-3.7 et seq. Thereafter the utility shall provide weekly reports for the duration of the emergency.

38. When the supply of water to individual customers is to be discontinued or curtailed for the customer's failure to comply with emergency water restrictions imposed because of extraordinary demand or diminished supply, the Company shall advise such customer(s) by placing a door tag on the front door of the home of the individual(s) in violation of the restrictions, at least twenty-four (24) hours prior to discontinuance or curtailment, or by giving another form of notice acceptable to the Board. The Company will advise business and commercial customers, in writing, by mailing a notice to the customers' billing address. In the case of door tags, they shall be sequentially numbered and include the date, time and nature of the violation and the procedure for restoration of service. All such notices shall be accounted for by the utility.

STANDARD TERMS AND CONDITIONS
WASTEWATER

A. WASTEWATER MAIN EXTENSIONS

Applicability

Applicable to all wastewater service customers served by the Company.

1. The Company will extend wastewater service in accordance with all applicable laws, regulations and orders of the State of New Jersey and Board of Public Utilities including N.J.A.C. 14:3-8, et seq.
2. Mains will be extended to the mid-point of property frontage for residential properties, and along the entire frontage for commercial properties, regardless of where the service stub is installed.
3. Documentation on how standard wastewater main extensions are handled can be found on the Company's website at https://www.amwater.com/njaw/About-Us/Providing-Solutions/Developers/.
4. Please also refer to Sheet No. 13, paragraph 28 of the Standard Terms and Conditions.

B. CALCULATION OF WINTER QUARTER CONSUMPTION

Applicability
Applicable to wastewater service customers served by the Company in in the Statewide Wastewater Collection Areas of Lakewood, Tewksbury Township, Service Area 1D, the former Applied Wastewater Management Service Area ("Applied"), Plumsted Township, Elk Township, the Boroughs of Haddonfield and Mount Ephraim, and the former Environmental Disposal Corp. Service Area ("EDC"), Rate Schedules 2-A, 6-A, 10-A, 11-A, 13-A, and 21-A.

Volumetric Wastewater Charge
The volume of wastewater discharged is assumed to equal water meter registration. The monthly Volumetric Wastewater Charge shall be determined based upon winter quarter consumption, but in no case less than 2,000 gallons per month. Winter quarter consumption shall be determined based on an initial water meter reading taken in December of one year with the concluding meter reading taken approximately 90 days thereafter in March of the following year.

The monthly Volumetric Wastewater Charge shall be determined as follows:

Meters read in January, February and March
The Volumetric Wastewater Charge for each respective month shall be determined by multiplying the applicable monthly usage times applicable volumetric charges.

Meters read in April through December
The Volumetric Wastewater Charge for each month April through December shall be based on the Monthly Usage Constant, equal to one-third of the winter quarter consumption, but in no case less than 2,000 gallons per month, multiplied by applicable volumetric charges.

In the case of new customers, the volume of wastewater discharged shall be determined as follows:

1. New Customers in an Existing Dwelling or Premises for Which Actual Full Period Winter Quarter Usage History is Available.
   Determination of the monthly use constant shall be based on the last known full period winter quarter usage at that property, but in no case less than 2,000 gallons per month. This monthly use constant will be used for billing purposes until the customer receives the January bill in the following year. The January and subsequent bills will be calculated in accordance with the method described in this Tariff for determining the monthly Volumetric Wastewater Charge.

STANDARD TERMS AND CONDITIONS
WASTEWATER

B. CALCULATION OF WINTER QUARTER CONSUMPTION (CONTINUED)

2. Existing or New Customers in an Existing or New Dwelling or Premises for Which No Full Period Winter Quarter History has Been Established.

a. For service established outside of the winter quarter:
Determination of the monthly use constant shall be based on 12,000 gallons per quarter (a monthly usage constant of 4,000 gallons) until the customer receives the January bill in the following year. The January and subsequent bills will be calculated in accordance with the method described in this Tariff for determining the monthly Volumetric Wastewater Charge.

b. For service established during the winter quarter:
Determination of the monthly use constant will be based upon the actual usage during the winter quarter with a minimum of 12,000 gallons (a monthly usage constant of 4,000 gallons). This monthly use constant will be used for billing purposes until the customer receives the January bill in the following year. The January and subsequent bills will be calculated in accordance with the method described in this Tariff for determining the monthly Volumetric Wastewater Charge.

C. SPECIAL REQUIREMENTS RELATING TO WASTEWATER SERVICE – COLLECTION SYSTEMS

Applicability

Applicable to wastewater service customers served by the Company in Bound Brook, Bridgewater, Haddonfield, the Egg Harbor City Utility, Howell Township, Lakewood Township, Mount Ephraim, Ocean City, Elk Township and the Borough of Somerville.

1. Separate and independent wastewater service lines shall be installed for each customer. All building drains and building wastewater appurtenances shall be the responsibility of the customer and shall be installed and maintained by the customer.
2. No customer shall discharge or cause to be discharged into the Company's system any storm water, surface water, ground water, roof runoff, sub-surface drainage, foundation or basement sump drainage, uncontaminated cooling water or unpolluted industrial process water.
3. No customer shall discharge or cause to be discharged into the Company's system the following described substances, materials, waters, or wastes without the prior written approval of the Company. Such wastes can harm either the wastewater system or treatment process and/or equipment, have an adverse effect upon the receiving stream for the treated wastewater, or can otherwise endanger life, limb or property or create a nuisance. In forming the opinions as to whether or not to permit the discharge, the Company will consider the effect upon receiving wastewater system, as well as the conditions placed upon the Company by its service agreements with the local treatment Utilities Authorities that treat the wastewater the Company collects.
4. The customer shall be responsible for maintaining and repairing the “building drain” and “building sewer.”
5. The customer shall be responsible for installing and maintaining a backwater valve in buildings that have fixtures below grade level. In the event of a gray water backup, the Company shall not be liable for any damage or inconvenience resulting from the absence/malfunctioning of this appurtenance.
6. The Company reserves the right upon completion of its findings to:
   a. Reject the wastes.
   b. Require pretreatment to an acceptable condition for discharge.
   c. Require flow equalization.

STANDARD TERMS AND CONDITIONS
WASTEWATER

C. SPECIAL REQUIREMENTS RELATING TO WASTEWATER SERVICE – COLLECTION SYSTEMS (CONTINUED)

7. In the event pretreatment facilities or flow equalization is required, the design and construction of such facilities shall be subject to approval of the Company and operation of said facilities shall be subject to inspection by the Company. Monitoring and/or sampling equipment shall be installed and operated by the customer as deemed necessary by the Company to ascertain proper operation of the pretreatment facilities.

8. The wastes requiring written approval are:
   a. Any liquid or vapor having a temperature in excess of 150ºF.
   b. Any waters or wastewaters containing phenols.
   c. Any waters or wastes having a pH in excess of 9.5.
   d. Any water containing unusual concentrations of inert suspended solids, such as, but not limited to, diatomaceous earth, lime and lime slurries or of dissolved solids such as but not limited to sodium chloride or sodium sulfate.
   e. Any water or wastewater containing excessive discoloration.
   f. Wastewater having unusual "B.O.D." concentration, suspended solids concentration or high chlorine demand in such quantities as to constitute a significant load on the treatment plant.
   g. Unusual volume of flow or concentrations of wastes constituting "slugs" as hereinbefore defined.
   h. Water or wastes containing substances not amenable to biological treatment processes as defined by a wastewater treatment plant owner or operator.

9. No customers shall discharge or cause to be discharged any of the following described waters or wastes to the wastewater system:
   a. Any gasoline, benzene, naptha, paints, lacquers, fuel oil or other flammable or explosive liquid, solid or gas which by reason of its nature or quality may cause fire or explosion or which, in any way, may be injurious to personnel or the wastewater system.
   b. Any water or wastes containing toxic or poisonous solids, liquids, or gases in sufficient quantity either singly or by interaction with other wastes to injure or interfere with any wastewater treatment process, constitute a hazard to humans or animals, create a public nuisance, or create any hazard in the receiving waters of the wastewater treatment plant.
   c. Any waters or wastes having a pH of lower than 5.5 or having any other corrosive property capable of causing damage or hazard to the wastewater system and/or personnel of the Company.
   d. Plating mill wastewater or other industrial process water containing spent pickle liquor, concentrated plating solutions, chromium, zinc and similar toxic heavy metals, cyanides and cleaning solvents.
   e. Any radioactive material.
   f. Any water or wastes containing fats, wax, grease, tar, oils or any other substances, whether emulsified or not which may solidify or become viscous at temperatures between 32º and 150ºF or which would impair, impede, affect, interfere with, or endanger personnel or the wastewater system.
   g. Any garbage not properly shredded.
   h. Any solids of such size or characteristic capable of causing obstruction to the flow in sewers, such as, but not limited to, ashes, cinders, sand, mud, straw, metal shavings, glass, rags, feathers, tar, plastic, wood, paunch manure, hair fleshings, offal, entrails, etc.

STANDARD TERMS AND CONDITIONS
WASTEWATER

C. SPECIAL REQUIREMENTS RELATING TO WASTEWATER SERVICE – COLLECTION SYSTEMS (CONTINUED)

10. Any customer discharging industrial wastes shall provide and maintain a control manhole suitable to facilitate observation, sampling and measurement of the wastes. The Company (and the local treatment Utilities Authorities that treat the wastewater the Company collects) shall have the right to inspect, sample, measure and analyze wastewater as they deem necessary.

D. SPECIAL REQUIREMENTS RELATING TO WASTEWATER SERVICE – TREATMENT SYSTEMS

Applicability

Applicable to wastewater service to customers served by the Company in Service Area 1D (former Applied), Plumsted Township, Service Area 1H (former Salem), Long Hill Township, the former EDC Service Area, and Tewksbury Township, except as specifically provided elsewhere in this tariff.

1. The within rates are applicable to normal wastewater, as defined by the New Jersey Department of Environmental Protection, namely 250 ppm.5 – day B.O.D. The utility company reserves the right to require pretreatment of the wastewater prior to discharge into sewers in the event that the wastewater contains harmful substances such as gasoline, PCBs, oil, explosive liquids, phenols, acids, alkalines, lint, excessive detergents or any other substance as defined by NJDEP. Each customer shall be fully responsible for proper use of the wastewater system and shall therefore not discharge any chemicals or contaminants which are toxic and which may cause damage to the wastewater system's electrical, mechanical, biological, or physical process components or may harm either the groundwater, soil or atmosphere, as listed on Schedule A on Sheet No. 27, as it may be periodically updated. Any cost involved in repairs of damage to the Company's facilities, environmental damages and penalties or fines levied against the utility caused by the introduction by the customer of unacceptable or harmful substances shall be the responsibility of the customer.

2. In accordance with the National Standard Plumbing Code adopted by the Uniform Construction Code of the State of New Jersey, no storm drainage system of a building shall be connected directly or indirectly to the sanitary drainage system. The company adopts the above provision and prohibits the drainage of storm water into its collecting system. Each customer shall be responsible to prevent any surface water or groundwater from entering into the wastewater system and therefore shall not connect or allow to be connected to the system any sump pumps, basement or crawl space drains, roof gutters, downspouts, or floor drains, and shall properly maintain all pipes and clean-outs to assure a watertight connection. Improperly discharging effluent from a non-approved drainage or collection system shall be considered the basis for immediate termination of service pursuant to N.J.A.C.14:3-3A.1 et seq. The Company will provide notice of the termination of service to the extent reasonably possible.

3. Garbage disposal units are not permitted unless specifically authorized by the Company.

4. Each customer shall prevent damage to all system components located on the property being served, including components located within easement area; maintain the grass growth and prevent the growth of trees, shrubs, and ornamentals within the easement areas; maintain and repair pipes connecting the home to the septic tank to prevent clogging and leaking; and to notify the Company of any damage which may occur to system components.

5. Because the wastewater system can only handle a limited quantity of water, each residential customer may discharge no more than the maximum average of 350 gallons per day, or 32,000 gallons per quarter, of wastewater. In order to verify compliance with this provision, each customer must allow a representative of the Company to inspect all plumbing components upon request and to obtain all water meter readings as may be required.

6. Customers may not trespass on Company property or enter any Company facility without a representative of the Company being present.

STANDARD TERMS AND CONDITIONS
WASTEWATER

C. SPECIAL REQUIREMENTS RELATING TO WASTEWATER SERVICE – TREATMENT SYSTEMS (CONTINUED)

7. A customer may permanently terminate service by giving notice to the Company, which shall terminate service within five (5) business days of receipt of each notification. Temporary discontinuance of wastewater service is not permitted and each customer shall pay the applicable fixed service charge and minimum monthly charge (i.e., "RATES"), per month or per quarter, as applicable, unless and until such time as a replacement customer commences service at the premise. Customers are advised that it is illegal to operate a dwelling without adequate functioning wastewater facilities, and that the Company is required to notify local health authorities of wastewater service termination.

SCHEDULE A

I. MATERIALS NOT TO BE DISPOSED THROUGH THE WASTEWATER SYSTEM

Grease
Wipes (baby, cleaning, flushable, wet)
Gloves (latex, rubber)
Food scraps
Plastics
Gasoline or motor fuels
Paint and paint thinners
Used motor oils
Petroleum solvents
Pesticides (solids or liquids)
Herbicides (solids or liquids)
Engine coolants (antifreeze)
Acids
Water softener backwash
Photographic development solutions

II. MAXIMUM PERMITTED DISCHARGE CONCENTRATIONS

"Biochemical Oxygen Demand" – 250mg/L
Chemical oxygen demand – 351 mg/L
Total organic carbon – 99 mg/L
Total solids – 1,608 mg/L
Volatile solids – 295 mg/L
Total suspended solids – 75 mg/L
Volatile suspended solids – 62 mg/L
Calcium – 59 mg/L
Magnesium – 33 mg/L
Sodium – 218 mg/L
Chlorine – 218 mg/L
Oil and grease – 22 mg/L
Total dissolved solids – 872 mg/L
Total Kjeldahl nitrogen – 60.7 mg – N/L
Ammonia nitrogen – 53.3 mg – NL
Phosphorus – 6.3 mg – P/L
Turbidity – 45 NTU
Ph – 5-9
Alkaline – 479 mg CaCo3/L
Hardness – 327 mg CaCo3/L
Volatile organics by GC/MS – Non-detectable
Pesticides – Non-detectable
Herbicides – Non-detectable

NEW JERSEY-AMERICAN WATER COMPANY, INC.
B.P.U. No. 8 – Water

Eleventh Revised Sheet: No. 28
Superseding Tenth Revised Sheet: No. 28

AREA SERVED – WATER SERVICE

This tariff shall apply to the service area of the Company, which includes all or part of the following municipalities and all other places as may be permitted by law. This tariff shall also apply to other systems under contract wherever served. Hereafter, and unless otherwise specified herein,

- **Service Area 1** refers to the water service area of New Jersey-American Water Company as it existed prior to January 1, 2007;
- **Service Area 2** refers to the water service area of the former Elizabethtown Water Company;
- **Service Area 3** refers to the water service area of the former Mount Holly Water Company;
- **Service Area 1A** refers to the water service area of the former South Jersey Water Supply Company;
- **Service Area 1B** refers to the water service area of the former Pennsgrove Water Supply Company;
- **Service Area 1C** refers to the service area of the former Shorelands Water Company;
- **Service Area 1D** refers to the service area of the former Applied Wastewater Management, Inc. ("Applied"); and
- **Service Area 1E** refers to the service area including all customers formerly served by the Borough of Haddonfield or located within the geographic boundaries of Haddonfield;
- **Service Area 1F** refers to the service area of the former Roxbury Water Company;
- **Service Area 1G** refers to the service area of the former Egg Harbor City Water & Sewer Utility ("Egg Harbor City Utility"); and
- **Service Area 1H** refers to the former service area of Salem City ("Salem").

Unless otherwise indicated, all municipalities and customers referenced below having no numeric designation next to their names were served by New Jersey-American Water Company as it existed prior to January 1, 2007. All municipalities and customers with a (2) designation next to their names were served by the former Elizabethtown Water Company prior to January 1, 2007; with a (3) designation next to their names were previously served by the former Mount Holly Water Company prior to January 1, 2007; with a (1A) designation next to their names were previously served by the former South Jersey Water Supply Company prior to November 1, 2007; with a (1B) designation next to their names were previously served by the former Pennsgrove Water Supply Company prior to November 1, 2007; with a (1C) next to their names were previously served by the former Shorelands Water Company prior to April 3, 2017; with a (1D) designation next to their names were previously served by Applied Wastewater Management, Inc. prior to September 1, 2010; and with a (1F) designation were previously served by Roxbury Water Company prior to January 1, 2019; with a (1G) designation were previously serviced by the Egg Harbor City Water & Sewer Utility prior to June 1, 2023; and with a (1H) designation were previously serviced by Salem City prior to June 25, 2024. Where a municipality was served in part by two of the former water companies listed above, service provided by New Jersey-American Water Company as it existed prior to January 1, 2007 shall be identified by a (1) designation. All municipalities for which the Company provides water service only to a portion of the municipality are reflected by a double asterisk (**) designation.

Atlantic County

Franchise Customers

Cities		Townships
Absecon	Northfield	Egg Harbor
Egg Harbor (1G)	Pleasantville	Galloway (1)(1G)
Linwood	Somers Point	

Burlington County

Franchise Customers

Boroughs	Townships		Resale Customers
Palmyra	Burlington **	Maple Shade**	Evesham Township MUA
Riverton	Cinnaminson	Mt. Laurel *	Township of Moorestown
	Delanco	Mt. Holly (3)	*Medford Township
Cities	Delran	Pemberton **	Mt. Laurel Township MUA
Beverly	Eastampton (3)	Riverside	Township of Maple Shade
	Edgewater Park	Southampton (3)	
	Hainesport (3)	Springfield (3) **	
	Lumberton (3)	Westampton (3)	
	Mansfield (3)		

(Continued)

Issued: July 1, 2024

Effective: June 25, 2024

By: Mark K. McDonough, President
1 Water Street, Camden, NJ 08102
Filed pursuant to Order of the Board of Public Utilities entered in Docket No. WE23120922 dated May 22, 2024.

AREA SERVED - WATER SERVICE
(Continued)

Camden County

Franchise Customers		Resale Customers
Boroughs	Cities	
Audubon	Camden (11th and 12th Wards) **	Township of Haddon
Barrington		Aqua New Jersey
Bellmawr **		Borough of Berlin
Clementon **		Merchantville-Pennsauken
Gibbsboro	Townships	Water Commission
Haddon Heights	Cherry Hill **	Winslow Township MUA
Haddonfield (1E)	Gloucester **	Pine Hill Borough MUA
Hi-Nella	Haddon **	Audubon Park
Laurel Springs	Pennsauken **	Ancora Psychiatric Hospital
Lawnside	Voorhees	
Lindenwold		
Magnolia		
Mt. Ephraim		
Oaklyn		
Runnemede		
Somerdale		
Stratford		

Cape May County

Franchise Customers	Resale Customers
Cities	
Ocean City	Middle Township Water District #2
Townships	
Middle **	
Upper	

Essex County

Franchise Customers		Resale Customers
Boroughs	Townships	
North Caldwell **	Cedar Grove **	Township of Livingston
	Irvington	City of Orange
	Livingston **	Township of South Orange Village
	Maplewood	Borough of Essex Fells
	Millburn	
	South Orange Village **	
	West Orange	

Gloucester County

Franchise Customers	Resale Customers
Townships	Deptford Township MUA
East Greenwich **	East Greenwich Township
Elk Township	Mantua Township MUA
Harrison (1A)	Township of West Deptford
Logan (1) & (1B)	City of Woodbury
Mantua**	Borough of Pitman
Woolwich**	Borough of Woodbury Heights
	Borough of Glassboro
	Borough of National Park
	Aqua New Jersey
	Borough of Clayton

(Continued)

By: Cheryl Norton, President
One Water Street, Camden, NJ 08102
Filed pursuant to Order of the Board of Public Utilities entered in
Docket No. WR19121516 dated October 28, 2020.

AREA SERVED - WATER SERVICE
(Continued)

Hunterdon County

Franchise Customers	
Boroughs	Townships
Frenchtown	Raritan (2)
	Readington (2)**
	Tewskbury (2) (1D)**

Mercer County

Franchise Customers		Resale Customers
Boroughs	Townships	Borough of Hopewell (2)
Princeton (2)	Hopewell (2) **	
	Lawrence (2)**	
	West Windsor (2)	

Middlesex County

Franchise Customers		Resale Customers
Boroughs	Townships	
Dunellen (2)	Cranbury (2)	Township of Edison
Jamesburg	Edison (2)**	Township of South Brunswick (2)
Middlesex (2)**	Monroe **	Middlesex Water Co. (2)
South Plainfield (2) **	Piscataway (2) **	
	Plainsboro (2) **	
	South Brunswick (2) **	

Monmouth County

Franchise Customers		Resale Customers
Boroughs	Cities	
Allenhurst	Asbury Park	Borough of Avon
Bradley Beach	Long Branch	Borough of Belmar
Deal		Lake Como Borough
Eatontown	Townships	Borough of Matawan
Fair Haven	Aberdeen **	Borough of Red Bank
Highlands	Colts Neck **	Borough of Keansburg
Interlaken	Freehold **	Farmingdale Borough
Little Silver	Hazlet (1C)	Aberdeen Township (1C)
Monmouth Beach	Holmdel **(1C)	Keyport Borough (1C)
Neptune City	Howell **	
Oceanport	Middletown	
Red Bank **	Neptune (incl. Ocean Grove)	
Rumson	Ocean	
Sea Bright	Shrewsbury **	
Shrewsbury		
Tinton Falls	Villages	
Union Beach	Loch Arbour	
West Long Branch		

(Continued)

By: Mark K. McDonough, President
1 Water Street, Camden, NJ 08102
Filed pursuant to Order of the Board of Public Utilities entered in
Docket No. WR24010056 dated _____.

AREA SERVED - WATER SERVICE
(Continued)

Morris County

Franchise Customers		Resale Customers
Boroughs	Townships	
Mendham	Chatham	Township of East Hanover
Florham Park **	Chester (2) (1D)**	
Chester	Harding **	
	Long Hill (formerly Passaic)	
	Mendham **	
	Mt. Olive (1) (1D)**	
	Roxbury (1F)	

Ocean County

Franchise Customers		Resale Customers
Boroughs	Townships	
Bay Head	Berkeley**	Borough of Point Pleasant
Lavallette **	Brick**	
Mantoloking	Toms River (formerly Dover)**	
	Lakewood	
	Plumsted (3)	

Passaic County

Franchise Customers	
Boroughs	Townships
West Paterson **	Little Falls

Salem County

Franchise Customers	
Boroughs	Townships
Pennsgrove (1B)	Carneys Point (1B)
	Mannington (1H)
Cities	Oldmans (1B)
Salem (1H)	

Somerset County

Franchise Customers		Resale Customers
Boroughs	Townships	
Bernardsville	Bedminster (1) & (2)	Franklin Township (2)
Bound Brook (2)	Bernards	Rocky Hill Borough
Far Hills	Branchburg (2)	
Manville (2)	Bridgewater (2)	
Millstone (2)	Franklin (2) **	
North Plainfield (2)	Green Brook (2)	
Peapack and Gladstone (2)	Hillsborough (2)	
Raritan (2)	Montgomery (2)	
Rocky Hill	Warren (1) & (2)	
Somerville (2)		
South Bound Brook (2)		
Watchung (1) & (2)		

(Continued)

AREA SERVED - WATER SERVICE
(Continued)

Union County

Franchise Customers		Resale Customers
Boroughs	Townships	
Fanwood (2)	Berkeley Heights	City of Elizabeth (2)
Garwood (2)	Clark (2)	Winfield Mutual Housing Corporation (2)
Kenilworth (2)	Cranford (2)	City of Rahway
Mountainside (2)	Hillside (1) & (2)	
New Providence	Scotch Plains (2)	
Roselle (2)	Springfield	
Roselle Park (2)	Union (1) & (2)	
Cities	Towns	
Summit	Westfield (2)	
Linden (2)		
Plainfield (2)		

Warren County

Franchise Customers	
Boroughs	Townships
Washington	Franklin
	Mansfield
Towns	Oxford **
Belvidere	Washington
	White

NEW JERSEY-AMERICAN WATER COMPANY, INC. Ninth Revised Sheet: No. 33
B.P.U. No. 8 – Water Superseding Eighth Revised Sheet: No. 33

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Issued: _____ Effective: September 15, 2024

By: Mark K. McDonough, President
1 Water Street, Camden, NJ 08102
Filed pursuant to Order of the Board of Public Utilities entered in
Docket No. WR24010056 dated _____.

RATE SCHEDULE A-1
GENERAL METERED SERVICE

APPLICABILITY
Applicable for general metered residential, commercial, industrial, and municipal service throughout Service Area 1, Service Area 1A, Service Area 1B, Service Area 1C, Service Area 1D, Service Area 1E, Service Area 2, and Service Area 3, except as specifically provided elsewhere in this tariff. The charge for general metered service shall consist of the total of the Fixed Service Charge, the Water Charge, the Purchased Water Adjustment Clause (PWAC) Charge as shown on Rate Schedule O-1, the Lead Service Line Replacement Charge (LSLRC) as shown on Rate Schedule O-2, the Special Program Charge (SPC) as shown on Rate Schedule O-3, and the Distribution System Improvement Charge (DSIC) as shown on Rate Schedule K.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

FIXED SERVICE CHARGE
All general metered water service customers shall pay a fixed service charge based on the size of each meter installed by the Company. Customers with multiple meters shall be charged for each meter at the indicated rate. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

Size of Meter	Non-Exempt Per Month	Exempt Per Month
5/8"	$22.65	$19.56
3/4"	34.00	29.36
1"	56.61	48.89
1 1/2"	113.30	97.85
2"	181.38	156.64
3"	339.96	293.60
4"	566.28	489.05
6"	1,132.41	977.97
8"	1,811.83	1,564.73
10"	2,264.81	1,955.94
12"	2,830.77	2,444.71
16”	4,529.62	3,911.88

WATER CHARGE
In addition to the Fixed Service Charge set forth above, a charge will be made for all water used as registered by the meter.

	Gallons Per Month	Rate* Per 100 Gallons	Rate* Per 1,000 Gallons
Non-Exempt	All	$0.88724	$8.8724
Exempt	All	$0.76624	$7.6624

TERMS OF PAYMENT
Valid bills for general metered water service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days’ notice prior to the proposed discontinuance. The 10 days shall begin on the postmark date of the notice. N.J.A.C. 14:3-3A.3.

SPECIAL PROVISION
*Non-Exempt consumption charges reflect a water tax of $.01 per 1,000 gallons of water consumed pursuant to N.J.S.A. 58:12A-21(a). Exempt consumption charges reflect a water tax of $.01 multiplied by 0.863621 per 1,000 gallons. This water tax is not applicable for sales for resale service. Exempt rates are charged for service rendered to those customers entitled to statutory relief pursuant to N.J.S.A. 54:30A-50, et seq.

RATE SCHEDULE A-2
GENERAL METERED SERVICE

APPLICABILITY
Applicable for general metered sales for resale service throughout the entire territory served except as specifically provided elsewhere in this tariff. The charge for general metered service shall consist of the total of the Fixed Service Charge, the Water Charge, the Purchased Water Adjustment Clause (PWAC) Charge as shown on Rate Schedule O-1, the Lead Service Line Replacement Charge (LSLRC) as shown on Rate Schedule O-2, the Special Program Charge (SPC) as shown on Rate Schedule O-3, and the Distribution System Improvement Charge (DSIC) as shown on Rate Schedule K.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

FIXED SERVICE CHARGE
All general metered water service customers shall pay a fixed service charge based on the size of each meter installed by the Company. Customers with multiple meters shall be charged for each meter at the indicated rate. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

Size of Meter	Non-Exempt Per Month	Exempt Per Month
5/8"	$22.65	$19.56
3/4"	34.00	29.36
1"	56.61	48.89
1 1/2"	113.30	97.85
2"	181.38	156.64
3"	339.96	293.60
4"	566.28	489.05
6"	1,132.41	977.97
8"	1,811.83	1,564.73
10"	2,264.81	1,955.94
12"	2,830.77	2,444.71
16”	4,529.62	3,911.88

WATER CHARGE
In addition to the Fixed Service Charge set forth above, a charge will be made for all water used as registered by the meter.

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$0.88724	$8.8724
Exempt	All	$0.76624	$7.6624

TERMS OF PAYMENT
Valid bills for general metered water service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance. The 10 days shall begin on the postmark date of the notice. N.J.A.C. 14:3-3A.3.

SPECIAL PROVISION
*Non-Exempt consumption charges reflect a water tax of $.01 per 1,000 gallons of water consumed pursuant to N.J.S.A. 58:12A-21(a). Exempt consumption charges reflect a water tax of $.01 multiplied by 0.863621 per 1,000 gallons. This water tax is not applicable for sales for resale service. Exempt rates are charged for service rendered to those customers entitled to statutory relief pursuant to N.J.S.A. 54:30A-50, et seq.

Reserved for future use.

Reserved for future use.

Reserved for future use

RATE SCHEDULE A-16
GENERAL METERED SERVICE

APPLICABILITY
Applicable for general metered service throughout Service Area 1F, Roxbury, served by the Company, except as specifically provided elsewhere in this tariff. The charge for general metered service shall consist of the total of the Fixed Service Charge, the Water Charge, the Purchased Water Adjustment Clause (PWAC) Charge as shown on Rate Schedule O-1, the Lead Service Line Replacement Charge (LSLRC) as shown on Rate Schedule O-2, the Special Program Charge (SPC) as shown on Rate Schedule O-3, and the Distribution System Improvement Charge (DSIC) as shown on Rate Schedule K.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

FIXED SERVICE CHARGE
All general metered water service customers shall pay a fixed service charge based on the size of each meter installed by the Company. Customers with multiple meters shall be charged for each meter at the indicated rate. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

Size of Meter	Non-Exempt Per Month
5/8"	$22.65
3/4"	34.00
1"	56.61
1 1/2"	113.30
2"	181.38
3"	339.96
4"	566.28
6"	1,132.41
8"	1,811.83
10"	2,264.81
12"	2,830.77
16”	4,529.62

WATER CHARGE
In addition to the Fixed Service Charge set forth above, a charge will be made for all water used as registered by the meter.

	Gallons Per Month	Rate* Per 100 Gallons	Rate* Per 1,000 Gallons
Non-Exempt	All	$0.44640	$4.4640

TERMS OF PAYMENT
Valid bills for general metered water service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance. The 10 days shall begin on the postmark date of the notice. N.J.A.C. 14:3-3A.3.

SPECIAL PROVISION
*Non-Exempt consumption charges reflect a water tax of $.01 per 1,000 gallons of water consumed pursuant to N.J.S.A. 58:12A-21(a). This water tax is not applicable for sales for resale service.

RATE SCHEDULE A-17
GENERAL METERED SERVICE

APPLICABILITY
Applicable for general metered residential, commercial, industrial, and municipal service throughout Service Area 1G, Egg Harbor City Utility, except as specifically provided elsewhere in this tariff. The charge for general metered service shall consist of the total of the Fixed Service Charge, the Water Charge, the Purchased Water Adjustment Clause (PWAC) Charge, as shown on Rate Schedule O-1, the Lead Service Line Replacement Charge (LSLRC), as shown on Rate Schedule O-2, and the Distribution System Improvement Charge (DSIC), as shown on Rate Schedule K.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

FIXED SERVICE CHARGE
All general metered water service customers shall pay a fixed service charge based on the size of each meter installed by the Company. Customers with multiple meters shall be charged for each meter at the indicated rate. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

Size of Meter	Non-Exempt Per Month
5/8"	$22.65
3/4"	34.00
1"	56.61
1 1/2"	113.30
2"	181.38
3"	339.96
4"	566.28
6"	1,132.41
8"	1,811.83
10"	2,264.81
12"	2,830.77
16"	4,529.62

WATER CHARGE
In addition to the Fixed Service Charge set forth above, a charge will be made for all water used as registered by the meter.

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$0.88724	$8.8724

TERMS OF PAYMENT
Valid bills for general metered water service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance. The 10 days shall begin on the postmark date of the notice. N.J.A.C. 14:3-3A.3.

SPECIAL PROVISION
*Non-Exempt consumption charges reflect a water tax of $.01 per 1,000 gallons of water consumed pursuant to N.J.S.A. 58:12A-21(a). This water tax is not applicable for sales for resale service.

RATE SCHEDULE A-18
IRRIGATION SERVICE

APPLICABILITY
Applicable to use of water supplied through meters to residential, commercial, industrial, and municipal customer located in Service Area 1G, the Egg Harbor City Utility, for the sole purpose of irrigation. Whenever service is established or is discontinued, all applicable fixed service charges shall be prorated to the date of establishment or discontinuance of service. The charge for the general metered irrigation service shall consist of the total of the Fixed Service Charge and the Water Charge.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

FIXED SERVICE CHARGE

Size of Meter	Non-Exempt Per Month
5/8"	$5.00
3/4"	7.50
1"	12.50
1 1/2"	25.00
2"	40.00
3"	75.00
4"	125.00
6"	250.00
8"	400.00
10"	500.00
12"	624.90
16"	999.90

WATER CHARGE

	Gallons Per Month	Rate* Per 100 Gallons	Rate* Per 1,000 Gallons
Non-Exempt	All	$0.88724	$8.8724

TERMS OF PAYMENT
Valid bills for service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance. The 10 days shall begin on the postmark date of the notice. N.J.A.C. 14:3-3A.3.

SPECIAL PROVISION
*Non-Exempt consumption charges reflect a water tax of $.01 per 1,000 gallons of water consumed pursuant to N.J.S.A. 58:12A-21(a). This water tax is not applicable for sales for resale service.

RATE SCHEDULE A-19
GENERAL METERED AND FLAT SERVICE[1]

APPLICABILITY
Applicable for general metered residential and light commercial service throughout Service Area 1H, Salem, except as specifically provided elsewhere in this tariff. Those who receive metered water service will receive volume-based water service billings; all others will receive flat rate billings for unmetered service. The Company may require a water meter to be installed by any customer utilizing a well or other private water system at the property owner's expense. The charge for general metered service shall consist of the total of the Fixed Service Charge and the Water Charge.

FIXED SERVICE CHARGE
All general metered water service customers shall pay a fixed service charge based on the size of each meter installed by the Company. Customers with multiple meters shall be charged for each meter at the indicated rate. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

Size of Meter	Usage Allowance	Non-Exempt Per Month
5/8"	2,500	$30.87
3/4"	5,000	61.41
1"	9,000	110.15
1 ¼"	20,000	244.99
1 ½"	20,000	244.99
2"	35,000	429.22

WATER CHARGE
In addition to the Fixed Service Charge set forth above, a charge will be made for all water used as registered by the meter above the usage allowance included in the Fixed Service Charge.

Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Up to 167,000	$0.84600	$8.4600
Over 167,000	$1.01300	$10.1300

FLAT RATE WATER CHARGE
All unmetered water service customers in a Single Family Unit shall pay a Flat Rate Water Charge per unit as indicated below.

	RATE PER MONTH PER UNIT
Non-Exempt	$35.42

TERMS OF PAYMENT
Valid bills for general metered water service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance. The 10 days shall begin on the postmark date of the notice. N.J.A.C. 14:3-3A.3.

[1] The rates on this schedule will increase by 3% on June 26th in 2026, 2027 and 2028 by the terms of the Agreement of Sale between the City of Salem and New Jersey-American Water Company, Inc.

RATE SCHEDULE A-20
GENERAL METERED SERVICE[2]

APPLICABILITY
Applicable for general metered institutional, heavy commercial, industrial and municipal service throughout Service Area 1H, Salem, except as specifically provided elsewhere in this tariff. The charge for general metered service shall consist of the total of the Fixed Service Charge and the Water Charge

FIXED SERVICE CHARGE
All general metered water service customers shall pay a fixed service charge based on the size of each meter installed by the Company. Customers with multiple meters shall be charged for each meter at the indicated rate. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

Size of Meter	Usage Allowance	Non-Exempt Per Month
5/8"	2,500	$30.98
3/4"	5,000	62.85
1"	9,000	110.30
1 ¼"	20,000	245.25
1 ½"	20,000	245.25
2"	35,000	429.26
3"	50,000	614.10
4"	100,000	1,226.25
6"	150,000	1,837.25
8"	300,000	3,571.63

WATER CHARGE
In addition to the Fixed Service Charge set forth above, a charge will be made for all water used as registered by the meter above the usage allowance included in the Fixed Service Charge.

Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Up to 167,000	$0.84600	$8.4600
Over 167,000	$1.01300	$10.1300

TERMS OF PAYMENT
Valid bills for general metered water service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance. The 10 days shall begin on the postmark date of the notice. N.J.A.C. 14:3-3A.3.

[2] The rates on this schedule will increase by 3% on June 26th in 2026, 2027 and 2028 by the terms of the Agreement of Sale between the City of Salem and New Jersey-American Water Company, Inc.

RIDER A
ECONOMIC DEVELOPMENT PROGRAM

ELIGIBILITY:

- Minimum Annual Average Monthly Volume: 35,000 gallons per monthly billing cycle for new customers or a net increase of 35,000 gallons for existing customers meeting the additional provisions below.
- Employment of a minimum of ten (10) new full-time equivalent employees or a 50% increase in the number of new full-time jobs created, whichever is less, who will be employed in the new or expanded space.
- Customer Classes: General Metered Service Commercial and General Metered Service Industrial
  - Customer class exception: Residential uses in Commercial class (Apartments and condominiums) while considered commercial customers, are not eligible for this program.
- New customers who lease, purchase or construct new space for manufacturing, retail, research, office or warehousing.
- Existing customers who lease, purchase or construct new space for manufacturing, retail, research, office or warehousing and/or expand its existing operations.
- Any existing space that is reconverted for use for the purpose of qualifying under this program must have been vacant for a minimum of one (1) year.
- Application to New Jersey American Water shall be made on the Company's form, which must be completed and submitted by the customer and approved by New Jersey American Water, at the Company's discretion, before the customer may participate in the program.
- An annual certification is required. The certification shall be made on the form prescribed by New Jersey American Water by an officer of the customer stating that eligibility requirements have been met. Failure to submit the annual certification shall be grounds for termination of the customer's participation in the program.

BENEFITS:

- Credit on water consumption charge for up to four (4) years. Applicable fixed charges, PWAC charges, and any other applicable charges will continue to be applied at the standard rate, as set forth within this tariff.
- Amount of Credit on Water Consumption Charges:

Year	Amount of Credit
1st Year	50%
2nd Year	40%
3rd Year	25%
4th Year	10%

- Additional credit of five per cent (5%) on water consumption charges will be added to the above credits for all of the Company's customers who qualify for the Economic Development Program and who are also located in a "priority location" (Urban Enterprise Zone) as defined by the New Jersey Economic Development Authority.

NOTE:
The decision to accept the initial application, or continued participation, of a customer into the program resides with New Jersey American Water, at the Company's discretion. Also, the ability to include customers into the program is subject to available capacity as established through the New Jersey Department of Environmental Protection permitting process.

Failure of the customer to maintain the minimum monthly usage during 2 or more months in a rolling 12-month period shall be grounds to remove the customer from the Economic Development Program.

NEW JERSEY-AMERICAN WATER COMPANY, INC. Fourth Revised Sheet: No. 36.1
B.P.U. No. 8 – Water Superseding Third Revised Sheet: No. 36.1

RATE SCHEDULE C

SALES FOR RESALE – COMMODITY-DEMAND SERVICE

APPLICABILITY

Applicable to Sales for Resale customers served by the Company who have executed a Commodity-Demand Regional Water Sales Agreement ("Agreement") with an initial term of 10 years and a minimum Nominated Demand, as defined in the Agreement, of 50,000 gallons per day. The charge for service shall consist of the total of the Fixed Service Charge, the Commodity Charge, the Demand Charge, the Purchased Water Adjustment Clause (PWAC) Charge as shown on Rate Schedule O-1, the Lead Service Line Replacement Charge (LSLRC) as shown on Rate Schedule O-2, the Special Program Charge (SPC) as shown on Rate Schedule O-3, and the Distribution System Improvement Charge (DSIC) as shown on Rate Schedule K.

CHARACTER OF SERVICE

Continuous, except as limited by the terms of the agreement.

FIXED SERVICE CHARGE

All such customers shall pay a monthly fixed service charge based on the size of each meter installed by the Company, in addition to the charge for the commodity of water used and the charge for the demand nominated or experienced, whichever is greater. Customers with multiple meters shall be charged for each meter at the indicated rate. Whenever service is established or discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

Size of Meter	Non-Exempt Per Month	Exempt Per Month
5/8"	$22.65	$19.56
3/4"	34.00	29.36
1"	56.61	48.89
1 1/2"	113.30	97.85
2"	181.38	156.64
3"	339.96	293.60
4"	566.28	489.05
6"	1,132.41	977.97
8"	1,811.83	1,564.73
10"	2,264.81	1,955.94
12"	2,830.77	2,444.71
16"	4,529.62	3,911.88

COMMODITY CHARGE

A charge will be rendered for all water used pursuant to the provisions of the Applicability section of this Rate Schedule C as follows:

	Rate Per 100 Gallons		Rate Per 1,000 Gallons	
Gallons Per Month	Non-Exempt	Exempt	Non-Exempt	Exempt
All	$0.06605	$0.05704	$0.6605	$0.5704

DEMAND CHARGE

A monthly charge will be rendered for all water available to the customer in accordance with the customer's Nominated Demand, as provided for in the Agreement.

Nominated Demand Charge Per Month			
Rate Per 100 Gallons of Nominated Demand		Rate Per 1,000 Gallons of Nominated Demand	
Non-Exempt	Exempt	Non-Exempt	Exempt
$7.8424	$6.77286	$78.4240	$67.7286

TERMS OF PAYMENT

Valid bills for sales for resale service furnished under this schedule will be rendered monthly in arrears and are due 30 days after the invoice date. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance.

SPECIAL PROVISION

*Non-Exempt consumption charges reflect a water tax of $.01 per 1,000 gallons of water consumed pursuant to N.J.S.A. 58:12A-21(a). Exempt consumption charges reflect a water tax of $.01 multiplied by 0.863621 per 1,000 gallons. This water tax is not applicable for sales for resale service. Exempt rates are charged for service rendered to those customers entitled to statutory relief pursuant to N.J.S.A. 54:30A-50, et seq.

Issued: _____ Effective: September 15, 2024

By: Mark K. McDonough, President
1 Water Street, Camden, NJ 08102
Filed pursuant to Order of the Board of Public Utilities entered in
Docket No. WR24010056 dated _____.

RATE SCHEDULE D

SALES FOR RESALE – OFF-PEAK SERVICE

APPLICABILITY

Applicable to Sales for Resale customers served by the Company who have executed an Off-Peak Water Sales Agreement ("Agreement") with an initial term of 10 years and a minimum Off-Peak Demand, as defined in the Agreement, of 50,000 gallons per day. The charge for service shall consist of the total of the Fixed Service Charge, the Commodity Charge, the Demand Charge, the Purchased Water Adjustment Clause (PWAC) Charge as shown on Rate Schedule O-1, the Lead Service Line Replacement Charge (LSLRC) as shown on Rate Schedule O-2, the Special Program Charge (SPC) as shown on Rate Schedule O-3, and the Distribution System Improvement Charge (DSIC) as shown on Rate Schedule K.

CHARACTER OF SERVICE

Continuous, except as limited by the terms of the agreement.

FIXED SERVICE CHARGE

All such customers shall pay a monthly fixed service charge based on the size of each meter installed by the Company, in addition to the charge for the commodity of water used and the charge for the demand selected or experienced, whichever is greater. Customers with multiple meters shall be charged for each meter at the indicated rate. Whenever service is established for a new customer or discontinued for a customer leaving the system permanently, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service. The fixed service charge shall not be prorated for any service provided during the months of May through September of each year.

Size of Meter	Non-Exempt Per Month	Exempt Per Month
5/8"	$22.65	$19.56
3/4"	34.00	29.36
1"	56.61	48.89
1 1/2"	113.30	97.85
2"	181.38	156.64
3"	339.96	293.60
4"	566.28	489.05
6"	1,132.41	977.97
8"	1,811.83	1,564.73
10"	2,264.81	1,955.94
12"	2,830.77	2,444.71
16"	4,529.62	3,911.88

COMMODITY CHARGE

A charge will be rendered for all water used pursuant to the provisions of the Applicability section of this Rate Schedule D as follows:

	Rate Per 100 Gallons		Rate Per 1,000 Gallons	
Gallons Per Month	Non-Exempt	Exempt	Non-Exempt	Exempt
All	$0.06605	$0.05704	$0.6605	$0.5704

DEMAND CHARGE

A monthly charge will be rendered for all water available to the customer in accordance with the customer's Off-Peak Demand, as provided for in the Agreement. The Demand Rate is 91.96% of the Commodity-Demand Service Demand Rate set forth on Rate Schedule C.

Off-Peak Demand Charge Per Month			
Rate Per 100 Gallons of Off-Peak Demand		Rate Per 1,000 Gallons of Off-Peak Demand	
Non-Exempt	Exempt	Non-Exempt	Exempt
$7.21063	$6.22725	$72.1063	$62.2725

TERMS OF PAYMENT

Valid bills for sales for resale service furnished under this schedule will be rendered monthly in arrears and are due 30 days after the invoice date. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance.

SPECIAL PROVISION

*Non-Exempt consumption charges reflect a water tax of $.01 per 1,000 gallons of water consumed pursuant to N.J.S.A. 58:12A-21(a). Exempt consumption charges reflect a water tax of $.01 multiplied by 0.863621 per 1,000 gallons. This water tax is not applicable for sales for resale service. Exempt rates are charged for service rendered to those customers entitled to statutory relief pursuant to N.J.S.A. 54:30A-50, et seq.

RATE SCHEDULE E
SALES FOR RESALE – MANASQUAN

APPLICABILITY
Applicable to Sales for Resale customers served by the Company in Service Area 1 who have executed Manasquan Reservoir Water Supply System Water Purchase Contracts and either: (1) whose purchases of water and rates of flow are in accordance with the provisions of Appendix A of this Rate Schedule; or, (2) who have executed a Water Resale and Treatment Agreement, in which case the terms of such Agreement, regarding purchase limitations, shall supersede the applicable Appendix A schedule herein.

CHARACTER OF SERVICE
Continuous, except as limited by the terms of the agreement.

FIXED SERVICE CHARGE
All such customers shall pay a Fixed Service Charge based on the size of each meter installed by the Company, in addition to the charge for the quantity of water used, if any, the Lead Service Line Replacement Charge (LSLRC) as shown on Rate Schedule O-2, the Special Program Charge (SPC) as shown on Rate Schedule O-3, and the Distribution System Improvement Charge (DSIC) as shown on Rate Schedule K. Customers with multiple meters shall be charged for each meter at the indicated rate. Whenever service is established or discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

Size of Meter	Non-Exempt Per Month
5/8"	$22.65
3/4"	34.00
1"	56.61
1 1/2"	113.30
2"	181.38
3"	339.96
4"	566.28
6"	1,132.41
8"	1,811.83
10"	2,264.81
12"	2,830.77
16”	4,529.62

WATER CHARGE
A charge will be made for all water used pursuant to the provisions of the Applicability section of this Rate Schedule E as follows:

	Rate Per 100 Gallons Non-Exempt	Rate Per 1,000 Gallons Non-Exempt
Uninterruptible	$0.21581	$2.15810
Interruptible	$0.88724	$8.88724

(Continued)

RATE SCHEDULE E
SALES FOR RESALE – MANASQUAN
(Continued)

DEFINITIONS:

UNINTERRUPTIBLE SERVICE
Uninterruptible service is water service to be provided to customers in quantities specified in Appendix A herein or Schedule A of the Water Resale and Treatment Agreement. The Annual Purchase Requirement is the minimum total volume of water per year which will be purchased take-or-pay by the customer from the Company. The Company agrees to provide to the customer the quantity specified in Appendix A herein or Schedule A of the Water Resale and Treatment Agreement unconditionally, except to the extent that: (1) the limitations of Appendix A herein or Schedule A of the Water Resale and Treatment Agreement apply to restrict the quantity of water which the customer may take on a maximum monthly, maximum daily and peak hourly basis; and, (2) in those cases where the contracts have been executed, the provisions of Section 5 of the Agreement, regarding force majeure events, may apply under certain circumstances. The rate may be found on Rate Schedule E of the present tariff.

INTERRUPTIBLE SERVICE
Interruptible service means a supply of water, to the extent that the Company in its reasonable judgment determines that it has excess water available above the Annual Purchase Period Limitations specified in Appendix A herein or Schedule A of the Water Resale and Treatment Agreement, which may be provided to the customer: (1) to meet extraordinary consumer demand requirements; (2) for occasional, temporary, or emergent needs; or (3) in such other circumstances as shall be agreed upon by the Company and the customer. The rate may be found on Rate Schedule E of the present tariff. In addition to the charge for the quantity of water used, if any, above the Annual Purchase Period Limitations specified in Appendix A herein or Schedule A of the Water Resale and Treatment Agreement, the Purchased Water Adjustment Clause (PWAC) Charge, as shown on Rate Schedule O-1 will apply.

TERMS OF PAYMENT
Valid bills for sales for resale service furnished under this schedule will be rendered monthly in arrears and are due 30 days after the invoice date. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance.

SPECIAL PROVISION
*Non-Exempt consumption charges reflect a water tax of $.01 per 1,000 gallons of water consumed pursuant to N.J.S.A. 58:12A-21(a). This water tax is not applicable for sales for resale service.

(Continued)

RATE SCHEDULE E
SALES FOR RESALE – MANASQUAN

APPENDIX A

Annual Purchase Period: July 1, 1990 through June 30, 1991 and each subsequent 12-month period thereafter.

Uninterruptible Service shall not exceed the limits established for each month, day and hour in each Annual Purchase Period as set forth in the following tables:

Borough of Avon-By-The-Sea
Annual Purchase Requirement: 46.0 Million Gallons Per Year (MGY)

Uninterruptible Service
Annual Purchase Period Limitations

Month	Maximum Monthly Purchase Million Gallons (MG)	Maximum Daily Purchase Million Gallons (MG)	Peak Hourly Purchase Gallons Per Minute (GPM)
January	7	0.30	250
February	7	0.30	250
March	7	0.30	250
April	7	0.30	250
May	3	0.11	90
June	2	0.11	90
July	1	0.05	90
August	2	0.11	90
September	4	0.16	90
October	7	0.30	250
November	7	0.30	250
December	7	0.30	250

Borough of Belmar
Annual Purchase Requirement: 105.0 MGY

Uninterruptible Service
Annual Purchase Period Limitations

Month	Maximum Monthly Purchase (MG)	Maximum Daily Purchase (MG)	Peak Hourly Purchase (GPM)
January	17	1.00	1000
February	17	1.00	1000
March	17	1.00	1000
April	17	1.00	1000
May	0	0.00	0
June	0	0.00	0
July	0	0.00	0
August	0	0.00	0
September	0	0.00	0
October	17	1.00	1000
November	17	1.00	1000
December	17	1.00	1000

(Continued)

RATE SCHEDULE E
SALES FOR RESALE – MANASQUAN

APPENDIX A
(Continued)

Borough of Matawan
Annual Purchase Requirement: 121.18 MGY

Uninterruptible Service
Annual Purchase Period Limitations

Month	Maximum Monthly Purchase (MG)	Maximum Daily Purchase (MG)	Peak Hourly Purchase (GPM)
January	24	1.20	900
February	21	1.05	900
March	23	1.15	900
April	21	1.05	900
May	0	0.00	0
June	0	0.00	0
July	0	0.00	0
August	0	0.00	0
September	0	0.00	0
October	23	1.15	900
November	23	1.15	900
December	23	1.15	900

Borough of Red Bank
Annual Purchase Requirement: 200.0 MGY

Uninterruptible Service
Annual Purchase Period Limitations

Month	Maximum Monthly Purchase (MG)	Maximum Daily Purchase (MG)	Peak Hourly Purchase (GPM)
January	51	2.55	2100
February	51	2.55	2100
March	51	2.55	2100
April	34	1.46	1200
May	6	0.30	300
June	6	0.30	300
July	6	0.30	300
August	6	0.30	300
September	6	0.30	300
October	34	1.46	1200
November	62	2.66	2150
December	62	2.66	2150

With mutual consent, the parties may agree to reduce delivery at one point while increasing delivery at the other point.

(Continued)

RATE SCHEDULE E
SALES FOR RESALE – MANASQUAN

APPENDIX A
(Continued)

Lake Como Borough
Annual Purchase Requirement: 36.5 MGY

Uninterruptible Service
Annual Purchase Period Limitations

Month	Sales for resale Manasquan Maximum Monthly Purchase (MG)	Manasquan Maximum Daily Purchase (MG)	Manasquan Peak Hourly Purchase (GPM)
January	4.0	0.37	300
February	4.0	0.37	300
March	4.0	0.37	300
April	4.0	0.37	300
May	3.65	0.12	400
June	2.45	0.12	500
July	1.23	0.06	450
August	2.45	0.12	400
September	4.8	0.18	350
October	5.0	0.37	350
November	4.0	0.37	300
December	4.0	0.37	300

RATE SCHEDULE F
OPTIONAL INDUSTRIAL WHOLESALE

APPLICABILITY

Applicable only to customers that are served by the Company and that (a) use 9,350,000 or more gallons of water per month, each and every month (b) have loading factors (the ratio of maximum demand (peak load) to the average demand (load) during a given period) not in excess of 1.2 times their monthly consumption on an average daily basis. The charge for service shall consist of the total of the Fixed Service Charge, the Water Charge, the Purchased Water Adjustment Clause (PWAC) Charge as shown on Rate Schedule O-1, the Lead Service Line Replacement Charge (LSLRC) as shown on Rate Schedule O-2, the Special Program Charge (SPC) as shown on Rate Schedule O-3, and the Distribution System Improvement Charge (DSIC) as shown on Rate Schedule K.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

FIXED SERVICE CHARGE
All such customers shall pay a Fixed Service Charge based on the size of the meter installed by the Company. Customers with multiple meters shall be charged for each meter at the indicated rate. Whenever service is established or discontinued, all applicable fixed charged shall be prorated to the date of establishment or discontinuance of service as follows:

Size of Meter	Non-Exempt Per Month	Exempt Per Month
5/8"	$22.65	$19.56
3/4"	34.00	29.36
1"	56.61	48.89
1 1/2"	113.30	97.85
2"	181.38	156.64
3"	339.96	293.60
4"	566.28	489.05
6"	1,132.41	977.97
8"	1,811.83	1,564.73
10"	2,264.81	1,955.94
12"	2,830.77	2,444.71
16”	4,529.62	3,911.88

WATER CHARGE

Rate Per 100 Gallons		Rate Per 1,000 Gallons	
Non-Exempt	Exempt	Non-Exempt*	Exempt*
$0.44754	$0.38651	$4.4754	$3.8651

MINIMUM CONSUMPTION CHARGE
A minimum consumption charge is applicable. The minimum consumption charge is equal to 9,350,000 gallons of water per month multiplied by the appropriate Water Charge herein and the Purchased Water Adjustment Clause (PWAC) Charge, as shown on Rate Schedule O-1.

TERMS OF PAYMENT
Valid bills for sale of water under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days’ notice prior to the proposed discontinuance.

(Continued)

RATE SCHEDULE F
OPTIONAL INDUSTRIAL WHOLESALE
(Continued)

TERMS
Bills are rendered monthly in arrears.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

If monthly consumption on an average daily basis exceeds a load factor of 1.2 times the last (rolling) twelve months average monthly consumption on an average daily basis for three consecutive months, between April 1 and September 30, a customer will be removed from this Rate Schedule and will be billed under the General Metered Service Rate Schedule A-1. A customer eliminated from this Rate Schedule will continue to be billed under General Metered Service for a minimum of twelve months and will again be eligible for this schedule if, after twelve months, its monthly consumption on an average daily basis has not exceeded, for three consecutive months, 1.2 times the last twelve-month average monthly consumption.

A customer who anticipates exceeding the above stated load factor requirement may, in lieu of removal from this Rate Schedule, remain on this Rate Schedule by signing prior to such exceedance, a written commitment to a monthly consumption of 120% of their average monthly consumption during the prior 12 months, which will remain in place for 12 months. During this period, the usage set forth in the written commitment will be the minimum monthly usage required under this Rate Schedule for computing the applicable Minimum Consumption Charge.

SPECIAL PROVISION
*Non-Exempt consumption charges reflect a water tax of $.01 per 1,000 gallons of water consumed pursuant to N.J.S.A. 58:12A-21(a). Exempt consumption charges reflect a water tax of $.01 multiplied by 0.863621 per 1,000 gallons. This water tax is not applicable for sales for resale service. Exempt rates are charged for service rendered to those customers entitled to statutory relief pursuant to N.J.S.A. 54:30A-50, et seq.

RATE SCHEDULE G
SALES FOR RESALE – SERVICE TO OTHER SYSTEMS

APPLICABILITY
Applicable to Sales for Resale customers receiving service from the Company as of December 8, 2008. Applicable to customers served by the Company throughout Service Area 2 that have a contract demand of 500,000 or more gallons per day pursuant to a contract entered into with the Company at the Company's sole option. The charge for metered Service to Other Systems Under Contract shall consist of the total of Water Charge, the Purchased Water Adjustment Clause (PWAC) Charge as shown on Rate Schedule O-1, the Lead Service Line Replacement Charge (LSLRC) as shown on Rate Schedule O-2, and the Special Program Charge (SPC) as shown on Rate Schedule O-3.

CHARACTER OF SERVICE
Continuous, except as limited by written agreement.

WATER CHARGE

Consumption	Rate Per 1,000 Gallons	
	Non-Exempt	Exempt
All water usage	$3.4582	$2.9866

	Rate Per 100 Gallons	
	Non-Exempt	Exempt
All water usage	$0.34582	$0.29866

TERMS OF PAYMENT
Valid bills for sale of water under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance.

TERMS
Subject to written agreement.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

SPECIAL PROVISION
*Non-Exempt consumption charges reflect a water tax of $.01 per 1,000 gallons of water consumed pursuant to N.J.S.A. 58:12A-21(a). Exempt consumption charges reflect a water tax of $.01 multiplied by 0.863621 per 1,000 gallons. This water tax is not applicable for sales for resale service. Exempt rates are charged for service rendered to those customers entitled to statutory relief pursuant to N.J.S.A. 54:30A-50, et seq.

RATE SCHEDULE H
SALES FOR RESALE – PEAKING SERVICE

APPLICABILITY
Applicable to Sales for Resale customers for sales occurring during the Company's peak service period May 1 through September 30 who: (1) do not have a written agreement with the Company for the provision of water service; or (2) whose written agreement with the Company does not contain an annual purchase commitment. This Rate Schedule does not apply to customers taking service under Rate Schedule D (Off-Peak) during non-drought conditions unless otherwise provided for in that customer's agreement. During drought emergencies declared by the Governor, this Rate Schedule will be applied to all surplus water transfers ordered by the Commissioner of the Department of Environmental Protection to mitigate drought. The charge for this service shall consist of the total of the Fixed Service Charge, the Water Charge, the Purchased Water Adjustment Clause (PWAC) Charge as shown on Rate Schedule O-1, the Lead Service Line Replacement Charge (LSLRC) as shown on Rate Schedule O-2, the Special Program Charge (SPC) as shown on Rate Schedule O-3, and the Distribution System Improvement Charge (DSIC) as shown on Rate Schedule K.

CHARACTER OF SERVICE
Interruptible.

FIXED SERVICE CHARGE
All such customers shall pay a fixed service charge, during any month when water is consumed pursuant to this Rate Schedule H, based on the size of each meter installed by the Company. Customers with multiple meters shall be charged for each meter at the indicated rate.

Size of Meter	Non-Exempt Per Month	Exempt Per Month
5/8"	$22.65	$19.56
3/4"	34.00	29.36
1"	56.61	48.89
1 1/2"	113.30	97.85
2"	181.38	156.64
3"	339.96	293.60
4"	566.28	489.05
6"	1,132.41	977.97
8"	1,811.83	1,564.73
10"	2,264.81	1,955.94
12"	2,830.77	2,444.71
16"	4,529.62	3,911.88

WATER CHARGE
In addition to the Fixed Service Charge set forth above, a charge will be made for all water used as registered by the meter.

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$1.05500	$10.5500
Exempt	All	$0.91112	$9.1112

TERMS OF PAYMENT
Valid bills for sales for resale service furnished under this schedule will be rendered monthly in arrears and are due 30 days after the invoice date. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance.

SPECIAL PROVISION
*Non-Exempt consumption charges reflect a water tax of $.01 per 1,000 gallons of water consumed pursuant to N.J.S.A. 58:12A-21(a). Exempt consumption charges reflect a water tax of $.01 multiplied by 0.863621 per 1,000 gallons. This water tax is not applicable for sales for resale service. Exempt rates are charged for service rendered to those customers entitled to statutory relief pursuant to N.J.S.A. 54:30A-50, et seq.

RATE SCHEDULE I
EMERGENCY OR BACKUP BULK RATE SALES

APPLICABILITY
Applicable to emergency/backup bulk sales to municipalities or other water purveyors in Service Area 1C, Shorelands, and only by yearly contract between the municipality or other water purveyor and the Company.

CHARACTER OF SERVICE
Continuous, except as limited by "Standard Terms and Conditions".

FIXED SERVICE CHARGE
All such customers shall pay a fixed service charge, during any month when water is consumed pursuant to this Rate Schedule I, based on the size of each meter installed by the Company, the Lead Service Line Replacement Charge (LSLRC), as shown on Rate Schedule O-2, the Special Program Charge (SPC) as shown on Rate Schedule O-3, and the Distribution System Improvement Charge (DSIC) as shown on Rate Schedule K. The Purchased Water Adjustment Clause (PWAC) Charge, as shown on Rate Schedule O-1, will apply to all water used in excess of any Annual Purchase Requirement. Customers with multiple meters shall be charged for each meter at the indicated rate.

Size of Meter	Non-Exempt Per Month
5/8"	$22.65
3/4"	34.00
1"	56.61
1 1/2"	113.30
2"	181.38
3"	339.96
4"	566.28
6"	1,132.41
8"	1,811.83
10"	2,264.81
12"	2,830.77
16"	4,529.62

WATER CHARGE
In addition to the Fixed Service Charge set forth above, a charge will be made for all water used as registered by the meter.

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$0.62470	$6.2470

Exempt customers, as defined in N.J.S.A. 54:30A-50(c), are those public utility corporations which are subject to the payment of a tax based on gross receipts.

Non-Exempt customers are all other customers not entitled to the statutory exemptions provided pursuant to N.J.S.A. 54:30A-50(c). Uninterruptible customers are as defined in the Water Resale and Treatment Agreement.

TERMS OF PAYMENT
Valid bills for sale of water under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

SPECIAL PROVISION
*Non-Exempt consumption charges reflect a water tax of $.01 per 1,000 gallons of water consumed pursuant to N.J.S.A. 58:12A-21(a). This water tax is not applicable for sales for resale service.

RATE SCHEDULE J
SALES FOR RESALE – MANASQUAN

APPLICABILITY
Applicable to bulk sales to municipalities or other water purveyors taking water from the New Jersey Water Supply Authority ("NJWSA") delivered through Service Area 1C, Shorelands, pursuant to Water Resale and Treatment contractual requirements where they pay the NJWSA directly for the raw water.

FIXED SERVICE CHARGE
All sales for resale service customers shall pay a fixed service charge based on the size of each meter installed, in addition to the charge for the quantity of water used, if any, the Lead Service Line Replacement Charge (LSLRC) as shown on Rate Schedule O-2, the Special Program Charge (SPC) as shown on Rate Schedule O-3, and the Distribution System Improvement Charge (DSIC) as shown on Rate Schedule K. The Purchased Water Adjustment Clause (PWAC) Charge, as shown on Rate Schedule O-1, will apply to all water used in excess of any Annual Purchase Requirement. Customers with multiple meters shall be charged for each meter at the indicated rate.

Size of Meter	Non-Exempt Per Month
5/8"	$22.65
3/4"	34.00
1"	56.61
1 1/2"	113.30
2"	181.38
3"	339.96
4"	566.28
6"	1,132.41
8"	1,811.83
10"	2,264.81
12"	2,830.77
16”	4,529.62

WATER CHARGES
A charge will be made for all water used pursuant to the take or pay contractual agreement as follows:

	Non-Exempt Rate Per 100 Gallons	Non-Exempt Rate Per 1,000 Gallons
Uninterruptible	$0.31093	$3.1093

Exempt customers, as defined in N.J.S.A. 54:30A-50(c), are those public utility corporations which are subject to the payment of a tax based on gross receipts.

Non-Exempt customers are all other customers not entitled to the statutory exemptions provided pursuant to N.J.S.A. 54:30A-50(c). Uninterruptible customers are as defined in the Water Resale and Treatment Agreement.

TERMS OF PAYMENT
Valid bills for sales for resale service furnished under this schedule will be rendered monthly in arrears and are due 30 days after the invoice date. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days’ notice prior to the proposed discontinuance.

SPECIAL PROVISION
*Non-Exempt consumption charges reflect a water tax of $.01 per 1,000 gallons of water consumed pursuant to N.J.S.A. 58:12A-21(a). This water tax is not applicable for sales for resale service.

NEW JERSEY-AMERICAN WATER COMPANY, INC. Seventeenth Revised Sheet: No. 37
B.P.U. No. 8 – Water Superseding Sixteenth Revised Sheet: No. 37

RATE SCHEDULE K
DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

Applicable to all general metered service and sales for resale customers throughout the entire territory served.

CHARACTER
Continuous, except as limited by the “Standard Terms and Conditions”.

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC)
In addition to all other charges for general metered service (GMS) and sales for resale customers throughout the entire territory served, the following charges will be assessed on a fixed, per meter basis for each monthly bill.

RATE
This charge is in addition to Rate Schedules A-1 through A-18 as noted on those rate schedules, and, C, D, E, F, H, I and J.

Size of Meter	Non-Exempt Per Month	Exempt Per Month
5/8"	$0.00	$0.00
3/4"	0.00	0.00
1"	0.00	0.00
1 1/2"	0.00	0.00
2"	0.00	0.00
3"	0.00	0.00
4"	0.00	0.00
6"	0.00	0.00
8"	0.00	0.00
10"	0.00	0.00
12"	0.00	0.00
16”	0.00	0.00

FILING
The DSIC is authorized pursuant to N.J.A.C. 14:9-10.1 et seq. and the procedures for filing, reviewing, approving and implementing the DSIC are set forth therein. The DSIC is based on the Company's Foundational Filing, which was reviewed and approved by the Board of Public Utilities. The approval process included public notice and four public hearings. The notice included proposed surcharge amounts, which were estimated based on projected construction schedules, costs and other factors. Pursuant to the approved Foundational Filing, the Company shall endeavor to make semi-annual DSIC filings at approximately six-month intervals. The DSIC is subject to a maximum amount and other limitations in N.J.A.C. 14:9-10.1 et seq.

TERMS OF PAYMENT
See Rate Schedules for applicable customer classes.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

SPECIAL PROVISION
*Non-Exempt consumption charges reflect a water tax of $.01 per 1,000 gallons of water consumed pursuant to N.J.S.A. 58:12A-21(a). Exempt consumption charges reflect a water tax of $.01 multiplied by 0.863621 per 1,000 gallons. This water tax is not applicable for sales for resale service.
Exempt rates are charged for service rendered to those customers entitled to statutory relief pursuant to N.J.S.A. 54:30A-50, et seq.

RATE SCHEDULE L-1
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY
Applicable for service furnished exclusively for private fire protection throughout Service Areas 1 and 1E, except as specifically provided elsewhere in this tariff. The charge for private fire protection service will consist of the total of the connection charge and the Lead Service Line Replacement Charge (LSLRC) as shown on Rate Schedule O-2 and the Special Program Charge (SPC) as shown on Rate Schedule O-3.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES
1 – Service Charge

Size of Connection	Per Month
For each connection of 2" or less	$ 28.36
For each 3" connection	63.80
For each 4" connection	113.41
For each 6" connection	255.17
For each 8" connection	453.66
For each 10" connection	709.00
For each 12" connection	1,020.96
For each 16" connection	1,815.04

2 – Hydrant Charge

	Per Month
For each Hydrant	$66.00

TERMS OF PAYMENT
Valid bills for private fire protection service furnished under this schedule are to be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least thirty (30) days' notice prior to the proposed discontinuance. The Company will adhere to all applicable notification requirements found in N.J.A.C. 14:3-3A.4(j) before discontinuing service.

TERM
Continuous until water service to the customer is permanently discontinued. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

CONDITIONS
Subject to the "Standard Terms and Conditions", including those specific to Private Fire Protection starting on Sheet No. 20, except as otherwise set forth in this Schedule. Testing, inspection, maintenance, and repair of private fire hydrants shall be the responsibility of the property owner.

SPECIAL PROVISIONS

No additional charge shall be made for water used in extinguishing fires or for underwriters' tests where service is furnished under this schedule.

Private fire service lines shall be equipped with special meters and are to be used exclusively for fire protection purposes. No water shall be used through these connections except for purposes of underwriters' tests or extinguishment of fire. The use of private fire protection facilities for other reasons will result in termination of service following notification pursuant to N.J.A.C. 14:3-3A.1(d), and water charges will be computed under the General Metered Service Rate Schedule A-1.

Residential customers served by a water service line of two (2) inches or less in diameter will not be imposed a standby fee for fire protection system.

Rooming and boarding houses as defined in the "Rooming and Boarding House Act of 1974" and those residential health care facilities as defined in the "Health Care Facilities Planning Act," upon furnishing to the Company proof in the form of a license or certificate from the appropriate state agency that the particular facility or house is entitled to exemption, will be exempt from the charges of Rate Schedule L-1.

RATE SCHEDULE L-2
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY
Applicable for service furnished exclusively for private fire protection where multiple customers are served from one private fire service connection in Service Area 1 in the Townships of Logan and Woolwich, Gloucester County in the area formerly served by Logan Wells Water Company.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES
The charge for private fire protection shall consist of the total of the sprinkler head charge based on the number of sprinkler heads, the hydrant charge based on the number of hydrants, the Lead Service Line Replacement Charge (LSLRC), as shown on Rate Schedule O-2, and the Special Program Charge (SPC) as shown on Rate Schedule O-3.

	Per Month
For each Sprinkler Head	$1.44
For each Hydrant	$66.00

TERMS OF PAYMENT
Valid bills for private fire protection service furnished under this schedule are to be rendered in monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least thirty (30) days' notice prior to the proposed discontinuance. The Company will adhere to all applicable notification requirements found in N.J.A.C. 14:3-3A.4(j) before discontinuing service.

TERM
Continuous until water service to the customer is permanently discontinued. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

CONDITIONS
Subject to the "Standard Terms and Conditions", including those specific to Private Fire Protection starting on Sheet No. 20, except as otherwise set forth in this Schedule. Testing, inspection, maintenance, and repair of private fire hydrants shall be the responsibility of the property owner.

SPECIAL PROVISIONS
No additional charge shall be made for water used in extinguishing fires or for underwriters' tests where service is furnished under this schedule.

Private fire service lines shall be equipped with special meters and are to be used exclusively for fire protection purposes. No water shall be used through these connections except for purposes of underwriters' tests or extinguishment of fire. Any water usage for other purposes will be computed under the General Metered Service Rate Schedule A-1.

Residential customers served by a water service line of two (2) inches or less in diameter will not be imposed a standby fee for fire protection system.

Rooming and boarding houses as defined in the "Rooming and Boarding House Act of 1974" and those residential health care facilities as defined in the "Health Care Facilities Planning Act," upon furnishing to the Company proof in the form of a license or certificate from the appropriate state agency that the particular facility or house is entitled to exemption, will be exempt from the charges of Rate Schedule L-2.

RATE SCHEDULE L-3
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY
Applicable for service furnished exclusively for private fire protection throughout Service Area 2, except as specifically provided elsewhere in this tariff. The charge for private fire protection service will consist of the total of the connection charge, the hydrant charge, the Lead Service Line Replacement Charge (LSLRC) as shown on Rate Schedule O-2, and the Special Program Charge (SPC) as shown on Rate Schedule O-3.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES

1- Service Charge

Size of Connection	Per Month
For each connection of 2” or less	$51.83
For each 3” connection	101.82
For each 4” connection	164.17
For each 6” connection	304.54
For each 8” connection	520.03
For each 10” connection	679.08
For each 12” connection	977.84
For each 16” connection	1,921.34
For each 20” connection	3,501.55

2- Hydrant Charge

	Per Month
For each Hydrant	$66.00

TERMS OF PAYMENT
Valid bills for private fire protection service furnished under this schedule are to be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least thirty (30) days’ notice prior to the proposed discontinuance. The Company will adhere to all applicable notification requirements found in N.J.A.C. 14:3-3A.4(j) before discontinuing service.

TERM
Continuous until water service to the customer is permanently discontinued. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

CONDITIONS
Subject to the "Standard Terms and Conditions", including those specific to Private Fire Protection starting on Sheet No. 20, except as otherwise set forth in this Schedule. Testing, inspection, maintenance, and repair of private fire hydrants shall be the responsibility of the property owner.

SPECIAL PROVISIONS
No additional charge shall be made for water used in extinguishing fires or for underwriters’ tests where service is furnished under this schedule.

Private fire service lines shall be equipped with special meters and are to be used exclusively for fire protection purposes. No water shall be used through these connections except for purposes of underwriters’ tests or extinguishment of fire. Any water usage for other purposes will be computed under the General Metered Service Rate Schedule A-1.

Residential customers served by a water service line of two (2) inches or less in diameter will not be imposed a standby fee for fire protection system.

Rooming and boarding houses as defined in the “Rooming and Boarding House Act of 1974” and those residential health care facilities as defined in the “Health Care Facilities Planning Act,” upon furnishing to the Company proof in the form of a license or certificate from the appropriate state agency that the particular facility or house is entitled to exemption, will be exempt from the charges of Rate Schedule L-3.

Reserved for future use.

RATE SCHEDULE L-7
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY
Applicable for service furnished exclusively for private fire protection throughout Service Area 3 and Service Area 1A, except as specifically provided elsewhere in this tariff. The charge for private fire protection service will consist of the total of the connection charge, the hydrant charge, the Lead Service Line Replacement Charge (LSLRC) as shown on Rate Schedule O-2, and the Special Program Charge (SPC) as shown on Rate Schedule O-3.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES

1- Service Charge

Size of Connection	Per Month
For each connection of 2" or less	$ 28.36
For each 3" connection	63.80
For each 4" connection	113.41
For each 6" connection	255.17
For each 8" connection	453.66
For each 10" connection	709.00
For each 12" connection	1,020.96
For each 16" connection	1,815.04

2- Hydrant Charge

	Per Month
For each Hydrant	$52.50

TERMS OF PAYMENT
Valid bills for private fire protection service furnished under this schedule are to be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least thirty (30) days' notice prior to the proposed discontinuance. The Company will adhere to all applicable notification requirements found in N.J.A.C. 14:3-3A.4(j) before discontinuing service.

TERM
Continuous until water service to the customer is permanently discontinued. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

CONDITIONS
Subject to the "Standard Terms and Conditions", including those specific to Private Fire Protection starting on Sheet No. 20, except as otherwise set forth in this Schedule. Testing, inspection, maintenance, and repair of private fire hydrants shall be the responsibility of the property owner.

SPECIAL PROVISIONS
No additional charge shall be made for water used in extinguishing fires or for underwriters' tests where service is furnished under this schedule.

Private fire service lines shall be equipped with special meters and are to be used exclusively for fire protection purposes. No water shall be used through these connections except for purposes of underwriters' tests or extinguishment of fire. Any water usage for other purposes will be computed under the General Metered Service Rate Schedule A-1.

Residential customers served by a water service line of two (2) inches or less in diameter will not be imposed a standby fee for fire protection system.

Rooming and boarding houses as defined in the "Rooming and Boarding House Act of 1974" and those residential health care facilities as defined in the "Health Care Facilities Planning Act," upon furnishing to the Company proof in the form of a license or certificate from the appropriate state agency that the particular facility or house is entitled to exemption, will be exempt from the charges of Rate Schedule L-7.

RATE SCHEDULE L-9
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY
Applicable for service furnished exclusively for private fire protection throughout Service Area 1B, except as specifically provided elsewhere in this tariff. The charge for private fire protection service will consist of the total of the connection charge, the hydrant charge, and the Lead Service Line Replacement Charge (LSLRC) as shown on Rate Schedule O-2, and the Special Program Charge (SPC) as shown on Rate Schedule O-3.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES

1- Service Charge

Size of Connection	Per Month
For each connection of 2" or less	$28.36
For each 3" connection	63.80
For each 4" connection	113.41
For each 6" connection	255.17
For each 8" connection	453.66
For each 10" connection	709.00
For each 12" connection	1,020.96
For each 16” connection	1,815.04

2- Hydrant Charge

	Per Month
For each Hydrant	$45.30

TERMS OF PAYMENT
Valid bills for private fire protection service furnished under this schedule are to be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least thirty (30) days’ notice prior to the proposed discontinuance. The Company will adhere to all applicable notification requirements found in N.J.A.C. 14:3-3A.4(j) before discontinuing service.

TERM
Continuous until water service to the customer is permanently discontinued. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

CONDITIONS
Subject to the "Standard Terms and Conditions", including those specific to Private Fire Protection starting on Sheet No. 20, except as otherwise set forth in this Schedule. Testing, inspection, maintenance, and repair of private fire hydrants shall be the responsibility of the property owner.

SPECIAL PROVISIONS
No additional charge shall be made for water used in extinguishing fires or for underwriters’ tests where service is furnished under this schedule.

Private fire service lines shall be equipped with special meters and are to be used exclusively for fire protection purposes. No water shall be used through these connections except for purposes of underwriters’ tests or extinguishment of fire. Any water usage for other purposes will be computed under the General Metered Service Rate Schedule A-1.

Residential customers served by a water service line of two (2) inches or less in diameter will not be imposed a standby fee for fire protection system.

Rooming and boarding houses as defined in the “Rooming and Boarding House Act of 1974” and those residential health care facilities as defined in the “Health Care Facilities Planning Act,” upon furnishing to the Company proof in the form of a license or certificate from the appropriate state agency that the particular facility or house is entitled to exemption, will be exempt from the charges of Rate Schedule L-9.

NEW JERSEY-AMERICAN WATER COMPANY, INC. Fourth Revised Sheet: No. 38.7
B.P.U. No. 8 – Water Superseding Third Revised Sheet: No. 38.7

RATE SCHEDULE L-10
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY
Applicable for service furnished exclusively to private fire protection facilities served by the Company, throughout Service Area 1C, except as specifically provided elsewhere in this tariff. The charge for private fire protection service will consist of the total of the connection charge, the hydrant charge, the Lead Service Line Replacement Charge (LSLRC) as shown on Rate Schedule O-2, and the Special Program Charge (SPC) as shown on Rate Schedule O-3.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES

Sprinkler services with hose or hydrant connected to them:

Size of Connection	Per Month
For each 3" connection	$178.51
For each 4" connection	297.13
For each 6" connection	594.27
For each 8" connection	951.29
For each10" connection	1,474.30

Sprinkler services without hose or hydrant connected to them:

Size of Connection	Per Month
For each connection of 2" or less	$59.89
For each 3" connection	125.54
For each 4" connection	209.62
For each 6" connection	419.23
For each 8" connection	670.31
For each 10" connection	1,046.92

Hydrant Charge

	Per Month
For each Hydrant	$66.00

TERMS OF PAYMENT
Valid bills for private fire protection service furnished under this schedule are to be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least thirty (30) days' notice prior to the proposed discontinuance. The Company will adhere to all applicable notification requirements found in N.J.A.C. 14:3-3A.4(j) before discontinuing service.

TERM
Continuous until water service to the customer is permanently discontinued. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

CONDITIONS
Subject to the "Standard Terms and Conditions", including those specific to Private Fire Protection starting on Sheet No. 20, except as otherwise set forth in this Schedule. Testing, inspection, maintenance, and repair of private fire hydrants shall be the responsibility of the property owner.

SPECIAL PROVISIONS
No additional charge shall be made for water used in extinguishing fires or for underwriters' tests where service is furnished under this schedule.

Private fire service lines shall be equipped with special meters and are to be used exclusively for fire protection purposes. No water shall be used through these connections except for purposes of underwriters' tests or extinguishment of fire. Any water usage for other purposes will be computed under the General Metered Service Rate Schedule A-1.

(continued)

RATE SCHEDULE L-10
PRIVATE FIRE PROTECTION SERVICE
(Continued)

Residential customers served by a water service line of two (2) inches or less in diameter will not be imposed a standby fee for fire protection system.

Rooming and boarding houses as defined in the "Rooming and Boarding House Act of 1974" and those residential health care facilities as defined in the "Health Care Facilities Planning Act," upon furnishing to the Company proof in the form of a license or certificate from the appropriate state agency that the particular facility or house is entitled to exemption, will be exempt from the charges of Rate Schedule L-10.

RATE SCHEDULE L-11
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY
Applicable to customers throughout Service Area 1D, formerly served by Applied Wastewater Management, Inc. ("Applied"), for private fire protection service. The charge for private fire protection service will consist of the total of the connection charge, the hydrant charge, the Lead Service Line Replacement Charge (LSLRC) as shown on Rate Schedule O-2, and the Special Program Charge (SPC) as shown on Rate Schedule O-3.

CHARACTER OF SERVICE
Continuous, except as limited by "Standard Terms and Conditions".

RATES

1- Service Charge

Size of Connection	Per Month
For each connection of 2" or less	$28.36
For each 3" connection	63.80
For each 4" connection	113.41
For each 6" connection	255.17
For each 8" connection	453.66
For each 10" connection	709.00
For each 12" connection	1,020.96
For each 16" connection	1,815.04

2- Hydrant Charge

	Per Month
For each Hydrant	$40.30

TERM
Continuous until water service to the customer is permanently discontinued. Whenever service is established or is discontinued, all applicable fixed service charges shall be prorated to the date of establishment or discontinuance of service.

TERMS OF PAYMENT
Valid bills for service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance. The 10 days shall begin on the postmark date of the notice. N.J.A.C. 14:3-3A.3. The Company will adhere to all applicable notification requirements found in N.J.A.C. 14:3-3A.4(j) before discontinuing service.

CONDITIONS
Subject to "Standard Terms and Conditions", including those specific to Private Fire Protection starting on Sheet No. 20, except as otherwise set forth in this Schedule. Testing, inspection, maintenance, and repair of private fire hydrants shall be the responsibility of the property owner.

SPECIAL PROVISIONS
No additional charge shall be made for water used in extinguishing fires or for underwriters' tests where service is furnished under this schedule. Testing, inspection, maintenance, and repair of private fire hydrants shall be the responsibility of the property owner.

Private fire service lines shall be equipped with special meters and are to be used exclusively for fire protection purposes. No water shall be used through these connections except for purposes of underwriters' tests or extinguishment of fire. Any water usage for other purposes will be computed under the General Metered Service Rate Schedule A-1.

Rooming and boarding houses as defined in the "Rooming and Boarding House Act of 1974" and those residential health care facilities as defined in the "Health Care Facilities Planning Act," upon furnishing to the Company proof in the form of a license or certificate from the appropriate state agency that the particular facility or house is entitled to exemption, will be exempt from the charges of Rate Schedule L-11.

RATE SCHEDULE L-12
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY
Applicable for service furnished exclusively to private fire protection facilities served by the Company, throughout Service Area 1F, except as specifically provided elsewhere in this tariff. The charge for private fire protection service will consist of the total of the monthly system charge, the Lead Service Line Replacement Charge (LSLRC) as shown on Rate Schedule O-2, and the Special Program Charge (SPC) as shown on Rate Schedule O-3.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES

For each system:	Per Month
	$40.30

TERMS OF PAYMENT
Valid bills for private fire protection service furnished under this schedule are to be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least thirty (30) days' notice prior to the proposed discontinuance. The Company will adhere to all applicable notification requirements found in N.J.A.C. 14:3-3A.4(j) before discontinuing service.

TERM
Continuous until water service to the customer is permanently discontinued. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

CONDITIONS
Subject to the "Standard Terms and Conditions", including those specific to Private Fire Protection starting on Sheet No. 20, except as otherwise set forth in this Schedule. Testing, inspection, maintenance, and repair of private fire hydrants shall be the responsibility of the property owner.

SPECIAL PROVISIONS
No additional charge shall be made for water used in extinguishing fires or for underwriters' tests where service is furnished under this schedule.

Private fire service lines shall be equipped with special meters and are to be used exclusively for fire protection purposes. No water shall be used through these connections except for purposes of underwriters' tests or extinguishment of fire. Any water usage for other purposes will be computed under the General Metered Service Rate Schedule A-16.

Residential customers served by a water service line of two (2) inches or less in diameter will not be imposed a standby fee for fire protection system.

Rooming and boarding houses as defined in the "Rooming and Boarding House Act of 1974" and those residential health care facilities as defined in the "Health Care Facilities Planning Act," upon furnishing to the Company proof in the form of a license or certificate from the appropriate state agency that the particular facility or house is entitled to exemption, will be exempt from the charges of Rate Schedule L-12.

RATE SCHEDULE L-13
PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY
Applicable for service furnished exclusively to private fire protection facilities served by the Company, throughout Service Area 1G, the Egg Harbor City Utility, except as specifically provided elsewhere in this tariff.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES

1- Service Charge

Size of Connection	Per Month
For each connection of 2" or less	$58.28
For each 3" connection	58.28
For each 4" connection	58.28
For each 6" connection	124.33
For each 8" connection	233.13
For each 12" connection	543.94

2- Hydrant Charge

	Per Month
For each Hydrant	$15.00

TERMS OF PAYMENT
Valid bills for private fire protection service furnished under this schedule are to be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least thirty (30) days' notice prior to the proposed discontinuance. The Company will adhere to all applicable notification requirements found in N.J.A.C. 14:3-3A.4(j) before discontinuing service.

TERM
Continuous until water service to the customer is permanently discontinued. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

CONDITIONS
Subject to the "Standard Terms and Conditions", including those specific to Private Fire Protection starting on Sheet No. 20, except as otherwise set forth in this Schedule. Testing, inspection, maintenance, and repair of private fire hydrants shall be the responsibility of the property owner.

SPECIAL PROVISIONS
No additional charge shall be made for water used in extinguishing fires or for underwriters' tests where service is furnished under this schedule.

Private fire service lines shall be equipped with special meters and are to be used exclusively for fire protection purposes. No water shall be used through these connections except for purposes of underwriters' tests or extinguishment of fire. Any water usage for other purposes will be computed under the General Metered Service Rate Schedule A-17.

Residential customers served by a water service line of two (2) inches or less in diameter will not be imposed a standby fee for fire protection system.

Rooming and boarding houses as defined in the "Rooming and Boarding House Act of 1974" and those residential health care facilities as defined in the "Health Care Facilities Planning Act," upon furnishing to the Company proof in the form of a license or certificate from the appropriate state agency that the particular facility or house is entitled to exemption, will be exempt from the charges of Rate Schedule L-13.

RATE SCHEDULE L-14
PRIVATE FIRE PROTECTION SERVICE[3]

APPLICABILITY
Applicable for service furnished exclusively to private fire protection facilities served by the Company, throughout Service Area 1H, Salem, except as specifically provided elsewhere in this tariff.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES

1- Service Charge

Size of Connection	Per Month
For each connection of 2" or less	$53.01
For each 4" connection	249.06
For each 6" connection	438.86
For each 8" connection	619.14
For each 10" connection	805.36

2- Sprinkler Charge

	Per Month
For each Sprinkler	$0.36

TERMS OF PAYMENT
Valid bills for private fire protection service furnished under this schedule are to be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least thirty (30) days' notice prior to the proposed discontinuance. The Company will adhere to all applicable notification requirements found in N.J.A.C. 14:3-3A.4(j) before discontinuing service.

TERM
Continuous until water service to the customer is permanently discontinued. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

CONDITIONS
Subject to the "Standard Terms and Conditions", including those specific to Private Fire Protection starting on Sheet No. 20, except as otherwise set forth in this Schedule. Testing, inspection, maintenance, and repair of private fire hydrants shall be the responsibility of the property owner.

SPECIAL PROVISIONS
No additional charge shall be made for water used in extinguishing fires or for underwriters' tests where service is furnished under this schedule.

Private fire service lines shall be equipped with special meters and are to be used exclusively for fire protection purposes. No water shall be used through these connections except for purposes of underwriters' tests or extinguishment of fire. Any water usage for other purposes will be computed under General Metered Service Rate Schedule A-19 or General Metered Service Rate Schedule A-20, as applicable.

Residential customers served by a water service line of two (2) inches or less in diameter will not be imposed a standby fee for fire protection system.

Rooming and boarding houses as defined in the "Rooming and Boarding House Act of 1974" and those residential health care facilities as defined in the "Health Care Facilities Planning Act," upon furnishing to the Company proof in the form of a license or certificate from the appropriate state agency that the particular facility or house is entitled to exemption, will be exempt from the charges of Rate Schedule L-14.

[3] The rates on this schedule will increase by 3% on June 26th in 2026, 2027 and 2028 by the terms of the Agreement of Sale between the City of Salem and New Jersey-American Water Company, Inc.

RATE SCHEDULE M-1
PUBLIC FIRE PROTECTION SERVICE

APPLICABILITY
Applicable to municipalities for public fire protection service provided by the Company throughout Service Areas 1, 1C, 1E, and 2, except as specifically provided elsewhere in this tariff. The charge for public fire protection service will consist of the total of the monthly hydrant charge and the Special Program Charge (SPC) as shown on Rate Schedule O-3.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES

Hydrant Charge

	Per Month
For each Hydrant	$66.00

TERMS OF PAYMENT
Valid bills for public fire protection service furnished under this schedule are to be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance. The 10 days shall begin on the postmark date of the notice. N.J.A.C. 14:3-3A.3.

TERM
Continuous until water service to the municipality is permanently discontinued. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

RATE SCHEDULE M-2
PUBLIC FIRE PROTECTION SERVICE

APPLICABILITY
Applicable to municipalities for public fire protection service provided by the Company in Service Area 1 in the Townships of Logan and Woolwich, Gloucester County in the area formerly served by Logan Wells Water Company as well as in Ortley Beach and the Pelican Island System in Toms River Township, Ocean County, and in the Townships of Howell and Freehold, Monmouth County, in the area formerly served by Adelphia Water Company. The charge for public fire protection service will consist of the total of the monthly hydrant charge and the Special Program Charge (SPC) as shown on Rate Schedule O-3.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES

Hydrant Charge

	Per Month
For each Hydrant	$61.50

TERMS OF PAYMENT
Valid bills for public fire protection service furnished under this schedule are to be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance. The 10 days shall begin on the postmark date of the notice. N.J.A.C. 14:3-3A.3.

TERM
Continuous until water service to the municipality is permanently discontinued. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

Reserved for future use.

RATE SCHEDULE M-5
PUBLIC FIRE PROTECTION SERVICE

APPLICABILITY
Applicable to municipalities for public fire protection service provided by the Company in the Townships of Bedminster and Franklin in Service Area 2. The charge for public fire protection service will consist of the total of the monthly hydrant charge and the Special Program Charge (SPC) as shown on Rate Schedule O-3.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES

Hydrant Charge

	Per Month
For each Hydrant	$60.50

TERMS AND PAYMENT
Valid bills for public fire protection service furnished under this schedule are to be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance. The 10 days shall begin on the postmark date of the notice. N.J.A.C. 14:3-3A.3.

Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

TERM
Continuous until water service within municipality is permanently discontinued.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

RATE SCHEDULE M-6
PUBLIC FIRE PROTECTION SERVICE

APPLICABILITY
Applicable to all municipalities for public fire protection service provided by the Company in Service Area 3. The charge for public fire protection service will consist of the total of the monthly hydrant charge and the Special Program Charge (SPC) as shown on Rate Schedule O-3.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES

Hydrant Charge The amount of the bill will reflect the hydrant charge as defined hereafter for each tariff zone located in Service Area 3 as defined in Rate Schedule M-6.

Tariff Zone	For each Hydrant Per Month
3A	$42.50
3B	47.80
3C	52.30
3D	56.80
3G	63.50

TERMS OF PAYMENT
Valid bills for public fire protection service furnished under this schedule are to be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance. The 10 days shall begin on the postmark date of the notice. N.J.A.C. 14:3-3A.3.

Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

TERM
Continuous until water service within municipality is permanently discontinued. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.
The table hereafter defines the different tariff zones for Service Area 3:

Tariff Zone	Municipality
3A	• Mansfield (Columbus) Township • Springfield Township
3B	• Plumsted Township
3C	• Mansfield -Homestead • Southampton Township
3D	• Mount Holly Township
3G	• Eastampton Township • Hainesport Township • Lumberton Township • Medford Township • Westampton Township

RATE SCHEDULE M-7
PUBLIC FIRE PROTECTION SERVICE

APPLICABILITY
Applicable to municipalities for public fire protection service provided by the Company throughout Service Area 1A, except as specifically provided elsewhere in this tariff. Applicable for flat rate fire protection service in the locations where the Company has facilities suitable and adequate for the desired service upon request from the proper authorities. The charge for public fire protection service will consist of the total of the monthly hydrant charge and the Special Program Charge (SPC) as shown on Rate Schedule O-3.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES

Hydrant Charge

	Per Month
For each Hydrant	$52.50

TERMS OF PAYMENT
Valid bills for public fire protection service furnished under this schedule are to be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance. The 10 days shall begin on the postmark date of the notice. N.J.A.C. 14:3-3A.3.

TERM
Continuous until water service to the municipality is permanently discontinued. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

RATE SCHEDULE M-8
PUBLIC FIRE PROTECTION SERVICE

APPLICABILITY
Applicable to municipalities for public fire protection service provided by the Company throughout Service Areas 1B and 1H, Salem, except as specifically provided elsewhere in this tariff. Applicable for flat rate fire protection service in the locations where the Company has facilities suitable and adequate for the desired service upon request from the proper authorities. The charge for public fire protection service will consist of the total of the monthly hydrant charge and the Special Program Charge (SPC) as shown on Rate Schedule O-3.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES

Hydrant Charge

	Per Month
For each Hydrant	$45.30

TERMS OF PAYMENT
Valid bills for public fire protection service furnished under this schedule are to be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance. The 10 days shall begin on the postmark date of the notice. N.J.A.C. 14:3-3A.3.

TERM
Continuous until water service to the municipality is permanently discontinued. Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

Reserved for future use.

RATE SCHEDULE M-10
PUBLIC FIRE PROTECTION SERVICE

APPLICABILITY
Applicable to the municipality for all fire hydrants on public streets within Service Area 1D, formerly served by Applied Wastewater Management, Inc. ("Applied"), and Service Area 1F, Roxbury. The charge for public fire protection service will consist of the total of the monthly hydrant charge and the Special Program Charge (SPC) as shown on Rate Schedule O-3.

CHARACTER OF SERVICE
Continuous, except as limited by "Standard Terms and Conditions".

RATES

Hydrant Charge

	Per Month
For each Hydrant	$40.30

TERMS OF PAYMENT
Valid bills for service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance. The 10 days shall begin on the postmark date of the notice. N.J.A.C. 14:3-3A.3.

TERM
Continuous until water service to the municipality is permanently discontinued. Whenever service is established or is discontinued, all applicable fixed service charges shall be prorated to the date of establishment or discontinuance of service.

CONDITIONS
Subject to "Standard Terms and Conditions".

Reserved for future use.

RATE SCHEDULE M-12
PUBLIC FIRE PROTECTION SERVICE

APPLICABILITY
Applicable to the municipality for all fire hydrants on public streets within Service Area 1G, the Egg Harbor City Utility.

CHARACTER OF SERVICE
Continuous, except as limited by "Standard Terms and Conditions".

RATES
Hydrant Charge

	Per Month
For each Hydrant	$15.00

TERM
Continuous until water service to the municipality is permanently discontinued. Whenever service is established or is discontinued, all applicable fixed service charges shall be prorated to the date of establishment or discontinuance of service.

TERMS OF PAYMENT
Valid bills for service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date. Thereafter, the Company may not discontinue water service unless written notice is provided giving the customer at least ten (10) days' notice prior to the proposed discontinuance. The 10 days shall begin on the postmark date of the notice. N.J.A.C. 14:3-3A.3.

CONDITIONS
Subject to "Standard Terms and Conditions".

RATE SCHEDULE O-1

PURCHASED WATER ADJUSTMENT CLAUSE (PWAC)

APPLICABILITY

Applicable to all Metered Water Customer classes served by the Company in all service areas for water service, except for Manasquan Uninterruptible Service, and those customers subject to Rate Schedules I and J, who will only be subject to the PWAC for any water used in excess of their Annual Purchase Requirement.

The PWAC charge, as defined under the Standard Terms and Conditions of this tariff, is designed to recover the cost of purchased water associated with the normal operations of the Company and allow the Company to achieve a zero or near-zero deferred balance each April 1st on its purchased water costs.

CHARACTER OF SERVICE

Continuous, except as limited by the "Standard Terms and Conditions."

PURCHASED WATER ADJUSTMENT CLAUSE (PWAC) CHARGE

In addition to all other charges for metered service, the following charges per one hundred gallons or per one thousand gallons for all sales will be made to recover purchased water costs not included in the Water Charge or any other Charge:

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$0.05289	$0.5289
Exempt	All	$0.04568	$0.4568

The PWAC Charge is also applicable to any difference between the quantity of water actually purchased by the customer and any applicable take-or-pay commitment.

FILING

The Company shall endeavor to make an annual PWAC filing no later than December 1st of each year proposing a PWAC rate to be effective on or about the following April 1st.

The notice of filing and of public hearing in the annual PWAC proceedings shall include the specific rate change proposed to be implemented on April 1st. The notice shall also include the impact of such potential increases on a benchmark bill.

The annual PWAC filing shall contain, but not be limited to, the following:

1. A reconciliation of actual versus estimated costs and revenues from the last Board approved PWAC charge for purchased water;
2. Projected rates supported by projected volumes, revenues, and projected purchased water costs;
3. Deferred balances and the timeframe over which they are proposed to be collected or returned;
4. A written explanation of the circumstances that caused the deferred balances in (3) above;
5. A written explanation of any significant activities or trends which may affect costs for the prospective period; and
6. Updated tariff sheets to reflect any change to the PWAC rate.

The benchmark bill shall be the average residential water customer bill for a twelve-month period.

(Continued)

RATE SCHEDULE O-1
PURCHASED WATER ADJUSTMENT CLAUSE (PWAC)
(Continued)

PROVISIONS

Interest shall be passed onto customers through the PWAC rates at the beginning of each PWAC Year succeeding any PWAC year in which any monthly purchased water costs over recovery has taken place. Any debit or credit balance in the separate deferred net revenue or separate cost of purchased water accounts shall be determined monthly. Monthly interest shall be calculated on the average of the current and prior month's ending cumulative deferred revenue or cost of purchased water balances. Interest on such water costs shall be calculated utilizing the rate of return on rate base utilized to set rates in the Company's last preceding base rate case, and shall be changed from time to time, consistent with N.J.A.C. 14:9-7.1, et seq.

The clause shall be subject to deferred accounting, consistent with N.J.A.C. 14:9-7.1, et seq.

TERMS OF PAYMENT

See Rate Schedules for applicable customer classes.

CONDITIONS

Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

NEW JERSEY-AMERICAN WATER COMPANY, INC.
B.P.U. No. 8 – Water

Third Revised Sheet: No. 40.2
Superseding Second Revised Sheet: No. 40.2

RATE SCHEDULE O-2
LEAD SERVICE LINE REPLACEMENT CHARGE

APPLICABILITY

Applicable to all water customer classes served by the Company in all service areas for water service taking service under Rate Schedules A-1 through A-16 (GMS) and C, D, E, F, G, H, I, J, and L-1 through L12 (non-GMS). The Lead Service Line Replacement Charge is designed to recover project costs associated with replacing customer-owned lead service lines.

CHARACTER
Continuous, except as limited by the "Standard Terms and Conditions".

LEAD SERVICE LINE REPLACEMENT CHARGE (LSLRC)
In addition to all other charges for GMS and non-GMS customers throughout the entire territory served, the following charges will be assessed as follows commencing July 1, 2024:

- For each surcharge period, revenue responsibility shall be assigned to GMS customers on a volumetric basis in the same proportion as total revenue requirements were assigned to GMS in the Company's most recently concluded base rate case. Then the balance of the revenue responsibility shall be assigned to non-GMS as a fixed per customer surcharge based on the aggregate customer count of non-GMS customers.

- The non-GMS customer count and GMS volumetric usage will be updated with each surcharge filing. The non-GMS customer count will be updated to reflect the count at the end of the month prior to each surcharge filing. The GMS usage will be updated to reflect the actual usage from the six-month period during which the costs were incurred.

- GMS and non-GMS LSLRC revenue requirement allocation percentages will be updated following each base rate proceeding during the LSLRC recovery period.

RATE
This charge is in addition to Rate Schedules A-1 through A-16 (GMS) and C, D, E, F, G, H, I, J, and L-1 through L12 (non-GMS). The surcharge amounts for GMS and Non-GMS customers are as follows:

GMS Rate Per 1,000 Gallons	Non-GMS Fixed Charge Per Month
$ 0.8791	$21.24

The recovery of these costs will be shown as a LSLRC surcharge on each customer's bill.

FILING
The LSLRC is authorized pursuant to N.J.S. A. 58:12A-40, et seq. (Lead Service Line Replacement Law) and the procedures for filing, approving and implementing the LSLRC are set forth therein, along with the Company's Lead Service Line Replacement Plan, which was reviewed and approved by the Board of Public Utilities in BPU Docket No. WR22010017 on October 12, 2022, and the BPU Order approving said Plan.

The approval process for implementing this surcharge includes public notice and hearing. The notice included a proposed surcharge amount based on the actual project costs associated with the replacement of customer-owned lead service lines incurred by the Company between July 1, 2020 and October 31, 2022, as well as estimated surcharge amounts for the first five years of the lead service line replacement program, which were estimated based on estimated construction schedules, costs and other factors described in the approved Lead Service Line Replacement Plan. Pursuant to the approved Lead Service Line Replacement Plan, the Company shall endeavor to make semi-annual LSLRC filings at approximately six-month intervals. In addition, to ensure that customers are surcharged the proper amount, the Company will reconcile any over- or under-collections on an annual basis as part of its surcharge filings.

TERMS OF PAYMENT
See Rate Schedules for applicable customer classes.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

Issued: May 17, 2024

Effective: July 1, 2024

By: Mark K. McDonough, President
1 Water Street, Camden, NJ 08102
Filed pursuant to Order of the Board of Public Utilities entered in
Docket No. WR22010017 dated October 12, 2022.

RATE SCHEDULE O-3
SOCIETAL PROGRAMS

APPLICABILITY
Applicable to all water and wastewater customer classes served by the Company in all service areas taking water service under Rate Schedules A-1 through A-16 (GMS) and C, D, E, F, G, H, I, J, L-1 through L12, M-1 through M-12, and wastewater service under Rate Schedules 1-A through 19-A (non-GMS).

CHARACTER
Continuous, except as limited by the “Standard Terms and Conditions”.

RATE

SPECIAL PROGRAM CHARGE (SPC)

In addition to all other charges for GMS and non-GMS water and wastewater service, an SPC charge will apply from June 1, 2024 through May 31, 2027 to recover incremental costs incurred during the COVID-19 pandemic.

The following charges will be assessed as follows commencing June 1, 2024, subject to annual reconciliation:

GMS Rate Per 1,000 Gallons	Non-GMS Fixed Charge Per Month
$0.0551	$0.99

TERMS OF PAYMENT

See Rate Schedules for applicable customer classes.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

RATE SCHEDULE O-4
UNIVERSAL AFFORDABILITY

AVAILABILITY

Available to all residential water customers served by the Company in all service areas who meet the income criteria of 200% or less than the Federal Poverty Level ("FPL"). NJ Shares determines and maintains the qualification requirements for the Company's discount programs. Customers who qualify for the program are required to recertify income eligibility every two years.

APPLICABILITY

The discount will be applied to the Fixed Service Charge and Water Charge (volumetric) portion of the bill for water service. The discount will not be applied to the Purchased Water Adjustment Clause (PWAC) Charge, as shown on Rate Schedule O-1, the Lead Service Line Replacement Charge (LSLRC), as shown on Rate Schedule O-2, the Special Program Charge (SPC) as shown on Rate Schedule O-3, or the Distribution System Improvement Charge (DSIC), as shown on Rate Schedule K.

DISCOUNT

	Household Income	Fixed Service Charge Discount	Water Charge Discount
Tier 1	0% - 50% of FPL	60%	60%
Tier 2	51% - 100% of FPL	45%	45%
Tier 3	101% - 150% of FPL	30%	30%
Tier 4	151% - 200% of FPL	15%	15%

RATE SCHEDULE P-1
MISCELLANEOUS SERVICE

APPLICABILITY
Applicable throughout the entire area served by the Company for Miscellaneous Municipal Service, General Building Construction and Trucked Bulk Water Sales.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES
(a) Miscellaneous Municipal Service: Each customer shall pay for all water used for street sprinkling, street or sewer flushing, swimming pools or other miscellaneous uses at the General Metered Service Rates of this tariff as applicable. Water consumption will determined by metering or by such other method as may be mutually agreed upon by the customer and the Company. Fire hydrants are not to be used for this service without the express consent of the Company in each circumstance where this service is required. No person, other than municipal fire and Company personnel is permitted to operate or take water from any public fire hydrant for street sprinkling, flushing sewers, storm water drains, or any purpose unless authorized by the Company and the fire chief of the municipality in writing and upon the terms and conditions set forth by the fire chief and the Company therein.

(b) Water For Building Construction: Where water service is temporarily furnished for building construction and/or any other temporary use, it shall, wherever practical, be supplied through a meter at the General Metered Service Rates of this tariff as applicable. Should a new service be required to provide this temporary use, the customer shall pay the cost to install and remove the service. No person, other than municipal fire and Company personnel, is permitted to operate or take water from any public fire hydrant for building construction or any purpose unless authorized by the Company and the fire chief of the municipality in writing and upon the terms and conditions set forth by the fire chief and the Company therein.

(c) Bulk Water Sales for water transfers using Trucks and Tanks: Water sales to customers or entities using trucks or tanks to receive water service from the Company that require additional attention may affect the Company's daily operations. A surcharge in the amount of $50 may be applied for each such request in addition to the water charge as set forth in the applicable General Metered Service Rates of this tariff. If at any time the Company determines that a customer or entity has taken water without permission or proper compensation to the Company under this provision, the Company reserves the right to refuse to sell water to the customer or entity hereunder. Bulk Water Sales for water transfers using trucks and tanks in Service Area 1H, Salem, will be charged $19.95 per 1,000 gallons.

TERMS OF PAYMENT
All charges rendered under this Rate Schedule are in arrears for metered service and in advance for un-metered service. At the option of the Company, a deposit may be required for metered service billed in arrears, in accordance with N.J.A.C. 14:3-3.4, et seq. The Company may not require a deposit for un-metered service billed in advance in accordance with N.J.A.C. 14:3-3.4(i). Bills are due twenty (20) days from the date of the postmark on the envelope in which the bill is transmitted or electronic transmission date for customers on electronic billing.

TERM
Continuous until water service to the customer is permanently discontinued.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

SPECIAL PROVISIONS
Where metered service is provided through a hydrant meter, a deposit equal to the cost of the hydrant meter may be required by the Company. The meter shall be kept safe and accessible during its use. The deposit, less the cost of repairs to the meter, if any, will be returned to the applicant by the Company after surrender of the meter and payment of all charges for water supplied through it.

RATE SCHEDULE P-2
MISCELLANEOUS SERVICE –
CHARGES NOT INVOLVING THE USE OF WATER

APPLICABILITY
Applicable to all classes of customers unless specified for the following classes of miscellaneous services throughout the entire area served by the Company.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RECONNECTIONS AND RECONNECTION CHARGE

1. Resumption of service rates due to: discontinuance of service as a result of non-payment of bills; violation of the Company's tariff rules; the voluntary request of the customer when the meter has not been removed (e.g. seasonal requests) or for customer's convenience, are set forth as follows.

Conditions	Rate
Normal working hours For the purpose of requests for reconnection services under this section, normal working hours are as follows: Monday through Friday* 8 AM to 6 PM Saturday* 8 AM to 2 PM *Except for holidays recognized by the State of New Jersey.	$28.00
After-hours restoration of service The Company has 12 hours from proper application by the customer to restore service, after all of the conditions under which such service was discontinued are corrected and the utility has received notice of payment. Requests for reconnection of service that must be worked all days and times outside of normal working hours as listed above, plus holidays recognized by the State of New Jersey, are subject to the after-hours restoration of service rate.	$100.00

2. Resumption of service when a customer's service has been reconnected without the permission of the Company after service has been terminated by the Company for non-payment of bills or violation of the Company's tariff. The Company will physically disconnect the customer's service for a second time and the customer will be required to pay, in addition to any outstanding or delinquent amount, the Company's actual cost of reconnection or $350.00, whichever is more, before service is restored. The Company shall give written notice to the customer that if service is reconnected again without the permission of the Company, it will be necessary for the Company to excavate and physically disconnect service and that a reconnection charge of $500, or the actual cost incurred by the Company to excavate and physically disconnect and reconnect the service, whichever is more, will be made. The Company may also seek criminal prosecution under N.J.S.A. 2C:20-8c as well as civil damages.

(Continued)

RATE SCHEDULE P-2
MISCELLANEOUS SERVICE –
CHARGES NOT INVOLVING THE USE OF WATER
(Continued)

3. Requirement for Customer to be Present for Reconnection. Customers must be present on the premises when the Company reconnects a discontinued water service to said premises. Notwithstanding the foregoing, if the customer is not present but has given consent to the Company to reconnect the water service in his, her or its absence, the Company may reconnect the water service. In such case, the customer is solely responsible for any damage incurred by the customer and/or to the customer's premises due to an approved reconnection of service when the customer is not present at the time of said reconnection, provided that the customer will not be responsible for damage due to the sole negligence of the Company.

CROSS CONNECTION INSPECTION CHARGE
A charge of $75.00 will be imposed by the Company for an inspection of each cross-connection device installed between an unapproved source of supply and the Company's water supply, subject to the availability of Company resources. The customer must provide proof of inspection.

METER TESTING AND REPLACEMENT CHARGE

1. Customer Request for Additional Meter Testing. If a customer requests that the Company test a meter during any twelve (12) month period in which the Company has already provided one free meter test per N.J.A.C. 14:3-4.5, or if the meter first referred to has been in use less than two years, and the meter is found to be accurate, the Company may charge the customer a fee for removing the meter and a fee for testing the meter as follows:

Schedule for removing and replacing a meter

Meter Size	Rate
Meters up to and including 2" in diameter	$37.00
Meters larger than 2" in diameter	Actual cost

These charges will not exceed the replacement cost of the meter.

Schedule for testing the meter

Meter Size	Rate
All meters from ⅝ inches up to 1 inch	$50.00
All meters from 1 ½ inches up to 3 inches	$75.00
All meters from 4 inches up to 10 inches	$100.00
All meters from 12 inches and larger	$125.00

2. Removing, Repairing and Replacing Meters damaged due to negligence of the customer. The Company may impose a charge on any customer who causes damage to a meter as follows:

(a) Repair Only: Actual cost of materials used to repair the meter, and the actual cost of labor required to repair and reinstall the meter.

(b) Meter Replacement for Non-repairable Meters: Actual cost of a new meter, materials used to replace the meter, and the actual cost to install the meter, including the cost of labor required to install the meter.

(Continued)

RATE SCHEDULE P-2
MISCELLANEOUS SERVICE –
CHARGES NOT INVOLVING THE USE OF WATER
(Continued)

BAD CHECK CHARGE
If the Company receives a negotiable instrument from a customer in payment of a bill, charge, or deposit due, and such instrument is subsequently dishonored or uncollectible for any reason, the Company shall charge the customer a handling charge per instrument of $15.00.

If a bad check charge is applied to a customer account, that amount, as well as the amount of the dishonored check shall be paid with cash, certified check, money order, bank check, or other means of guaranteed payment before such account shall be deemed paid. Additionally, if a customer presents two checks that are dishonored by the bank as a result of the customer's error, the customer will be required to pay by the methods stated above for a period of twelve months from the date of the last dishonored check.

The provisions of this tariff section shall not be deemed to require a customer to submit to automatic deduction from any bank account, credit card, or by on-line banking but the Company may offer same as an option provided the customer is presented with all other available options offered by the Company.

UNAUTHORIZED USE OF COMPANY FACILITIES
There will be a minimum charge of $500.00 for unauthorized use of Company facilities plus costs for repair of any damages to Company property resulting therefrom.

TERMS OF PAYMENT
Valid bills furnished under this schedule are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

TERM
Continuous until water service to the customer is permanently discontinued.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

SPECIAL PROVISIONS
The Company may waive the fees and charges referenced in this Rate Schedule P-2 for a customer who is enrolled in the Company's H20 Help to Others Assistance Program or the H20 Help to Others Discount Program, provided that the customer is not deemed to have been abusing and/or taking advantage of the system, including but not limited to repeatedly requiring service reconnections more than three (3) times in any twelve (12) month period.

RATE SCHEDULE P-3
MULTI-USE SERVICE LINE

APPLICABILITY

The Company will provide an option to customers, upon request and where applicable, to use a "multi-use" service line per N.J.A.C. 14:9-8.3 et seq.

"Multi-use service" means water service that is supplied through one water line extending from the water main to the structure, and which is used for both domestic water service on the premises and for fire suppression service inside a structure. A multi-use service is not private fire protection service.

Terms and Conditions not defined specifically below for Multi-Use services shall be the same as those under the STANDARD TERMS AND CONDITIONS.

RATES

Rates applicable to multi-use service are those found in the Company's General Metered Service Rate Schedules in this tariff as applicable.

TERMS OF PAYMENT

A water utility may terminate a customer's multi-use service for non-payment of a valid water bill for multi-use service, in accordance with the Board's rules governing discontinuance of such service at N.J.A.C. 14:3-3A.4(j) and N.J.A.C. 14:9-8.3.

CONDITIONS

By applying for multi-use service, the customer or builder certifies that:

1. The customer or builder has hydraulically calculated the demand for the customer's or builder's water system, based on the simultaneous domestic and fire sprinkler demand. The customer or builder shall make this calculation in accordance with the Uniform Construction Code and any other applicable state or local codes; and

2. The customer or builder will ensure that the system is installed in accordance with the Uniform Construction Code at N.J.A.C. 5:23; and

3. The customer will, prior to installation of the meter, obtain and provide the Company with a copy of a valid construction permit in accordance with the Uniform Construction Code from the enforcing agency having jurisdiction over the system.

GENERAL TERMS AND CONDITIONS

1- By applying for multi-use service, the customer agrees to be responsible for all claims, costs and liability for personal injury, death and/or property damage, resulting from the customer's individual water system, and agrees that the Company shall not be so liable unless caused by the negligence of the water utility. (N.J.A.C. 14:9-8.3(d))

2- All multi-use service lines shall be metered, and the meter shall be located in a meter pit or vault located outside of the Customer's structure. The meter pit or vault shall be installed at a location acceptable to the express, advance approval of the Water Company, and otherwise shall comply with the Company's standard terms and conditions.

3- If a customer requests a change in meter size associated with a multi-service meter, the customer must re-apply for service and re-certify each item addressed in this Rate Schedule.

(Continued)

RATE SCHEDULE P-3
MULTI-USE SERVICE LINE
(Continued)

PROVISION OF SERVICES

By applying for multi-use service, and operating the same, the customer agrees:

1. To include a backflow prevention device(s) as defined at N.J.A.C. 7:10-1.3, and as specified at N.J.A.C. 7:10-10.3;

2. To be solely responsible for all costs and expenses relating to the installation, operation, maintenance, repair and replacement of the customer's water system, including the fire suppression system and backflow prevention device(s);

3. To ensure that the customer's water system complies with the applicable requirements of the Uniform Construction Code in effect at the time of system installation, including any applicable building, plumbing and fire protection sub-codes; and

4. To ensure that the customer's water system is maintained in accordance with all applicable law so as to protect against backflow, back-siphonage and contamination of the potable water system.

NEW JERSEY-AMERICAN WATER COMPANY, INC. Twelfth Revised Sheet: No. 44
B.P.U. No. 8 – Wastewater Superseding Eleventh Revised Sheet: No. 44

AREA SERVED – WASTEWATER SERVICE

	County	Municipality	All or Portion	Development/Section	Wastewater System
**	Atlantic	City of Egg Harbor	All	N/A	Egg Harbor City
**	Atlantic	Twp. of Galloway	Portion	N/A	Egg Harbor City
**	Atlantic	Twp. of Mullica	Portion	N/A	Egg Harbor City
A)	Bergen	Twp. of Oakland	Portion	Ramapo River Reserve	Ramapo River Reserve
A)	Burlington	Twp. of Mansfield	Portion	Mapleton (Mansfield Farms)	Mapleton
B)	Burlington	Twp. of Mansfield	Portion	Homestead (Country Walk)	Homestead
D)	Burlington	Twp. of Mansfield	Portion	John Hydock Elementary School	Mapleton
D)	Burlington	Twp. of Mansfield	Portion	Northern Burlington School	Mapleton
**	Burlington	Twp. of Mansfield	Portion	Mansfield Warehousing Area	
**	Camden	Borough of Haddonfield	All	N/A	Haddonfield/CCMUA
**	Camden	Borough of Mount Ephraim	All	N/A	Mount Ephraim
A)	Cape May	Twp. of Middle	Portion	Avalon Country Club	Avalon Links
*	Cape May	Ocean City	All	N/A	Ocean City/CMCMUA
**	Gloucester	Twp. of Elk	All	N/A	Elk Township
A)	Hunterdon	Borough of Bloomsbury	Portion	Fawn Run	Fawn Run
A)	Hunterdon	Twp. of Tewksbury	Portion	Crossroads at Oldwick	Crossroads
*	Hunterdon	Twp. of Tewksbury	Portion	Pottersville	Pottersville
A)	Hunterdon	Twp. of Union	Portion	Village Square	Village Square
A)	Hunterdon	Twp. of Clinton	Portion	Brass Castle	Brass Castle
A)	Hunterdon	Twp. of Union	Portion	Lookout Pointe	Lookout Pointe
A)	Hunterdon	Twp. of Clinton	Portion	Glen Meadows & Twin Oaks	Glen Meadows
A)	Monmouth	Twp. of Upper Freehold	Portion	Four Seasons at Upper Freehold	Beacon Hill
D)	Monmouth	Twp. of Upper Freehold	Portion	Beacon Hill Clubhouse	Beacon Hill
*, **	Monmouth	Twp. of Howell	Portion	N/A	Howell/MRRSA/OCUA
A)	Morris	Twp. of Mount Olive	Portion	Country Oaks	Country Oaks
A)	Morris	Twp. of Chester	Portion	Four Seasons @ Chester	Four Seasons @ Chester
A)	Morris	Twp. of Jefferson	Portion	Peaks @ Jefferson	Jefferson Peaks
A)	Morris	Twp. of Mount Olive	Portion	Morris Chase	Morris Chase
**	Morris	Twp. of Long Hill	All	N/A	Long Hill Township
*	Ocean	Twp. of Lakewood	Portion	N/A	Lakewood/OCUA
**	Ocean	Twp. of Plumsted	Portion	Jensen's Deep Run	Jensen's
**	Salem	City of Salem	All	N/A	Salem
C)	Somerset	Twp. of Bedminster	Portion	N/A	EDC
C)	Somerset	Twp. of Bernards	Portion	N/A	EDC
**	Somerset	Borough of Bound Brook	All	N/A	Bound Brook
**	Somerset	Twp. of Bridgewater	Portion	Somerville Adjacent	Somerville
A)	Somerset	Twp. of Hillsborough	Portion	Hillsborough Chase	Hillsborough Chase
**	Somerset	Borough of Somerville	All	N/A	Somerville
A)	Warren	Twp. of Washington	Portion	Hawk Pointe	Hawk Pointe

KEY:

A) Community On-Site Water and/or Wastewater System (COWS) (formerly served by Applied)
B) Homestead (formerly served by Applied)
C) Wastewater system of the former Environmental Disposal Corp. ("EDC")
D) Other Contracts (formerly served by Applied)
* Wastewater systems served by the Company prior to the merger of Applied Wastewater Management, Inc. ("Applied") into the Company on September 1, 2010.
** Systems acquired by the Company after January 1, 2011.

WASTEWATER SERVICE RATE SCHEDULES
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Rate schedules are applicable for service provided in the entire area served as follows:

Location/Type	Class of Service	Rate Schedule	Sheet No.
Ocean City	General Metered Service	1-A	46
Ocean City	Purchased Wastewater Treatment Adjustment (PSTAC)	1-B	47
Statewide Collection	General Metered Service	2-A	48
Lakewood Township	Purchased Wastewater Treatment Adjustment (PSTAC)	2-B	49
Howell Township	Purchased Wastewater Treatment Adjustment (PSTAC)	3-B	51
Statewide Collection and Treatment	General Flat Rate Service	5-A	52
Statewide Collection and Treatment	General Metered Service	6-A	53
Other Contracts (C) former EDC service area, and (D) former Applied service area	Contracts	8-A	54
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Plumsted Township (Jensen's Deep Run)	General Metered Service	10-A	56
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Egg Harbor City Utility	Purchased Wastewater Treatment Adjustment (PSTAC)	16-B	63
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RATE SCHEDULE 1-A
GENERAL METERED SERVICE

APPLICABILITY
Applicable for general residential, commercial, industrial and municipal wastewater service in the City of Ocean City. The charge for wastewater service shall consist of the total of the Minimum Service Charge, the Volumetric Wastewater Charge, the Purchased Wastewater Treatment Adjustment Clause (PSTAC) Charge, as defined under the Standard Terms and Conditions in this tariff and as shown on Rate Schedule 1-B, the Special Program Charge (SPC) as shown on Rate Schedule O-3, and the Wastewater System Improvement Charge (WSIC), as shown on Rate Schedule 9-A.1.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

MINIMUM SERVICE CHARGE
All wastewater service customers shall pay a Minimum Service Charge in addition to the Volumetric Wastewater Charge, if any. The Minimum Service Charge for a customer is determined every January 1 for the year based on the water usage for the prior July, August and September meter readings ("Summer Quarter Consumption") but in no event will a customer be billed for less than 7,480 gallons per year for wastewater service.

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$1.53000	$15.3000

VOLUMETRIC WASTEWATER CHARGE
The volume of wastewater discharged is assumed to equal water meter registration. Charges shall be based on water consumption as indicated by water meter readings on a monthly basis.

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$0.37520	$3.7520

TERMS OF PAYMENT

The following plan for payment of the Annual Minimum Service Charge is offered as a convenience to our customers and, in the case of seasonal service, does not relieve the customer of the liability to pay the entire Annual Minimum Service Charge if wastewater service is rendered for only a portion of the calendar year. In the case of a non-seasonal customer terminating their account, the customer shall be billed for service provided through the date of service termination.

A new customer, initiating service at existing premises, shall be billed for such service as of the account activation date. The new customer account usage will be based on the existing premises last known summer quarter consumption, until the new customer establishes a summer quarter consumption. A new customer account without established summer quarter consumption data will be required to pay a pro-rata share of the Annual Minimum Service Charge, until the new customer establishes a summer quarter consumption. The proration shall be based on the portion of the calendar year for which the customer receives service.

In addition, in the case of a reactivated account, the customer will be required to pay for the charges as if the account had been active as of January 1. The calculated Annual Minimum Service Charge will therefore be billed across the remaining installment billing periods in that calendar year.

For monthly billed customers, one-twelfth of the Minimum Service Charge shall be due and payable upon receipt of the regular bill for wastewater service.

If the Company determines by application of the following criteria that the customer's past record of payments does not warrant application of this payment plan, the Company may require payment of the entire service charge at one time rather than in installments.

1. If a customer has been terminated at least once in the past two years for non-payment of a bill for wastewater service; or,
2. If a customer receives three (3) Final Reminder Notices during a twelve-month period.

Usage charges based upon meter readings shall be billed in monthly in arrears. Valid bills for service furnished under this schedule are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

RATE SCHEDULE 1-B
PURCHASED WASTEWATER TREATMENT ADJUSTMENT CLAUSE (PSTAC)

APPLICABILITY
Applicable to all Wastewater Service customer classes including general residential, commercial, industrial and municipal wastewater service in the City of Ocean City. The PSTAC charge, as defined under the Standard Terms and Conditions in this tariff, is designed to recover the cost of purchased wastewater treatment and disposal costs associated with the normal operations of the Company, and allow the Company to achieve a zero or near-zero deferred balance each April 1st on its purchased wastewater treatment and disposal costs.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

PURCHASED WASTEWATER TREATMENT ADJUSTMENT CLAUSE (PSTAC) CHARGE
In addition to all other charges for general metered service, the following PSTAC charges per one hundred gallons and per one thousand gallons for all sales will be charged based on the Summer Quarter Consumption as defined in the Minimum Service Charge section of Wastewater-Rate Schedule 1-A to recover purchased wastewater treatment and disposal costs, but in no event will the consumption level for PSTAC be less than 7,480 gallons per year.

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1000 Gallons
Non-Exempt	All	$3.11310	$31.1310

FILING
The Company shall endeavor to make an annual PSTAC filing no later than December 1st of each year, proposing a PSTAC rate or percentage to be effective on or about the following April 1st.

The notice of filing and of public hearing in the annual PSTAC proceedings shall include the specific rate change proposed to be implemented on April 1st. The notice shall also include the impact of such potential increases on a benchmark bill.

The annual PSTAC filing shall contain, but not be limited to, the following:

1. A reconciliation of actual versus estimated costs and revenues from the last Board approved PSTAC charge for wastewater treatment and disposal;
2. Projected rates supported by projected volumes, revenues, and projected purchased wastewater treatment and disposal costs;
3. Deferred balances and the timeframe over which they are proposed to be collected or returned;
4. A written explanation of the circumstances that caused the deferred balances in (3) above;
5. A written explanation of any significant activities or trends which may affect costs for the prospective period; and
6. Updated tariff sheets to reflect any change to the PSTAC rate.

The benchmark bill shall be the average residential wastewater customer bill for a twelve-month period.

TERMS OF PAYMENT
See Rate Schedule for the applicable customer classes.

(Continued)

RATE SCHEDULE 1-B
PURCHASED WASTEWATER TREATMENT ADJUSTMENT CLAUSE (PSTAC)
(Continued)

PROVISIONS

Interest shall be passed onto customers through the PSTAC rates at the beginning of each PSTAC Year succeeding any PSTAC year in which any net monthly purchased wastewater treatment and disposal costs over recovery has taken place. Any debit or credit balance in the separate deferred revenue or separate cost of wastewater treatment accounts shall be determined monthly. Monthly interest shall be calculated on the average of the current and prior month's ending cumulative deferred revenue or cost of wastewater treatment balances. Interest on such wastewater treatment costs shall be calculated utilizing the rate of return on rate base utilized to set rates in the Company's last preceding base rate case, and shall be changed from time to time, consistent with N.J.A.C. 14:9-7, et seq.

The clause shall be subject to deferred accounting, consistent with N.J.A.C. 14:9-7, et seq.

TERM
Continuous until wastewater service to the customer is permanently discontinued.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

RATE SCHEDULE 2-A
GENERAL METERED SERVICE
STATEWIDE WASTEWATER COLLECTION AREAS

APPLICABILITY
Applicable for general residential, commercial, industrial and municipal wastewater service in the Statewide Wastewater Collection Areas including Lakewood, Elk Township, and the Adelphia System (service area of the former Adelphia Sewer Company) and other franchise areas within the Township of Howell. The charge for wastewater service shall consist of the total of the Fixed Service Charge, the Volumetric Wastewater Charge, the Purchased Wastewater Treatment Adjustment Clause (PSTAC) Charge, as defined under the Standard Terms and Conditions in this Tariff, shown on Rate Schedule 2-B (Lakewood), Rate Schedule 3-B (Howell and Adelphia System), and Rate Schedule 12-B (Elk Township), the Special Program Charge (SPC) as shown on Rate Schedule O-3, and the Wastewater System Improvement Charge (WSIC), as shown on Rate Schedule 9-A.1.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

FIXED SERVICE CHARGE
All wastewater service customers shall pay a Fixed Service Charge in addition to the Volumetric Wastewater Charge, if any, as follows:

	Non-Exempt
Fixed Service Charge per customer per month.	$17.00

VOLUMETRIC WASTEWATER CHARGE
The volume of wastewater discharged is assumed to equal water meter registration. See Standard Terms and Conditions – Wastewater, Sheet No. 23, for an explanation of how monthly Volumetric Wastewater Charges are calculated.

Volumetric Charges

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$0.55730	$5.5730

TERMS OF PAYMENT
Valid bills for service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

RATE SCHEDULE 2-B
PURCHASED WASTEWATER TREATMENT ADJUSTMENT CLAUSE (PSTAC)

APPLICABILITY
Applicable to all Wastewater Service customer classes including general residential, commercial, industrial and municipal wastewater service in the Statewide Wastewater Collection Area (Lakewood). The PSTAC charge, as defined under the Standard Terms and Conditions in this Tariff, is designed to recover the cost of purchased wastewater treatment and disposal costs associated with the normal operations of the Company, and allow the Company to achieve a zero or near-zero deferred balance each April 1st on its purchased wastewater treatment and disposal costs.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

PURCHASED WASTEWATER TREATMENT ADJUSTMENT CLAUSE (PSTAC) CHARGE
In addition to all other charges for general metered service, the following charges per one hundred gallons and per one thousand gallons for all sales will be made to recover purchased wastewater treatment and disposal costs not included in the Volumetric Wastewater Charge or any other Charge as set forth in Rate Schedule 2-A of the current Tariff:

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$ 0.42215	$4.2215

FILING
The Company shall endeavor to make an annual PSTAC filing no later than December 1st of each year, proposing a PSTAC rate or percentage to be effective on or about the following April 1st.

The notice of filing and of public hearing in the annual PSTAC proceedings shall include the specific rate change proposed to be implemented on April 1st. The notice shall also include the impact of such potential increases on a benchmark bill.

The annual PSTAC filing shall contain, but not be limited to, the following:

1. A reconciliation of actual versus estimated costs and revenues from the last Board approved PSTAC charge for purchased wastewater treatment and disposal;
2. Projected rates supported by projected volumes, revenues, and projected purchased wastewater treatment and disposal costs;
3. Deferred balances and the timeframe over which they are proposed to be collected or returned;
4. A written explanation of the circumstances that caused the deferred balances in (3) above;
5. A written explanation of any significant activities or trends which may affect costs for the prospective period; and
6. Updated tariff sheets to reflect any change to the PSTAC rate.

The benchmark bill shall be the average residential wastewater customer bill for a twelve-month period.

(Continued)

RATE SCHEDULE 2-B
PURCHASED WASTEWATER TREATMENT ADJUSTMENT CLAUSE (PSTAC)
(Continued)

PROVISIONS

Interest shall be passed onto customers through the PSTAC rates at the beginning of each PSTAC Year succeeding any PSTAC year in which any net monthly purchased wastewater treatment and disposal costs over recovery has taken place. Any debit or credit balance in the separate deferred revenue or separate cost of wastewater treatment accounts shall be determined monthly. Monthly interest shall be calculated on the average of the current and prior month's ending cumulative deferred revenue or cost of wastewater treatment balances. Interest on such wastewater treatment costs shall be calculated utilizing the rate of return on rate base utilized to set rates in the Company's last preceding base rate case, and shall be changed from time to time, consistent with N.J.A.C., 14:9-7, et seq.

The clause shall be subject to deferred accounting, consistent with N.J.A.C. 14:9-7, et seq.

TERMS OF PAYMENT
See Rate Schedule for the applicable customer class.

TERM
Continuous until wastewater service to the customer is permanently discontinued.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

Reserved for Future Use

RATE SCHEDULE 3-B

PURCHASED WASTEWATER TREATMENT ADJUSTMENT CLAUSE (PSTAC)

APPLICABILITY

Applicable to all Wastewater Service customer classes including general residential, commercial, industrial and municipal wastewater service customers provided service by the Company's Adelphia System (service area of the former Adelphia Sewer Company) and other franchise areas within the Township of Howell in Monmouth County. The PSTAC charge, as defined under the Standard Terms and Conditions in this Tariff, is designed to recover the cost of purchased wastewater treatment and disposal associated with the normal operations of the Company, and allow the Company to achieve a zero or near-zero deferred balance each April 1st on its purchased wastewater treatment and disposal costs.

CHARACTER OF SERVICE

Continuous, except as limited by the "Standard Terms and Conditions."

PURCHASED WASTEWATER TREATMENT ADJUSTMENT CLAUSE (PSTAC) CHARGE

In addition to all other charges for general metered service, the following charges per one hundred gallons and per one thousand gallons for all sales will be made to recover purchased wastewater treatment and disposal costs not included in the Volumetric Wastewater Charge or any other Charge as set forth in Rate Schedule 2-A of the current Tariff:

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$0.69696	$6.9696

FILING

The Company shall endeavor to make an annual PSTAC filing no later than December 1st of each year, proposing a PSTAC rate to be effective on or about the following April 1st.

The notice of filing and of public hearing in the annual PSTAC proceedings shall include the specific rate change proposed to be implemented on April 1st. The notice shall also include the impact of such potential increases on a benchmark bill.

The annual PSTAC filing shall contain, but not be limited to, the following:

1. A reconciliation of actual versus estimated costs and revenues from the last Board approved PSTAC charge for purchased wastewater treatment and disposal;
2. Projected rates supported by projected volumes, revenues, and projected purchased wastewater treatment and disposal costs;
3. Deferred balances and the timeframe over which they are proposed to be collected or returned;
4. A written explanation of the circumstances that caused the deferred balances in (3) above;
5. A written explanation of any significant activities or trends which may affect costs for the prospective period; and
6. Updated tariff sheets to reflect any change to the PSTAC rate.

The benchmark bill shall be the average residential wastewater customer bill for a twelve-month period.

(Continued)

RATE SCHEDULE 3-B
PURCHASED WASTEWATER TREATMENT ADJUSTMENT CLAUSE (PSTAC)
(Continued)

PROVISIONS

Interest shall be passed onto customers through the PSTAC rates at the beginning of each PSTAC Year succeeding any PSTAC year in which any net monthly purchased wastewater treatment and disposal costs over recovery has taken place. Any debit or credit balance in the separate deferred revenue or separate cost of wastewater treatment accounts shall be determined monthly. Monthly interest shall be calculated on the average of the current and prior month's ending cumulative deferred revenue or cost of wastewater treatment balances. Interest on such wastewater treatment costs shall be calculated utilizing the rate of return on rate base utilized to set rates in the Company's last preceding base rate case, and shall be changed from time to time, consistent with N.J.A.C. 14:9-7 et seq.

The clause shall be subject to deferred accounting, consistent with N.J.A.C. 14:9-7, et seq.

TERMS OF PAYMENT
See Rate Schedule for the applicable customer class.

TERM
Continuous until wastewater service to the customer is permanently discontinued.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

RATE SCHEDULE 5-A
GENERAL FLAT RATE SERVICE
STATEWIDE COLLECTION AND TREATMENT AREAS

APPLICABILITY FOR GENERAL FLAT RATE WASTEWATER SERVICE CUSTOMERS
Applicable to all general flat rate wastewater service customers located in the Company's Tewksbury System (Pottersville - service area of the former Valley Road Sewerage Company) in the Township of Tewksbury in Hunterdon County, and Service Areas noted as (A) and (B), formerly served by Applied Wastewater Management, Inc. ("Applied"), on Sheet No. 44 (COWS) who are not water service customers of NJAWC. The Class A/Class B designations in effect at the time rates were set by the Board in Docket. No. WR11070460 (May 1, 2012) shall remain in effect unless changed by order of the Board. No new Class A designations shall be made except at the discretion of the Company. The Company's charge for wastewater service shall consist of the total of a Flat Rate Service Charge, the Special Program Charge (SPC) as shown on Rate Schedule O-3, and the Wastewater System Improvement Charge (WSIC), as shown on Rate Schedule 9-A.1.

FLAT RATE SERVICE CHARGE – GENERAL FLAT RATE WASTEWATER CUSTOMERS
All wastewater service customers shall pay a flat rate service charge as indicated below.

	RATE PER MONTH
CLASS A	$86.00
CLASS B	100.00

The Class A/Class B designations in effect at the time rates were set by the Board in Docket. No. WR11070460 (May 1, 2012) are as follows:

CLASS A
4 BEDROOM AGE RESTRICTED
3 BEDROOM AGE RESTRICTED
2 BEDROOM TOWNHOUSE
3 BEDROOM TOWNHOUSE AGE RESTRICTED
2 BEDROOM AGE RESTRICTED
1 BEDROOM TOWNHOUSE

CLASS B
DETACHED SINGLE FAMILY
3 BEDROOM TOWNHOUSE

CHARACTER OF FLAT RATE SERVICE
Continuous (unmetered), except as limited by the "Standard Terms and Conditions."

TERMS OF PAYMENT
Valid bills for service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

RATE SCHEDULE 6-A
GENERAL METERED SERVICE
STATEWIDE COLLECTION AND TREATMENT AREAS

APPLICABILITY FOR GENERAL METERED WASTEWATER SERVICE CUSTOMERS
Applicable to all general metered wastewater service customers located in the Company's Tewksbury System (Pottersville - service area of the former Valley Road Sewerage Company) in the Township of Tewksbury in Hunterdon County, Service Areas noted as (A) and (B), formerly served by Applied Wastewater Management, Inc. ("Applied"), on Sheet No. 44 (COWS and Homestead) who receive volume-based water service billings from NJAWC, and the Mansfield Warehousing Area. The Company's charge for wastewater service shall consist of the total of the Fixed Service Charge, a Volumetric Wastewater Charge, the Special Program Charge (SPC) as shown on Rate Schedule O-3, and the Wastewater System Improvement Charge (WSIC) as shown on Rate Schedule 9-A.1.

RATES

FIXED SERVICE CHARGE – GENERAL METERED WASTEWATER CUSTOMERS
All wastewater service customers shall pay a Fixed Service Charge as indicated below, in addition to the Volumetric Wastewater Charge, if any.

	RATE PER MONTH
Non-Exempt	$65.68

VOLUMETRIC WASTEWATER CHARGE – GENERAL METERED WASTEWATER CUSTOMERS
The volume of wastewater use is assumed to equal water meter registration. See Standard Terms and Conditions – Wastewater, Sheet No. 23, for an explanation of how monthly Volumetric Wastewater Charges are calculated.

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$0.78090	$7.8090

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

TERMS OF PAYMENT
Valid bills for service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

RATE SCHEDULE 8-A
OTHER CONTRACTS

APPLICABILITY

Applicable to wastewater service customers located in the Service Areas noted as (D), formerly served by Applied Wastewater Management, Inc. ("Applied"), and C), formerly served by Environmental Disposal Corp. ("EDC") on Sheet No. 44 (Other Contracts).

CHARACTER OF SERVICE

Continuous (unmetered).

RATES

SERVICE AREA	CLASS	RATE PER MONTH	
Applied	Schools	$141.10	Per Formula*
Applied	Other	141.10	Per Equivalent Dwelling Units**
EDC	Bulk User***	8.8090	Per 1,000 Gallons

TERMS OF PAYMENT
Valid bills for service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

* Quarterly Charge = $423.30 x (Average Daily Enrollment x Student GPD)/300
Where Student GPD is as follows:
NJDEP projected usage per Elementary School student = 15 GPD
NJDEP projected usage per Middle School student = 20 GPD
NJDEP projected usage per High School student = 25 GPD

**An equivalent residential customer is based on 235 GPD

*** Rates for treatment of wastewater from BULK USER Customers delivered by said customers to the EDC treatment facility as set forth in this Tariff Sheet shall supersede the contractual rates and terms set forth in each of the Amended and Restated Sewer Allocation and Bulk User Agreements Between Environmental Disposal Corp. and the Boroughs of Bedminster, Far Hills, and Peapack and Gladstone ("Bulk User Agreements"), respectively.

RATE SCHEDULE 9-A
MISCELLANEOUS SERVICE CHARGES

APPLICABILITY
Applicable to all classes of customers unless specified for the following classes of miscellaneous services throughout the entire area served by the Company.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

BAD CHECK CHARGE
If the Company receives a negotiable instrument from a customer in payment of a bill, charge, or deposit due, and such instrument is subsequently dishonored or uncollectible for any reason, the Company shall charge the customer a handling charge per instrument of $15.00.

If a bad check charge is applied to a customer account, that amount, as well as the amount of the dishonored check shall be paid with cash, certified check, money order, bank check, or other means of guaranteed payment before such account shall be deemed paid. Additionally, if a customer presents two checks that are dishonored by the bank as a result of the customer's error, the customer will be required to pay by the methods stated above for a period of twelve months from the date of the last dishonored check.

The provisions of this Tariff section shall not be deemed to require a customer to submit to automatic deduction from any bank account, credit card, or by on-line banking but the Company may offer same as an option provided the customer is presented with all other available options offered by the Company.

RESUMPTION OF SERVICE AFTER PHYSICAL DISCONNECTION OR PLUGGING DUE TO NONPAYMENT OF BILLS OR VIOLATION OF THE COMPANY'S RULES

Wastewater Service	-	At any time	Greater of $350.00 or actual cost

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

SPECIAL PROVISIONS
The Company may waive the fees and charges referenced in this Rate Schedule 9-A for a customer who is enrolled in the Company's H2O Help to Others Program provided that the customer is not deemed to have been abusing and/or taking advantage of the system, including but not limited to repeatedly requiring service reconnections more than three (3) times in any twelve (12) month period.

RATE SCHEDULE 9-A.1
WASTEWATER SYSTEM IMPROVEMENT CHARGE

Applicable to all wastewater treatment and service customers on Rate Schedules 1-A, 2-A, 5-A, 6-A, 10-A, 11-A, 13-A, and 16-A.[4]

CHARACTER
Continuous, except as limited by the "Standard Terms and Conditions".

WASTEWATER SYSTEM IMPROVEMENT CHARGE (WSIC)
In addition to all other charges for wastewater collection and treatment throughout the entire territory served, the following charges will be assessed on a fixed, per meter or meter equivalent basis for each monthly bill.

RATE
This charge is in addition to Rate Schedules 1-A, 2-A, 5-A, 6-A, 10-A, 11-A, 13-A, and 16-A.

Size of Meter	Non-Exempt Per Month	Exempt Per Month
5/8"	$0.00	0.00
3/4"	0.00	0.00
1"	0.00	0.00
1 1/2"	0.00	0.00
2"	0.00	0.00
3"	0.00	0.00
4"	0.00	0.00
6"	0.00	0.00
8"	0.00	0.00
10"	0.00	0.00
12"	0.00	0.00
16"	0.00	0.00

FILING
The WSIC is authorized pursuant to N.J.A.C. 14:9-11.1 et seq. and the procedures for filing, reviewing, approving and implementing the WSIC are set forth therein. The WSIC is based on the Company's Foundational Filing, which was reviewed and approved by the Board of Public Utilities. The approval process included public notice and public hearings. The notice included proposed surcharge amounts, which were estimated based on projected construction schedules, costs and other factors. Pursuant to the approved Foundational Filing, the Company shall endeavor to make semi-annual WSIC filings at approximately six-month intervals. The WSIC is subject to a maximum amount and other limitations in N.J.A.C. 14:9-11.1 et seq.

TERMS OF PAYMENT
See the Rate Schedules for applicable customer classes.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

[4] Rate Schedule 16-A will not be subject to this surcharge until June 2, 2025.

RATE SCHEDULE 9-A.2
UNIVERSAL AFFORDABILITY

AVAILABILITY

Available to all residential wastewater service customers served by the Company in all service areas who meet the income criteria of 200% or less than the Federal Poverty Level ("FPL"). NJ Shares determines and maintains the qualification requirements for the Company's discount programs. Customers who qualify for the program are required to recertify income eligibility every two years.

APPLICABILITY

The discount will be applied to the Fixed Service Charge and Volumetric Wastewater Charge portions of the bill for wastewater service. The discount will not apply to the Purchased Wastewater Adjustment Clause (PSTAC) Charge, as shown on Rate Schedule O-1, the Special Program Charge (SPC) on Rate Schedule O-3, or the Wastewater System Improvement Charge (WSIC), as shown on Rate Schedule 9-A.1.

DISCOUNT

	Household Income	Fixed Service Charge Discount	Volumetric Wastewater Charge Discount
Tier 1	0% - 50% of FPL	60%	60%
Tier 2	51% - 100% of FPL	45%	45%
Tier 3	101% - 150% of FPL	30%	30%
Tier 4	151% - 200% of FPL	15%	15%

RATE SCHEDULE 10-A
GENERAL METERED SERVICE

APPLICABILITY
Applicable for general metered residential, commercial, industrial and municipal wastewater service to customers served by the Company's Jensen's Deep Run System in the Township of Plumsted in Ocean County. The charge for wastewater service shall consist of the total of a Fixed Service Charge, a Volumetric Wastewater Charge, the Special Program Charge (SPC) as shown on Rate Schedule O-3, and the Wastewater System Improvement Charge (WSIC) as shown on Rate Schedule 9-A.1.

RATES

FIXED SERVICE CHARGE – GENERAL METERED WASTEWATER CUSTOMERS
All wastewater service customers shall pay a fixed service charge as indicated below, in addition to the Volumetric Wastewater Charge, if any.

	RATE PER MONTH
Non-Exempt	$40.00

VOLUMETRIC WASTEWATER CHARGE – GENERAL METERED WASTEWATER CUSTOMERS
The volume of wastewater discharged is assumed to equal water meter registration. See Standard Terms and Conditions – Wastewater, Sheet No. 23, for an explanation of how monthly Volumetric Wastewater Charges are calculated.

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$0.78090	$7.8090

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

TERMS OF PAYMENT
Valid bills for wastewater service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

RATE SCHEDULE 11-A
GENERAL METERED SERVICE

APPLICABILITY
Applicable for general metered residential, commercial, industrial and municipal wastewater service to customers served by the Company's Haddonfield Collection System in Camden County. The charge for wastewater service shall consist of a Fixed Service Charge, a Volumetric Wastewater Charge based on the water consumption at the location for the same billing period, the Special Program Charge (SPC) as shown on Rate Schedule O-3, and the Wastewater System Improvement Charge (WSIC) as shown on Rate Schedule 9-A.1.

RATES

FIXED SERVICE CHARGE – GENERAL METERED WASTEWATER CUSTOMERS
All wastewater service customers shall pay a Fixed Service Charge as indicated below, in addition to the Volumetric Wastewater Charge, if any.

	RATE PER MONTH
Non-Exempt	$12.50

VOLUMETRIC WASTEWATER CHARGE – GENERAL METERED WASTEWATER CUSTOMERS
The volume of wastewater discharged is assumed to equal water meter registration. See Standard Terms and Conditions – Wastewater, Sheet No. 23, for an explanation of how Monthly Wastewater Usage Charges are calculated.

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$0.51020	$5.1020

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

TERMS OF PAYMENT
Valid bills for wastewater service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

RATE SCHEDULE 12-B
PURCHASED WASTEWATER TREATMENT ADJUSTMENT CLAUSE (PSTAC)

APPLICABILITY
Applicable to all Wastewater Service customer classes including general residential, commercial, industrial and municipal wastewater service in Elk Township. The PSTAC charge, as defined under the Standard Terms and Conditions in this Tariff, is designed to recover the cost of purchased wastewater treatment and disposal costs associated with the normal operations of the Company and allow the Company to achieve a zero or near-zero deferred balance each April 1st on its purchased wastewater treatment and disposal costs.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

PURCHASED WASTEWATER TREATMENT ADJUSTMENT CLAUSE (PSTAC) CHARGE
In addition to all other charges for general metered wastewater service, the following charges per one hundred gallons and per one thousand gallons for all sales will be made to recover purchased wastewater treatment and disposal costs not included in the Volumetric Wastewater Charge or any other charge as set forth in Rate Schedule 2-A of the current Tariff:

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$0.40008	$4.0008

FILING
The Company shall endeavor to make an annual PSTAC filing no later than December 1st of each year, proposing a PSTAC rate or percentage to be effective on or about the following April 1st.

The notice of filing and of public hearing in the annual PSTAC proceedings shall include the specific rate change proposed to be implemented on April 1st. The notice shall also include the impact of such potential increases on a benchmark bill.

The annual PSTAC filing shall contain, but not be limited to, the following:

1. A reconciliation of actual versus estimated costs and revenues from the last Board approved PSTAC charge for purchased wastewater treatment and disposal;
2. Projected rates supported by projected volumes, revenues, and projected purchased wastewater treatment and disposal costs;
3. Deferred balances and the timeframe over which they are proposed to be collected or returned;
4. A written explanation of the circumstances that caused the deferred balances in (3) above;
5. A written explanation of any significant activities or trends which may affect costs for the prospective period; and
6. Updated tariff sheets to reflect any change to the PSTAC rate.

The benchmark bill shall be the average residential wastewater customer bill for a twelve-month period.

PROVISIONS
Interest shall be passed onto customers through the PSTAC rates at the beginning of each PSTAC Year succeeding any PSTAC year in which any net monthly purchased wastewater treatment and disposal costs over recovery has taken place. Any debit or credit balance in the separate deferred revenue or separate cost of wastewater treatment accounts shall be determined monthly. Monthly interest shall be calculated on the average of the current and prior month's ending cumulative deferred revenue or cost of wastewater treatment balances. Interest on such wastewater treatment costs shall be calculated utilizing the rate of return on rate base utilized to set rates in the Company's last preceding base rate case, and shall be changed from time to time, consistent with N.J.A.C., 14:9-7, et seq.

The clause shall be subject to deferred accounting, consistent with N.J.A.C. 14:9-7, et seq.

TERMS OF PAYMENT
See Rate Schedule for the applicable customer class.

TERM
Continuous until wastewater service to the customer is permanently discontinued.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

RATE SCHEDULE 13-A
GENERAL METERED SERVICE

APPLICABILITY
Applicable for general residential, commercial, industrial and municipal wastewater service in the Borough of Mount Ephraim. The charge for wastewater service shall consist of a Fixed Service Charge, a Volumetric Wastewater Charge based on the water consumption at the location for the same billing period, and the Wastewater System Improvement Charge (WSIC), as shown on Rate Schedule 9-A.1.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES

FIXED SERVICE CHARGE – GENERAL METERED WASTEWATER CUSTOMERS
All wastewater service customers shall pay a Fixed Service Charge as indicated below, in addition to the Volumetric Wastewater Charge, if any.

	RATE PER MONTH
Non-Exempt	$12.50

VOLUMETRIC WASTEWATER CHARGE – GENERAL METERED WASTEWATER CUSTOMERS
The volume of wastewater use is assumed to equal water meter registration. See Standard Terms and Conditions – Wastewater, Sheet No. 23, for an explanation of how Monthly Wastewater Usage Charges are calculated.

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$0.01440	$0.1440

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

TERMS OF PAYMENT
Valid bills for wastewater service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

RATE SCHEDULE 14-A
GENERAL FLAT RATE SERVICE[5]

APPLICABILITY
Applicable for general residential, commercial, industrial and municipal wastewater service to customers in Long Hill Township who do not receive volume-based water service billings from NJAWC. The Company may require a water meter to be installed by any wastewater customer utilizing a well or other private water system at the property owner's expense. The charge for wastewater service shall consist of the Fixed Service Charge and the Flat Rate Service Charge.

AVAILABILITY OF SERVICE
As the Company has implemented a voluntary wastewater connection ban due to excess wastewater flow, all requests for new wastewater connections to the Long Hill Township wastewater system will be granted at the sole discretion of the Company.

CHARACTER OF SERVICE
Continuous (unmetered), except as limited by the "Standard Terms and Conditions."

FIXED SERVICE CHARGE – WASTEWATER
All wastewater service customers shall pay a Fixed Service Charge in addition to the Flat Rate Service Charge as indicated below. If a wastewater customer has multiple connections to a single property, only one Fixed Service Charge shall be applied to the wastewater customer.

	RATE PER MONTH Effective 10/23/2023	RATE PER MONTH Effective 10/23/2024
Non-Exempt, per unit	$15.47	$15.93

FLAT RATE USAGE CHARGE – WASTEWATER CUSTOMERS
All wastewater service customers shall pay a Flat Rate Usage charge as indicated below.

	RATE PER MONTH Effective 10/23/2023	RATE PER MONTH Effective 10/23/2024
Non-Exempt Residential, per connection	$50.84	$52.37
Non-Exempt Commercial, Industrial and Municipal, per connection	$106.09	$109.27

FIXED SERVICE CHARGE DISCOUNT – RESIDENTIAL WASTEWATER CUSTOMERS
Residential wastewater customers of Long Hill Township enrolled in the Township's Senior Discount Program as of October 22, 2020, shall receive a Fixed Service Charge discount of $40.00 annually, or $3.33 per month. After October 22, 2020, customers will no longer be added to this Fixed Service Charge Discount program.

TERMS OF PAYMENT
Valid bills for service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

Whenever service is established or is discontinued, all applicable Fixed Service Charges and Flat Rate Service Charges shall be prorated to the date of establishment or discontinuance of service.

[5] The rates on this schedule will increase by 3% on 10/23/2024 by the terms of the Agreement of Sale between Long Hill Township and New Jersey-American Water Company, Inc.

RATE SCHEDULE 15-A
GENERAL METERED SERVICE[6]

APPLICABILITY
Applicable for general residential, commercial, industrial and municipal wastewater service to customers in Long Hill Township who receive volume-based water service billings from NJAWC. The charge for wastewater service shall consist of the total of the Fixed Service Charge and the Volumetric Wastewater Charge.

AVAILABILITY OF SERVICE
As the Company has implemented a voluntary wastewater connection ban due to excess wastewater flow, all requests for new wastewater connections to the Long Hill Township wastewater system will be granted at the sole discretion of the Company.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

FIXED SERVICE CHARGE
All wastewater service customers shall pay a Fixed Service Charge in addition to the Volumetric Wastewater Charge, as indicated below. If a wastewater customer has multiple connections to a single property, only one Fixed Service Charge shall be applied to the wastewater customer.

	RATE PER MONTH Effective 10/23/2023	RATE PER MONTH Effective 10/23/2024
Non-Exempt, per unit	$15.47	$15.93

VOLUMETRIC WASTEWATER CHARGE
The volume of wastewater discharged for monthly billing purposes shall be calculated by taking the total water metered (Actual Usage) for the six (6) winter months (January through March and October through December) from the preceding billing year, and dividing that Actual Usage by twelve (12).

If the meter is not read or incorrectly read for one or more months of the Actual Usage period as determined by the Company, the amount charged for those months shall be equal to the approximate average monthly usage among other billable months during the same period.

Volumetric Charges

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt Effective 10/23/2023	All	$1.93830	$19.3830
Non-Exempt Effective 10/23/2024	All	$1.99640	$19.9640

FIXED SERVICE CHARGE DISCOUNT – RESIDENTIAL WASTEWATER CUSTOMERS
Residential wastewater customers of Long Hill Township enrolled in the Township's Senior Discount Program as of October 22, 2020, shall receive a Fixed Service Charge discount of $40.00 annually, or $3.33 per month. After October 22, 2020, customers will no longer be added to this Fixed Service Charge Discount program.

TERMS OF PAYMENT
Valid bills for service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

Whenever service is established or is discontinued, all applicable Fixed Service Charges shall be prorated to the date of establishment or discontinuance of service.

[6] The rates on this schedule will increase by 3% on 10/23/2024 by the terms of the Agreement of Sale between Long Hill Township and New Jersey-American Water Company, Inc.

RATE SCHEDULE 16-A
GENERAL METERED AND FLAT RATE SERVICE

APPLICABILITY
Applicable for general residential, commercial, industrial, and municipal wastewater service to customers in Service Area 1G, the Egg Harbor City Utility. Those who receive volume-based water service billings from the Company will receive volume-based wastewater service billings; all others will receive flat rate billings for unmetered service. The Company may require a water meter to be installed by any wastewater customer utilizing a well or other private water system at the property owner's expense. The charge for wastewater service shall consist of the total of the Fixed Service Charge, the Volumetric Wastewater Charge, the Purchased Wastewater Treatment Adjustment Clause (PSTAC) Charge, as defined under the Standard Terms and Conditions in this Tariff, shown on Rate Schedule 16-B, and the Wastewater System Improvement Charge (WSIC), as shown on Rate Schedule 9-A.1.

CHARACTER OF SERVICE
Continuous (unmetered), except as limited by the "Standard Terms and Conditions."

RATES

FIXED SERVICE CHARGE
All wastewater service customers shall pay a Fixed Service Charge in addition to the Volumetric Wastewater Charge, as indicated below.

	RATE PER MONTH
Non-Exempt	$12.50

VOLUMETRIC WASTEWATER CHARGE

The volume of wastewater use is assumed to equal water meter registration. See Standard Terms and Conditions – Wastewater, Sheet No. 23, for an explanation of how Monthly Wastewater Usage Charges are calculated.

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$0.42240	$4.2240

FLAT RATE SERVICE CHARGE – WASTEWATER
All wastewater service customers shall pay a Flat Rate Service Charge as indicated below.

	RATE PER MONTH
Non-Exempt	$46.40

TERMS OF PAYMENT
Valid bills for service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

Whenever service is established or is discontinued, all applicable Flat Rate Service Charges shall be prorated to the date of establishment or discontinuance of service.

RATE SCHEDULE 16-B
PURCHASED WASTEWATER TREATMENT ADJUSTMENT CLAUSE (PSTAC)

APPLICABILITY
Applicable to all Wastewater Service customer classes including general residential, commercial, industrial and municipal wastewater service in Service Area 1G, the Egg Harbor City Utility. The PSTAC charge, as defined under the Standard Terms and Conditions in this Tariff, is designed to recover the cost of purchased wastewater treatment and disposal costs associated with the normal operations of the Company and allow the Company to achieve a zero or near-zero deferred balance each April 1st on its purchased wastewater treatment and disposal costs.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

PURCHASED WASTEWATER TREATMENT ADJUSTMENT CLAUSE (PSTAC) CHARGE
In addition to all other charges for general metered service, the following charges per one hundred gallons and per one thousand gallons for all sales will be made to recover purchased wastewater treatment and disposal costs not included in the Volumetric Wastewater Charge or any other Charge as set forth in Rate Schedule 16-A of the current Tariff:

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$0.44935	$4.4935

FILING
The Company shall endeavor to make an annual PSTAC filing no later than December 1st of each year, proposing a PSTAC rate or percentage to be effective on or about the following April 1st.

The notice of filing and of public hearing in the annual PSTAC proceedings shall include the specific rate change proposed to be implemented on April 1st. The notice shall also include the impact of such potential increases on a benchmark bill.

The annual PSTAC filing shall contain, but not be limited to, the following:

1. A reconciliation of actual versus estimated costs and revenues from the last Board approved PSTAC charge for purchased wastewater treatment and disposal;
2. Projected rates supported by projected volumes, revenues, and projected purchased wastewater treatment and disposal costs;
3. Deferred balances and the timeframe over which they are proposed to be collected or returned;
4. A written explanation of the circumstances that caused the deferred balances in (3) above;
5. A written explanation of any significant activities or trends which may affect costs for the prospective period; and
6. Updated tariff sheets to reflect any change to the PSTAC rate.

The benchmark bill shall be the average residential wastewater customer bill for a twelve-month period.

PROVISIONS
Interest shall be passed onto customers through the PSTAC rates at the beginning of each PSTAC Year succeeding any PSTAC year in which any net monthly purchased wastewater treatment and disposal costs over recovery has taken place. Any debit or credit balance in the separate deferred revenue or separate cost of wastewater treatment accounts shall be determined monthly. Monthly interest shall be calculated on the average of the current and prior month's ending cumulative deferred revenue or cost of wastewater treatment balances. Interest on such wastewater treatment costs shall be calculated utilizing the rate of return on rate base utilized to set rates in the Company's last preceding base rate case, and shall be changed from time to time, consistent with N.J.A.C., 14:9-7, et seq.

The clause shall be subject to deferred accounting, consistent with N.J.A.C. 14:9-7, et seq.

TERMS OF PAYMENT
See Rate Schedule for the applicable customer class.

TERM
Continuous until wastewater service to the customer is permanently discontinued.

CONDITIONS
Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

RATE SCHEDULE 18-A
GENERAL FLAT RATE SERVICE[7]

APPLICABILITY
Applicable for general residential, commercial, industrial and municipal wastewater service to customers in the Borough of Bound Brook who do not receive volume-based water service billings from the Company. The Company may require a water meter to be installed by any wastewater customer utilizing a well or other private water system at the property owner's expense.

CHARACTER OF SERVICE
Continuous (unmetered), except as limited by the "Standard Terms and Conditions."

FLAT RATE SERVICE CHARGE – WASTEWATER
All wastewater service customers shall pay a Flat Rate Service Charge as indicated below.

	RATE PER MONTH
Non-Exempt	$40.77

TERMS OF PAYMENT
Valid bills for service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

Whenever service is established or is discontinued, all applicable Flat Rate Service Charges shall be prorated to the date of establishment or discontinuance of service.

[7] The Flat Rate Service Charge will increase by 3% on 8/12/2025, and 8/12/2026 by the terms of the Agreement of Sale between the Borough of Bound Brook and New Jersey-American Water Company, Inc.

RATE SCHEDULE 19-A
GENERAL METERED SERVICE[8]

APPLICABILITY
Applicable for general residential, commercial, industrial and municipal wastewater service to customers in the Borough of Bound Brook who receive volume-based water service billings from the Company.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES

FIXED SERVICE CHARGE
All wastewater service customers shall pay a Fixed Service Charge in addition to the Volumetric Wastewater Charge, as indicated below.

	RATE PER MONTH
Non-Exempt	$5.00

VOLMETRIC WASTEWATER CHARGE
The volume of wastewater discharged is assumed to equal water meter registration.

Volumetric Charges

Customer Class*	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt Residential Tax Exempt Commercial – Class 1 Multiple-Dwelling	All	$0.65920	$6.5920
Commercial – Class 2 Industrial Significant Industrial Integrated Health Services and Successors Mixed Residential and Commercial Class 2	All	0.72510	7.2510
	All	0.82400	8.2400

*Customer Class as these terms were defined by the Borough of Bound Brook at the time of acquisition, as follows:

Residential: any property solely used as a home or residence, including single family, multi two-family, and single dwelling condominium form of ownership, discharging domestic waste.

Tax-Exempt: any property exempt from real property taxation, discharging domestic waste.

Commercial - Class 1: any nonresidential property solely used for nonresidential purposes, including the retail of nonprocessed goods or for office or other business uses discharging domestic wastes.

Multiple-Dwelling: A building containing three or more dwelling units, discharging domestic waste.

Commercial - Class 2: Any property used for nonresidential purposes, including any use not classified in "Commercial User Class 1," discharging domestic wastes. Class 2 users include but are not limited to: industrial park, any property utilized for preparing food for sale, hair and nail salons, barber shops, laundromats and dry cleaners, automotive and small engine repair and sales, fueling/service stations, and funeral homes.

Industrial - Any person or property who discharges, causes, or permits the direct or indirect discharge of nondomestic wastewater into the treatment works. All nondomestic wastes discharged by an industrial user shall be considered industrial waste. Multiple-Dwelling: A building containing three or more dwelling units, discharging domestic wastes.

Significant Industrial - A user defined as a significant industrial user pursuant to the rules and regulations of the Middlesex County Utilities Authority.

TERMS OF PAYMENT
Valid bills for service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

Whenever service is established or is discontinued, all applicable Fixed Service Charges shall be prorated to the date of establishment or discontinuance of service.

[8] All rates on this schedule will increase by 3% on 8/12/2025, and 8/12/2026 by the terms of the Agreement of Sale between the Borough of Bound Brook and New Jersey-American Water Company, Inc.

RATE SCHEDULE 20-A

GENERAL METERED AND FLAT RATE SERVICE[9]

APPLICABILITY

Applicable for general residential, commercial, industrial and municipal wastewater service to customers in the Borough of Somerville and the portion of the Township of Bridgewater served by the Somerville System. Those who receive volume-based water service billings from the Company will receive volume-based wastewater service billings; all others will receive flat rate billings for unmetered service. The Company may require a water meter to be installed by any wastewater customer utilizing a well or other private water system at the property owner's expense. The charge for wastewater service shall consist of the total of the Fixed Service Charge, the Volumetric Wastewater Charge, and the Purchased Wastewater Treatment Adjustment Clause (PSTAC) Charge, as defined under the Standard Terms and Conditions in this tariff, shown on Rate Schedule 20-B.

CHARACTER OF SERVICE

Continuous, except as limited by the "Standard Terms and Conditions."

VOLUMETRIC WASTEWATER CHARGE

The volume of wastewater discharged is assumed to equal water meter registration. monthly Volumetric Wastewater Charges shall be determined based upon winter quarter consumption (detailed below), but in no case less than 2,493 gallons per month.

Customer Location	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Somerville	All	$0.34759	$3.4759
Bridgewater	All	0.48128	4.8128

FLAT RATE SERVICE CHARGE

Customer Location	Rate Per Month
Somerville	$32.00
Bridgewater	$40.33

CALCULATION OF WINTER QUARTER CONSUMPTION

Winter quarter consumption shall be determined based on an initial water meter reading taken in December of one year with the concluding meter reading taken approximately 90 days thereafter in March of the following year.

The monthly Volumetric Wastewater Charge shall be determined as follows:

Meters read in January, February and March

The Volumetric Wastewater Charge for each month shall be determined by multiplying the applicable monthly water usage times applicable volumetric charges, but in no case less than 2,493 gallons per month, multiplied by applicable volumetric charges.

Meters read in April through December

The Volumetric Wastewater Charge for each month shall be based on the Monthly Usage Constant, equal to one-third of the winter quarter water consumption, but in no case less than 2,493 gallons per month, multiplied by applicable volumetric charges.

In the case of new customers, the volume of wastewater discharged shall be determined as follows:

New Customers in Premises for Which Actual Full Period Winter Quarter Usage History is Available: Determination of the monthly discharge constant shall be based on the last known full period winter quarter water usage at that property.

New Customers in Premises for Which No Full Period Winter Quarter Usage History is Available: Monthly Volumetric Wastewater Charges will be calculated at the minimum of 2,493 gallons per month.

TERMS OF PAYMENT

Valid bills for service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

Whenever service is established or is discontinued, all applicable Fixed Service Charges shall be prorated to the date of establishment or discontinuance of service.

[9] The rates on this schedule will increase by 3% on October 4th in 2025, 2026, and 2027, and by 4% on October 4th in 2028 and 2029 by the terms of the Agreement of Sale between the Borough of Somerville and New Jersey-American Water Company, Inc.

RATE SCHEDULE 20-B

PURCHASED WASTEWATER TREATMENT ADJUSTMENT CLAUSE (PSTAC)

APPLICABILITY

Applicable for general residential, commercial, industrial and municipal wastewater service to customers in the Borough of Somerville and the portion of the Township of Bridgewater served by the Somerville System.

CHARACTER OF SERVICE

Continuous, except as limited by the "Standard Terms and Conditions."

PURCHASED WASTEWATER TREATMENT ADJUSTMENT CLAUSE (PSTAC) CHARGE

In addition to all other charges for general metered service, the following charges per one hundred gallons and per one thousand gallons for all sales will be made to recover purchased wastewater treatment and disposal costs not included in the Volumetric Wastewater Charge or Flat Rate Service Charge any other charge as set forth in Rate Schedule 20-A:

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$0.52139	$5.2139

FILING

The Company shall endeavor to make an annual PSTAC filing no later than December 1st of each year, proposing a PSTAC rate or percentage to be effective on or about the following April 1st.

The notice of filing and of public hearing in the annual PSTAC proceedings shall include the specific rate change proposed to be implemented on April 1st. The notice shall also include the impact of such potential increases on a benchmark bill.

The annual PSTAC filing shall contain, but not be limited to, the following:

1. A reconciliation of actual versus estimated costs and revenues from the last Board approved PSTAC charge for wastewater treatment and disposal;
2. Projected rates supported by projected volumes, revenues, and projected purchased wastewater treatment and disposal costs;
3. Deferred balances and the timeframe over which they are proposed to be collected or returned;
4. A written explanation of the circumstances that caused the deferred balances in (3) above;
5. A written explanation of any significant activities or trends which may affect costs for the prospective period; and
6. Updated tariff sheets to reflect any change to the PSTAC rate.

The benchmark bill shall be the average residential wastewater customer bill for a twelve-month period.

TERMS OF PAYMENT

See Rate Schedule for applicable customer class.

PROVISIONS

Interest shall be passed onto customers through the PSTAC rates at the beginning of each PSTAC Year succeeding any PSTAC year in which any net monthly purchased wastewater treatment and disposal costs over recovery has taken place. Any debit or credit balance in the separate deferred revenue or separate cost of wastewater treatment accounts shall be determined monthly. Monthly interest shall be calculated on the average of the current and prior month's ending cumulative deferred revenue or cost of wastewater treatment balances. Interest on such wastewater treatment costs shall be calculated utilizing the rate of return on rate base utilized to set rates in the Company's last preceding base rate case, and shall be changed from time to time, consistent with N.J.A.C. 14:9-7, et seq.

The clause shall be subject to deferred accounting, consistent with N.J.A.C. 14:9-7, et seq.

TERM

Continuous until wastewater service to the customer is permanently discontinued.

CONDITIONS

Subject to the "Standard Terms and Conditions" except as otherwise set forth in this Schedule.

RATE SCHEDULE 21-A
GENERAL METERED AND FLAT RATE SERVICE

APPLICABILITY
Applicable for general residential, commercial, industrial, and municipal wastewater service to customers in the Environmental Disposal Corp. ("EDC") Service Area. Those who receive volume-based water service billings from the Company will receive volume-based wastewater service billings; all others will receive flat rate billings for unmetered service. The Company may require a water meter to be installed by any wastewater customer utilizing a well or other private water system at the property owner's expense.

CHARACTER OF SERVICE
Continuous (unmetered), except as limited by the "Standard Terms and Conditions."

FIXED SERVICE CHARGE – GENERAL METERED WASTEWATER CUSTOMERS
All wastewater service customers shall pay a Fixed Service Charge as indicated below, in addition to the Volumetric Wastewater Charge, if any.

	Rate Per Month
Non-Exempt:	$43.14

VOLUMETRIC WASTEWATER CHARGE – GENERAL METERED WASTEWATER CUSTOMERS
The volume of wastewater discharged is assumed to equal water meter registration. See Standard Terms and Conditions – Wastewater, Sheet No. 23, for an explanation of how Monthly Wastewater Usage Charges are calculated.

	Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
Non-Exempt	All	$0.78090	$7.8090

FLAT RATE SERVICE CHARGE

	Rate Per Month
Non-Exempt	$74.38

TERMS OF PAYMENT
Valid bills for service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

Whenever service is established or is discontinued, all applicable Flat Rate Service Charges shall be prorated to the date of establishment or discontinuance of service.

RATE SCHEDULE 22-A
GENERAL METERED AND FLAT RATE SERVICE[10]

APPLICABILITY
Applicable for general residential, commercial, industrial and municipal wastewater service provided in the Salem System. The residential charge for wastewater service shall consist of the Flat Rate Service Charge. The commercial, industrial and municipal charge for wastewater service shall consist of the total of the Fixed Service Charge and the Volumetric Wastewater Charge.

CHARACTER OF SERVICE
Continuous, except as limited by the "Standard Terms and Conditions."

RATES

FLAT RATE SERVICE CHARGE
All residential wastewater service customers shall pay a Flat Rate Service Charge as follows:

	Rate Per Month
Non-Exempt	$56.88

FIXED SERVICE CHARGE
All commercial, industrial and municipal wastewater service customers shall pay a Fixed Service Charge in addition to the Volumetric Wastewater Charge, if any, as follows:

	Non-Exempt
Fixed Service Charge per customer per month.	$56.88

VOLUMETRIC WASTEWATER CHARGE
The volume of wastewater discharged is assumed to equal water meter registration. Charges shall be based on water consumption as indicated by water meter readings on a monthly basis.

Gallons Per Month	Rate Per 100 Gallons	Rate Per 1,000 Gallons
All	$0.88500	$8.8500

SPECIAL SURCHARGES

Item	Additional Cost
Per pound of BOD_5	$0.26000
Per pound of suspended solids	$0.16000
Septage rate per gallon	$0.08000

TERMS OF PAYMENT
Valid bills for wastewater service furnished under this schedule will be rendered monthly in arrears and are due twenty (20) days from the date of the postmark on the envelope in which the bill was transmitted or electronic transmission date for customers on electronic billing. All bills shall list a due date.

Whenever service is established or is discontinued, all applicable fixed charges shall be prorated to the date of establishment or discontinuance of service.

[10] The rates on this schedule will increase by 3% on June 26th in 2026, 2027 and 2028 by the terms of the Agreement of Sale between the City of Salem and New Jersey-American Water Company, Inc.

Attachment D

NEW JERSEY-AMERICAN WATER COMPANY

SUMMARY OF REVENUES UNDER PRESENT AND STIPULATED RATES

Classification	Revenues, Excluding PWAC/PSTAC* Present Rates	Revenues, Excluding PWAC/PSTAC* Stipulated Rates	Stipulated Increase Amount	Stipulated Increase Percent
GMS				
Rate Schedule A-1	$ 732,582,681	$ 791,782,618	$ 59,199,937	8.08%
Rate Schedule A-2	4,414,910	5,006,846	591,936	13.41%
Rate Schedule A-15	3,882,163	4,567,298	685,135	17.65%
Rate Schedule A-16	2,240,489	2,602,017	361,528	16.14%
Rate Schedule A-17	1,460,205	1,373,840	(86,365)	-5.91%
Rate Schedule A-18	4,448	6,549	2,101	47.23%
Rate Schedules A-19 / A-20	1,631,405	1,631,405	-	0.00%
Subtotal GMS	746,216,301	806,970,573	60,754,272	8.14%
Rate Schedule F (OIW)	18,295,631	20,245,510	1,949,879	10.66%
Rate Schedule E, H, I, J				
Manasquan	1,870,055	2,069,349	199,294	10.66%
Peaking	235,605	254,791	19,186	8.14%
Emergency/Bulk	369,788	399,919	30,131	8.15%
Rate Schedule C, D				
Commodity-Demand	19,382,185	21,447,756	2,065,571	10.66%
Rate Schedule G (SOS)	35,101,071	38,842,112	3,741,041	10.66%
Subtotal SFR	56,958,704	63,013,927	6,055,223	10.63%
Private Fire	32,834,352	36,329,827	3,495,475	10.65%
Public Fire	33,636,673	36,480,573	2,843,900	8.45%
Total Sales of Water	887,941,661	963,040,409	75,098,749	8.46%
Other Water Revenues	4,534,766	4,534,766	-	0.00%
Total Water	$ 892,476,427	$ 967,575,175	$ 75,098,749	8.41%
Sewer	39,970,472	44,371,724	4,401,251	11.01%
Total	932,446,899	1,011,946,899	79,500,000	8.53%

*In addition to the above, the Company will collect annual revenues of $44,852,411 for PWAC and $17,729,086 for PSTAC

Comparative GMS Bills @ 5,642 Gal./Mo. (Includes PWAC, LSLRC, & SPC for Applicable Service Areas)

SA-1	$ 75.63	$ 80.96	$5.33	7.05%
SA-1E, Haddonfield	73.08	80.96	7.88	10.78%
SA-1F (Roxbury)	51.31	56.09	4.78	9.32%
SA-1G (Egg Harbor City GMS)	73.66	72.71	(0.95)	-1.29%

NEW JERSEY-AMERICAN WATER COMPANY
APPLICATION OF PRESENT AND SETTLEMENT RATES TO BILL ANALYSIS

Classification	No. of Bills/Usage	Present Rate	Present Revenue	Stipulated Rate	Stipulated Revenue	Increase (Decrease)	Revenue % Change
Statewide Tariff - General Metered Service ("GMS") - Rate Schedule A-1							
5/8" Monthly	6,834,126	$ 23.51	$160,670,295	$ 22.65	$154,792,947	($5,877,348)	-3.66%
3/4" Monthly	216,402	35.29	7,636,811	34.00	7,357,653	(279,158)	-3.66%
1" Monthly	543,297	58.76	31,924,111	56.61	30,756,023	(1,168,088)	-3.66%
1 1/2" Mthly	53,843	117.60	6,331,946	113.30	6,100,420	(231,526)	-3.66%
2" Monthly	153,467	188.26	28,891,635	181.38	27,835,785	(1,055,850)	-3.65%
3" Monthly	11,006	352.86	3,883,558	339.96	3,741,581	(141,977)	-3.66%
4" Monthly	10,944	587.77	6,432,356	566.28	6,197,177	(235,179)	-3.66%
6" Monthly	2,492	1,175.38	2,928,763	1,132.41	2,821,692	(107,071)	-3.66%
8" Monthly	1,145	1,880.58	2,153,339	1,811.83	2,074,618	(78,721)	-3.66%
10" Monthly	410	2,350.75	962,919	2,264.81	927,716	(35,203)	-3.66%
12" Monthly	36	2,938.19	105,775	2,830.77	101,908	(3,867)	-3.66%
16" Monthly	0	4,701.51	0	4,529.62	0	0	0.00%
Subtotal Service Charges			$251,921,508		$242,707,520	($9,213,988)	-3.66%
Consumption (100 Gallons)							
All Usage - Non Exempt	619,948,085	$0.77752	$482,022,034	$0.88724	$550,042,739	$68,020,705	14.11%
GMS Credit for Exempt			($485,915)		($554,468)	(68,553)	14.11%
Universal Affordability	44,078	19.85	(874,946)		(413,173)	461,773	-52.78%
Total Rate Schedule A-1			**$732,582,681**		**$791,782,618**	**$59,199,937**	**8.08%**
Statewide Tariff - General Metered Service ("GMS") - Rate Schedule A-2							
5/8" Monthly	0	$ 23.51	$0	$22.65	$0	$0	0.00%
3/4" Monthly	0	35.29	0	34.00	0	0	0.00%
1" Monthly	0	58.76	0	56.61	0	0	0.00%
1 1/2" Mthly	0	117.60	0	113.30	0	0	0.00%
2" Monthly	0	188.26	0	181.38	0	0	0.00%
3" Monthly	12	352.86	4,234	339.96	4,080	(154)	-3.64%
4" Monthly	12	587.77	7,053	566.28	6,795	(258)	-3.66%
6" Monthly	72	1,175.38	84,631	1,132.41	81,537	(3,094)	-3.66%
8" Monthly	12	1,880.58	22,567	1,811.83	21,742	(825)	-3.66%
10" Monthly	24	2,350.75	56,418	2,264.81	54,355	(2,063)	-3.66%
12" Monthly	0	2,938.19	0	2,830.77	0	0	0.00%
16" Monthly	0	4,701.51	0	4,529.62	0	0	0.00%
Subtotal Service Charges			$174,903		$168,509	($6,394)	-3.66%
Consumption (100 Gallons)	5,453,244	$0.77752	$4,240,007	$0.88724	$4,838,337	$598,330	14.11%
Total Rate Schedule A-2			**$4,414,910**		**$5,006,846**	**$591,936**	**13.41%**

NEW JERSEY-AMERICAN WATER COMPANY
APPLICATION OF PRESENT AND SETTLEMENT RATES TO BILL ANALYSIS

Classification	No. of Bills/Usage	Present Rate	Present Revenue	Stipulated Rate	Stipulated Revenue	Increase (Decrease)	Revenue % Change
Statewide Tariff - General Metered Service ("GMS") - Rate Schedule A-15							
5/8" Monthly	46,630	$ 20.96	$977,357	$22.65	$1,056,161	$78,804	8.06%
3/4" Monthly	714	27.49	19,615	34.00	24,259	4,644	23.68%
1" Monthly	7,966	37.41	298,026	56.61	450,983	152,957	51.32%
1 1/2" Mthly	397	59.90	23,796	113.30	45,009	21,213	89.15%
2" Monthly	601	85.81	51,602	181.38	109,072	57,470	111.37%
3" Monthly	47	144.86	6,764	339.96	15,873	9,109	134.67%
4" Monthly	24	224.47	5,387	566.28	13,591	8,204	152.29%
6" Monthly	0	1,175.38	0	1,132.41	0	0	0.00%
8" Monthly	0	1,880.58	0	1,811.83	0	0	0.00%
10" Monthly	0	2,350.75	0	2,264.81	0	0	0.00%
12" Monthly	0	2,938.19	0	2,830.77	0	0	0.00%
16" Monthly	0	4,701.51	0	4,529.62	0	0	0.00%
Subtotal Service Charges			$1,382,547		$1,714,948	$332,401	24.04%
Consumption (100 Gallons)	3,214,857	$0.77752	$2,499,616	$0.88724	$2,852,350	$352,734	14.11%
Total Rate Schedule A-15			**$3,882,163**		**$4,567,298**	**$685,135**	**17.65%**
Statewide Tariff - General Metered Service ("GMS") - Rate Schedule A-16							
5/8" Monthly	45,095	$ 20.96	$945,194	$22.65	$1,021,404	$76,210	8.06%
3/4" Monthly	12	27.49	330	34.00	408	78	23.64%
1" Monthly	1,648	37.41	61,655	56.61	93,299	31,644	51.32%
1 1/2" Mthly	276	59.90	16,532	113.30	31,271	14,739	89.15%
2" Monthly	445	85.81	38,181	181.38	80,706	42,525	111.38%
3" Monthly	137	144.86	19,789	339.96	46,442	26,653	134.69%
4" Monthly	24	224.47	5,387	566.28	13,591	8,204	152.29%
6" Monthly	0	1,175.38	0	1,132.41	0	0	0.00%
8" Monthly	0	292.58	0	1,811.83	0	0	0.00%
10" Monthly	0	365.75	0	2,264.81	0	0	0.00%
12" Monthly	0	457.19	0	2,830.77	0	0	0.00%
16" Monthly	0	731.51	0	4,529.62	0	0	0.00%
Subtotal Service Charges			$1,087,068		$1,287,121	$200,053	18.40%
Consumption (100 Gallons)	2,945,554	$0.39158	$1,153,421	$0.44640	$1,314,896	$161,475	14.00%
Total Rate Schedule A-16			**$2,240,489**		**$2,602,017**	**$361,528**	**16.14%**

NEW JERSEY-AMERICAN WATER COMPANY
APPLICATION OF PRESENT AND SETTLEMENT RATES TO BILL ANALYSIS

Classification	No. of Bills/Usage	Present Rate	Present Revenue	Stipulated Rate	Stipulated Revenue	Increase (Decrease)	Revenue % Change
Statewide Tariff - General Metered Service ("GMS") - Rate Schedule A-17							
5/8" Monthly	16,944	$ 34.17	$578,976	$ 22.65	$383,782	($195,194)	-33.71%
3/4" Monthly	144	34.17	4,920	34.00	4,896	(24)	-0.49%
1" Monthly	696	44.19	30,756	56.61	39,401	8,645	28.11%
1 1/2" Mthly	144	251.96	36,282	113.30	16,315	(19,967)	-55.03%
2" Monthly	384	307.43	118,053	181.38	69,650	(48,403)	-41.00%
3" Monthly	60	469.06	28,144	339.96	20,398	(7,746)	-27.52%
4" Monthly	12	515.02	6,180	566.28	6,795	615	9.95%
6" Monthly	0	0.00	0	1,132.41	0	0	0.00%
8" Monthly	0	0.00	0	1,811.83	0	0	0.00%
10" Monthly	0	0.00	0	2,264.81	0	0	0.00%
12" Monthly	0	0.00	0	2,830.77	0	0	0.00%
16" Monthly	0	0.00	0	4,529.62	0	0	0.00%
Subtotal Service Charges			$803,311		$541,237	($262,074)	-32.62%
Consumption (100 Gallons)	938,419	$0.70000	$656,894	$0.88724	$832,603	$175,709	26.75%
Total Rate Schedule A-17			**$1,460,205**		**$1,373,840**	**($86,365)**	**-5.91%**
Statewide Tariff - General Metered Service ("GMS") - Rate Schedule A-18							
5/8" Monthly	144	$ -	$0	$ 5.00	$720	$720	0.00%
3/4" Monthly	0	-	0	7.50	0	0	0.00%
1" Monthly	54	7.08	382	12.50	675	293	76.70%
1 1/2" Mthly	0	8.33	0	25.00	0	0	0.00%
2" Monthly	0	16.67	0	40.00	0	0	0.00%
3" Monthly	0	-	0	75.00	0	0	0.00%
4" Monthly	0	-	0	125.00	0	0	0.00%
6" Monthly	0	-	0	250.00	0	0	0.00%
8" Monthly	0	-	0	400.00	0	0	0.00%
10" Monthly	0	-	0	500.00	0	0	0.00%
12" Monthly	0	-	0	624.90	0	0	0.00%
16" Monthly	0	-	0	999.90	0	0	0.00%
Subtotal Service Charges			$382		$1,395	$1,013	265.18%
Consumption (100 Gallons)	5,809	$0.70000	$4,066	$0.88724	$5,154	$1,088	26.76%
Total Rate Schedule A-18			**$4,448**		**$6,549**	**$2,101**	**47.23%**
Statewide Tariff - General Metered Service ("GMS") - Rate Schedule A-19 / A-20							
A-19							
5/8" Monthly	31,620	$30.87	$976,109	$30.87	$976,109	$0	0.00%
3/4" Monthly	84	61.41	5,158	61.41	5,158	0	0.00%
1" Monthly	204	110.15	22,471	110.15	22,471	0	0.00%
1 1/4" Mthly	0	244.99	0	244.99	0	0	0.00%
1 1/2" Mthly	0	244.99	0	244.99	0	0	0.00%
2" Monthly	0	429.22	0	429.22	0	0	0.00%
3" Monthly	0	-	0	0.00	0	0	0.00%
4" Monthly	0	-	0	0.00	0	0	0.00%
6" Monthly	0	-	0	0.00	0	0	0.00%
8" Monthly	0	-	0	0.00	0	0	0.00%
10" Monthly	0	-	0	0.00	0	0	0.00%
12" Monthly	0	-	0	0.00	0	0	0.00%
16" Monthly	0	-	0	0.00	0	0	0.00%
Subtotal Service Charges			$1,003,738		$1,003,738	$0	0.00%

NEW JERSEY-AMERICAN WATER COMPANY
APPLICATION OF PRESENT AND SETTLEMENT RATES TO BILL ANALYSIS

Classification	No. of Bills/Usage	Present Rate	Present Revenue	Stipulated Rate	Stipulated Revenue	Increase (Decrease)	Revenue % Change
A-20							
5/8" Monthly	0	$30.98	$0	$30.98	$0	$0	0.00%
3/4" Monthly	0	62.85	0	62.85	0	0	0.00%
1" Monthly	0	110.30	0	110.30	0	0	0.00%
1 1/4" Mthly	0	245.25	0	245.25	0	0	0.00%
1 1/2" Mthly	24	245.25	5,886	245.25	5,886	0	0.00%
2" Monthly	60	429.26	25,756	429.26	25,756	0	0.00%
3" Monthly	0	614.10	0	614.10	0	0	0.00%
4" Monthly	0	1,226.25	0	1,226.25	0	0	0.00%
6" Monthly	0	1,837.25	0	1,837.25	0	0	0.00%
8" Monthly	0	3,571.63	0	3,571.63	0	0	0.00%
10" Monthly	0	0.00	0	0.00	0	0	0.00%
12" Monthly	0	0.00	0	0.00	0	0	0.00%
16" Monthly	0	0.00	0	0.00	0	0	0.00%
Subtotal Service Charges			$31,642		$31,642	$0	0.00%
A-19/A-20							
Consumption (100 Gallons)							
Block 1	609,124	$0.84600	$515,319	$0.84600	$515,319	$0	0.00%
Block 2	79,670	1.01300	$80,706	1.01300	$80,706	$0	0.00%
Total Rate Schedule A-19/A-20			**$1,631,405**		**$1,631,405**	**$0**	**0.00%**
TOTAL GMS (General Metered Services)			**$746,216,301**		**$806,970,573**	**$60,754,272**	**8.14%**

NEW JERSEY-AMERICAN WATER COMPANY
APPLICATION OF PRESENT AND SETTLEMENT RATES TO BILL ANALYSIS

Classification	No. of Bills/Usage	Present Rate	Present Revenue	Stipulated Rate	Stipulated Revenue	Increase (Decrease)	Revenue % Change
Optional Industrial Wholesale (OIW) Rate Schedule F							
5/8" Monthly	121	$23.51	$2,841	$22.65	$2,737	($104)	-3.66%
3/4" Monthly	36	35.29	1,274	34.00	1,228	(46)	-3.61%
1" Monthly	73	58.76	4,261	56.61	4,105	(156)	-3.66%
1 1/2" Mthly	150	117.60	17,583	113.30	16,940	(643)	-3.66%
2" Monthly	744	188.26	140,133	181.38	135,012	(5,121)	-3.65%
3" Monthly	479	352.86	169,112	339.96	162,929	(6,183)	-3.66%
4" Monthly	411	587.77	241,585	566.28	232,752	(8,833)	-3.66%
6" Monthly	149	1,175.38	174,759	1,132.41	168,370	(6,389)	-3.66%
8" Monthly	36	1,880.58	68,092	1,811.83	65,603	(2,489)	-3.66%
10" Monthly	60	2,350.75	141,045	2,264.81	135,889	(5,156)	-3.66%
12" Monthly	24	2,938.19	70,517	2,830.77	67,938	(2,579)	-3.66%
10" Monthly (Exempt)	24	2,030.50	48,732	1,955.94	46,943	(1,789)	-3.67%
			$1,079,934		$1,040,446	($39,488)	
Consumption (100 Gallons)							
All Usage - Non Exempt	31,441,589	$0.40117	$12,613,422	$0.44754	$14,071,369	$1,457,947	11.56%
All Usage -Exempt	13,282,180	0.34650	4,602,275	0.38651	5,133,695	531,420	11.55%
	44,723,769		$17,215,697		$19,205,064	$1,989,367	11.56%
Total OIW Rate Schedule F			**$18,295,631**		**$20,245,510**	**$1,949,879**	**10.66%**
Sales to Other Systems (SOS) Rate Schedule G							
Consumption (100 Gallons)							
All Usage - Non Exempt	102,862,140	$0.31251	$32,145,447	$0.34582	$35,571,785	$3,426,338	10.66%
All Usage -Exempt	10,950,000	0.26992	2,955,624	0.29866	3,270,327	314,703	10.65%
	113,812,140		$35,101,071		$38,842,112	$3,741,041	10.66%
Total SOS Rate Schedule G			**$35,101,071**		**$38,842,112**	**$3,741,041**	**10.66%**

NEW JERSEY-AMERICAN WATER COMPANY
APPLICATION OF PRESENT AND SETTLEMENT RATES TO BILL ANALYSIS

Classification	No. of Bills/Usage	Present Rate	Present Revenue	Stipulated Rate	Stipulated Revenue	Increase (Decrease)	Revenue % Change
Sales For Resale - Commodity Demand - Rate Schedule C							
5/8" Monthly	0	$23.51	$0	$22.65	$0	$0	0.00%
3/4" Monthly	0	35.29	0	34.00	0	0	0.00%
1" Monthly	0	58.76	0	56.61	0	0	0.00%
1 1/2" Mthly	0	117.60	0	113.30	0	0	0.00%
2" Monthly	12	188.26	2,259	181.38	2,177	(82)	-3.63%
3" Monthly	36	352.86	12,703	339.96	12,239	(464)	-3.65%
4" Monthly	156	587.77	91,692	566.28	88,340	(3,352)	-3.66%
6" Monthly	108	1,175.38	126,941	1,132.41	122,300	(4,641)	-3.66%
8" Monthly	36	1,880.58	67,701	1,811.83	65,226	(2,475)	-3.66%
10" Monthly	12	2,350.75	28,209	2,264.81	27,178	(1,031)	-3.65%
12" Monthly	12	2,938.19	35,258	2,830.77	33,969	(1,289)	-3.66%
16" Monthly	0	4,701.51	0	4,529.62	0	0	0.00%
4" Monthly (Exempt)	24	507.67	12,184	489.05	11,737	(447)	-3.67%
Subtotal Service Charges			$376,947		$363,166	($13,781)	-3.66%
Consumption (100 Gallons)							
Demand - Non Exempt	1,834,265	$7.0672	$12,963,139	$7.84240	$14,385,043	$1,421,904	10.97%
Commodity- Non Exempt	61,560,126	0.05952	3,664,059	0.06605	4,066,047	401,988	10.97%
Demand - Exempt	88,800	6.10400	542,035	6.77286	601,430	59,395	10.96%
Commodity - Exempt	2,701,000	0.05141	138,858	0.05704	154,065	15,207	10.95%
			$17,308,091		$19,206,585	$1,898,494	10.97%
Total Rate Schedule C			**$17,685,038**		**$19,569,751**	**$1,884,713**	**10.66%**
Sales For Resale - Off Peak - Rate Schedule D							
5/8" Monthly	0	$23.51	$0	$22.65	$0	$0	0.00%
3/4" Monthly	0	35.29	0	34.00	0	0	0.00%
1" Monthly	0	58.76	0	56.61	0	0	0.00%
1 1/2" Mthly	0	117.60	0	113.30	0	0	0.00%
2" Monthly	0	188.26	0	181.38	0	0	0.00%
3" Monthly	0	352.86	0	339.96	0	0	0.00%
4" Monthly	8	587.77	4,702	566.28	4,530	(172)	-3.66%
6" Monthly	38	1,175.38	44,664	1,132.41	43,032	(1,632)	-3.65%
8" Monthly	7	1,880.58	13,164	1,811.83	12,683	(481)	-3.65%
10" Monthly	0	2,350.75	0	2,264.81	0	0	0.00%
12" Monthly	0	2,938.19	0	2,830.77	0	0	0.00%
16" Monthly	0	4,701.51	0	4,529.62	0	0	0.00%
Subtotal Service Charges			$62,530		$60,245	($2,285)	-3.65%
Consumption (100 Gallons)							
Demand - Non Exempt	180,548	$6.50000	$1,173,560	$7.21063	$1,301,863	$128,303	10.93%
Commodity Non Exempt	5,468,361	0.05952	325,477	0.06605	361,185	35,708	10.97%
Water at GMS Rate	174,375	0.77752	135,580	0.88724	154,712	19,132	14.11%
			$1,634,617		$1,817,760	$183,143	11.20%
Total Rate Schedule D			**$1,697,147**		**$1,878,005**	**$180,858**	10.66%
Total Commodity Demand (Rate Schedule C & D)			**$19,382,185**		**$21,447,756**	**$2,065,571**	**10.66%**

NEW JERSEY-AMERICAN WATER COMPANY
APPLICATION OF PRESENT AND SETTLEMENT RATES TO BILL ANALYSIS

Classification	No. of Bills/Usage	Present Rate	Present Revenue	Stipulated Rate	Stipulated Revenue	Increase (Decrease)	Revenue % Change
Sales For Resale - Manasquan - Rate Schedule E & J							
5/8" Monthly	12	$23.51	$282	$22.65	$272	($10)	-3.55%
3/4" Monthly	0	35.29	0	34.00	0	0	0.00%
1" Monthly	24	58.76	1,410	56.61	1,359	(51)	-3.62%
1 1/2" Mthly	0	117.60	0	113.30	0	0	0.00%
2" Monthly	24	188.26	4,518	181.38	4,353	(165)	-3.65%
3" Monthly	12	352.86	4,234	339.96	4,080	(154)	-3.64%
4" Monthly	48	587.77	28,211	566.28	27,180	(1,031)	-3.65%
6" Monthly	60	1,175.38	70,523	1,132.41	67,945	(2,578)	-3.66%
8" Monthly	24	1,880.58	45,134	1,811.83	43,484	(1,650)	-3.66%
10" Monthly	0	2,350.75	0	2,264.81	0	0	0.00%
12" Monthly	0	2,938.19	0	2,830.77	0	0	0.00%
16" Monthly	0	4,701.51	0	4,529.62	0	0	0.00%
Subtotal Service Charges			$154,312		$148,673	($5,639)	-3.65%
Consumption (100 Gallons)							
Uninterruptible	5,086,800	$0.1939	$986,331	$0.21581	$1,097,783	$111,452	11.30%
Interruptible	471,895	0.7775	366,907	0.8872	418,684	51,777	14.11%
Uninterruptible J	1,300,000	0.2789	362,505	0.3109	404,209	41,704	11.50%
			$1,715,743		$1,920,676	$204,933	11.94%
Total Manasquan (Rate Schedule E & J)			**$1,870,055**		**$2,069,349**	**$199,294**	**10.66%**
Sales for Resale - Peaking - Rate Schedule H							
5/8" Monthly	0	$ 23.51	$0	$ 22.65	$0	$0	0.00%
3/4" Monthly	0	35.29	0	34.00	0	0	0.00%
1" Monthly	0	58.76	0	56.61	0	0	0.00%
1 1/2" Mthly	0	117.60	0	113.30	0	0	0.00%
2" Monthly	0	188.26	0	181.38	0	0	0.00%
3" Monthly	0	352.86	0	339.96	0	0	0.00%
4" Monthly	0	587.77	0	566.28	0	0	0.00%
6" Monthly	0	1,175.38	0	1,132.41	0	0	0.00%
8" Monthly	11	1,880.58	20,678	1,811.83	19,922	(756)	-3.66%
10" Monthly	0	2,350.75	0	2,264.81	0	0	0.00%
12" Monthly	0	2,938.19	0	2,830.77	0	0	0.00%
16" Monthly	0	4,701.51	0	4,529.62	0	0	0.00%
Subtotal Service Charges			$20,678		$19,922	($756)	-3.66%
Consumption (100 Gallons)							
All Water	222,625	$0.96542	$214,927	$1.05500	$234,869	$19,942	9.28%
			$214,927		$234,869	$19,942	9.28%
Total Peaking (Rate Schedule H)			**$235,605**		**$254,791**	**$19,186**	**8.14%**

NEW JERSEY-AMERICAN WATER COMPANY
APPLICATION OF PRESENT AND SETTLEMENT RATES TO BILL ANALYSIS

Classification	No. of Bills/Usage	Present Rate	Present Revenue	Stipulated Rate	Stipulated Revenue	Increase (Decrease)	Revenue % Change
Sales for Resale - Emergency or Backup Bulk - Rate Schedule I							
5/8" Monthly	0	$ 23.51	$0	$ 22.65	$0	$0	0.00%
3/4" Monthly	0	35.29	0	34.00	0	0	0.00%
1" Monthly	0	58.76	0	56.61	0	0	0.00%
1 1/2" Mthly	0	117.60	0	113.30	0	0	0.00%
2" Monthly	12	188.26	2,259	181.38	2,177	(82)	-3.63%
3" Monthly	0	352.86	0	339.96	0	0	0.00%
4" Monthly	0	587.77	0	566.28	0	0	0.00%
6" Monthly	12	1,175.38	14,105	1,132.41	13,589	(516)	-3.66%
8" Monthly	12	1,880.58	22,567	1,811.83	21,742	(825)	-3.66%
10" Monthly	0	2,350.75	0	2,264.81	0	0	0.00%
12" Monthly	0	2,938.19	0	2,830.77	0	0	0.00%
16" Monthly	0	4,701.51	0	4,529.62	0	0	0.00%
Subtotal Service Charges			$38,931		$37,508	($1,423)	-3.66%
Consumption (100 Gallons)							
All Water	580,136	$0.57031	$330,857	$0.62470	$362,411	$31,554	9.54%
			$330,857		$362,411	$31,554	9.54%
Total Emergency or Backup Bulk (Rate Schedule I)			**$369,788**		**$399,919**	**$30,131**	**8.15%**

NEW JERSEY-AMERICAN WATER COMPANY
APPLICATION OF PRESENT AND SETTLEMENT RATES TO PRIVATE FIRE PROTECTION UNITS

Service Area	Number of Connections	Present Rate	Present Revenue	Stipulated Rate	Stipulated Revenue	Increase (Decrease)	Revenue % Change
Statewide Tariff - Private Fire Area 1 - Rate Schedule "L-1"							
Connection Size							
2-inch service	9,387	$ 24.60	$230,920	$ 28.36	$266,215	$35,295	15.28%
3-inch service	24	55.34	1,328	63.80	1,531	203	15.29%
4-inch service	19,008	98.37	1,869,817	113.41	2,155,697	285,880	15.29%
6-inch service	29,331	221.34	6,492,124	255.17	7,484,391	992,267	15.28%
8-inch service	11,001	393.51	4,329,004	453.66	4,990,714	661,710	15.29%
10-inch service	774	615.00	476,010	709.00	548,766	72,756	15.28%
12-inch service	441	885.60	390,550	1,020.96	450,243	59,693	15.28%
16-inch service	0	1,574.40	0	1,815.04	0	0	0.00%
Private Hydrants	6,924	$ 221.34	$ 1,532,558	$ 66.00	$ 456,984	$ (1,075,574)	-70.18%
Usage Per HG	150,730	0.77752	117,196	0.88724	133,734	16,538	14.11%
Total L-1			$15,439,507		$16,488,275	$1,048,768	6.79%
Statewide Tariff - Private Fire Area 1 - Rate Schedule "L-2"							
Sprinkler Head	343,956	$ 1.25	$429,945	$ 1.44	$495,297	$65,352	15.20%
Private Fire Hydrant	2,142	54.00	115,668	66.00	141,372	25,704	22.22%
Total L-2			$545,613		$636,669	$91,056	16.69%
Total Area 1 (L-1 & L-2)			$15,985,120		$17,124,944	$1,139,824	7.13%
Statewide Tariff - Private Fire Area 2 General - Rate Schedule "L-3"							
Connection Size							
2-inch service	7,185	$ 45.00	$323,325	$ 51.83	$372,399	$49,074	15.18%
3-inch service	1,365	88.40	120,666	101.82	138,984	18,318	15.18%
4-inch service	15,537	142.54	2,214,644	164.17	2,550,709	336,065	15.17%
6-inch service	20,607	264.41	5,448,697	304.54	6,275,656	826,959	15.18%
8-inch service	8,517	451.50	3,845,426	520.03	4,429,096	583,670	15.18%
10-inch service	1,107	589.59	652,676	679.08	751,742	99,066	15.18%
12-inch service	180	848.98	152,816	977.84	176,011	23,195	15.18%
16-inch service	12	1,668.15	20,018	1,921.34	23,056	3,038	15.18%
20-inch service	0	3,040.13	0	3,501.55	0	0	0.00%
Private Fire Hydrant	20,715	$ 62.84	$1,301,731	66.00	$1,367,190	$65,459	5.03%
Consumption (in HG)	311,347	0.77752	242,078	0.88724	276,239	34,161	14.11%
Total L-3			$14,322,077		$16,361,082	$2,039,005	14.24%

NEW JERSEY-AMERICAN WATER COMPANY
APPLICATION OF PRESENT AND SETTLEMENT RATES TO PRIVATE FIRE PROTECTION UNITS

Service Area	Number of Connections	Present Rate	Present Revenue	Stipulated Rate	Stipulated Revenue	Increase (Decrease)	Revenue % Change
Statewide Tariff - Private Fire Area 1A and 3 - Rate Schedule "L-7"							
Connection Size							
2-inch service	468	$ 24.60	$11,513	$ 28.36	$13,272	$1,759	15.28%
3-inch service	48	55.34	2,656	63.80	3,062	406	15.29%
4-inch service	897	98.37	88,238	113.41	101,729	13,491	15.29%
6-inch service	1,368	221.34	302,793	255.17	349,073	46,280	15.28%
8-inch service	420	393.51	165,274	453.66	190,537	25,263	15.29%
10-inch service	78	615.00	47,970	709.00	55,302	7,332	15.28%
12-inch service	24	885.60	21,254	1,020.96	24,503	3,249	15.29%
16-inch service	0	1,574.40	0	1,815.04	0	0	0.00%
Private Fire Hydrant	1,992	$ 44.96	$ 89,560	$ 52.50	$104,580	$15,020	16.77%
Consumption (in HG)	8,915	0.77752	6,931	0.88724	7,910	979	14.12%
Total L-7			$736,189		$849,968	$113,779	15.46%
Statewide Tariff - Private Fire Area 1B Rate Schedule "L-9"							
Connection Size							
2-inch service	0	$ 26.75	$0	$ 28.36	$0	$0	0.00%
3-inch service	0	60.18	0	63.80	0	0	0.00%
4-inch service	36	106.97	3,851	113.41	4,083	232	6.02%
6-inch service	108	240.68	25,993	255.17	27,558	1,565	6.02%
8-inch service	81	427.90	34,660	453.65	36,746	2,086	6.02%
10-inch service	48	668.75	32,100	709.00	34,032	1,932	6.02%
12-inch service	60	963.00	57,780	1,020.96	61,258	3,478	6.02%
16-inch service	12	1,712.00	20,544	1,815.04	21,780	1,236	6.02%
Private Fire Hydrant	816	$ 37.80	$30,845	$ 45.30	$36,965	$6,120	19.84%
Consumption (in HG)	20	0.77752	16	0.88724	18	2	12.50%
Total L-9			$205,789		$222,440	$16,651	8.09%
Statewide Tariff - Private Fire Area 1C Rate Schedule "L-10"							
Connection Size with Hose							
3-inch service	0	$155.00	$0	$ 178.51	$0	$0	0.00%
4-inch service	36	258.00	9,288	297.13	10,697	1,409	15.17%
6-inch service	108	516.00	55,728	594.27	64,181	8,453	15.17%
8-inch service	108	826.00	89,208	951.29	102,739	13,531	15.17%
10-inch service	12	1,280.00	15,360	1,474.30	17,692	2,332	15.18%
Connection Size without Hose							
2-inch service	36	$52.00	$1,872	$ 59.89	$2,156	$284	15.17%
3-inch service	24	109.00	2,616	125.54	3,013	397	15.18%
4-inch service	534	182.00	97,188	209.62	111,937	14,749	15.18%
6-inch service	567	364.00	206,388	419.23	237,703	31,315	15.17%
8-inch service	156	582.00	90,792	670.31	104,568	13,776	15.17%
10-inch service	0	909.00	0	1,046.92	0	0	0.00%
Private Fire Hydrant	2,220	70.50	$156,510	$ 66.00	$146,520	$ (9,990)	-6.38%
Consumption (in HG)	108,010	0.77752	83,980	0.88724	95,831	11,851	14.11%
Total L-10			$808,930		$897,037	$88,107	10.89%

NEW JERSEY-AMERICAN WATER COMPANY
APPLICATION OF PRESENT AND SETTLEMENT RATES TO PRIVATE FIRE PROTECTION UNITS

Service Area	Number of Connections	Present Rate	Present Revenue	Stipulated Rate	Stipulated Revenue	Increase (Decrease)	Revenue % Change
Statewide Tariff - Private Fire Area 1D Rate Schedule "L-11"							
Connection Size							
2-inch service	0	$ 24.60	$0	$ 28.36	$0	$0	0.00%
3-inch service	0	55.34	0	63.80	0	0	0.00%
4-inch service	0	98.37	0	113.41	0	0	0.00%
6-inch service	0	221.34	0	255.17	0	0	0.00%
8-inch service	0	393.51	0	453.66	0	0	0.00%
Private Fire Hydrant	96	33.20	$3,187	$ 40.30	$3,869	$682	21.40%
Total L-11			$3,187		$3,869	$682	21.40%
Statewide Tariff - Private Fire Area 1F Rate Schedule "L-12"							
Private Fire Hydrant	504	$ 32.80	$16,531	$ 40.30	$20,311	$3,780	22.87%
Total L-12			$16,531		$20,311	$3,780	22.87%
Statewide Tariff - Private Fire Area 1G Rate Schedule "L-13"							
Connection Size							
2-inch service	0	$ 62.50	$0	$ 58.28	$0	$0	0.00%
3-inch service	0	62.50	0	58.28	0	0	0.00%
4-inch service	0	62.50	0	58.28	0	0	0.00%
6-inch service	96	133.33	12,800	124.33	11,936	(864)	-6.75%
8-inch service	36	250.00	9,000	233.13	8,393	(607)	-6.74%
12-inch service	12	583.33	7,000	543.94	6,527	(473)	-6.76%
Private Fire Hydrant	0	10.42	$0	$ 15.00	$0	$0	0.00%
Total L-13			$28,800		$26,856	($1,944)	-6.75%
Statewide Tariff - Private Fire Area 1H Rate Schedule "L-14"							
Connection Size							
2-inch service	12	$ 53.01	$636	$ 53.01	$636	$0	0.00%
4-inch service	60	249.06	14,944	249.06	14,944	0	0.00%
6-inch service	60	438.86	26,332	438.86	26,332	0	0.00%
8-inch service	12	619.14	7,430	619.14	7,430	0	0.00%
12-inch service	0	805.36	0	-	0	0	0.00%
Sprinkler Head	0	$ 0.36	$0	$ 0.36	$0	$0	0.00%
Total L-14			$49,342		$49,342	$0	0.00%
Statewide Tariff - Private Fire Bulk. "A-1"							
Connection Size							
2-inch service	2,418	$ 159.00	$384,383	$ 181.38	$438,486	$54,103	14.08%
Consumption (in HG)	378,130	$ 0.77752	$294,004	$ 0.88724	$335,492	$41,488	14.11%
Total A-1			$678,387		$773,978	$95,591	14.09%
Total Private Fire			**$32,834,352**		**$36,329,827**	**$3,495,475**	**10.65%**

NEW JERSEY-AMERICAN WATER COMPANY
APPLICATION OF PRESENT AND SETTLEMENT RATES TO PUBLIC FIRE PROTECTION UNITS

ServiceArea	Number of Hydrants	12 Months Number of Hydrants	Present Monthly Rate	Present Revenue	Stipulated Monthly Rate	Stipulated Revenue	Increase (Decrease)	Revenue % Change
Statewide Tariff - Public Fire Services Areas 1 and 1E								
Rate Schedule M-1 - Statewide	25,231	302,766	$ 58.90	$17,832,917	$ 66.00	$19,982,556	$2,149,639	12.05%
Rate Schedule M-2 - Logan/Ortley	303	3,636	54.00	196,344	61.50	223,614	27,270	13.89%
Rate Schedule M-3 - Adelphia	244	2,925	54.00	157,950	61.50	179,888	21,938	13.89%
Total Service Areas 1 and 1E				$18,187,211		$20,386,058	$2,198,847	12.09%
Rate Schedule M-5 Service Area 2 - Somerset/Mercer & Union/Middlesex								
Tariff Zone 2A	74	888	$ 53.00	$47,064	$ 60.50	$53,724	$6,660	14.15%
Tariff Zone 2C	501	6,012	58.90	354,107	66.00	396,792	42,685	12.05%
Tariff Zone 2D	1,309	15,708	59.00	926,772	66.00	1,036,728	109,956	11.86%
Tariff Zone 2E	157	1,884	61.00	114,924	66.00	124,344	9,420	8.20%
Tariff Zone 2F	1,813	21,756	61.00	1,327,116	66.00	1,435,896	108,780	8.20%
Tariff Zone 2G	2,525	30,300	61.00	1,848,300	66.00	1,999,800	151,500	8.20%
Tariff Zone 2H	4,291	51,495	63.74	3,282,291	66.00	3,398,670	116,379	3.55%
Tariff Zone 2I	1,199	14,382	65.78	946,048	66.00	949,212	3,164	0.33%
Tariff Zone 2J	3,346	40,152	66.67	2,676,934	66.00	2,650,032	(26,902)	-1.00%
Tariff Zone 2K	572	6,858	70.59	484,106	66.00	452,628	(31,478)	-6.50%
Tariff Zone 2L	1,336	16,026	70.59	1,131,275	66.00	1,057,716	(73,559)	-6.50%
Rate Schedule M-5				$13,138,937		$13,555,542	$416,605	3.17%
Rate Schedule M-6 (SA3)								
Tariff Zone 3A	190	2,274	$ 35.00	$79,590	$ 42.50	$96,645	$17,055	21.43%
Tariff Zone 3B	112	1,344	40.25	54,096	47.80	64,243	10,147	18.76%
Tariff Zone 3C	109	1,308	44.75	58,533	52.30	68,408	9,875	16.87%
Tariff Zone 3D	247	2,967	49.25	146,125	56.80	168,526	22,401	15.33%
Tariff Zone 3G	852	10,221	56.00	572,376	63.50	649,034	76,658	13.39%
Rate Schedule M-6				$910,720		$1,046,856	$136,136	14.95%
Rate Schedule M-7 (SA 1A)	460	5,514	$ 44.96	$247,909	$ 52.50	$289,485	$41,576	16.77%
Rate Schedule M-8 (SA 1B)	508	6,099	37.80	230,542	45.30	276,285	45,743	19.84%
Rate Schedule M-9 (SA 1C)	854	10,251	70.50	722,696	66.00	676,566	(46,130)	-6.38%
Rate Schedule M-10 (SA 1D)	31	372	33.20	12,350	40.30	14,992	2,642	21.39%
Rate Schedule M-11 (SA 1F)	403	4,830	32.80	158,424	40.30	194,649	36,225	22.87%
Rate Schedule M-12 (SA 1G)	223	2,676	10.42	27,884	15.00	40,140	12,256	43.95%
Total Public Fire				**$33,636,673**		**$36,480,573**	**$2,843,900**	**8.45%**

NEW JERSEY-AMERICAN WATER COMPANY
APPLICATION OF PRESENT AND SETTLEMENT RATES TO SEWER SERVICE DIVISION

Ocean City Sewer Service - Rate Schedule 1-A

	Billing Units	Summer Quarter Usage	Annual Usage	Present Summer Rate	Present Annual Rate	Present Summer Revenue	Present Annual Revenue	Stipulated Summer Rate	Stipulated Annual Rate	Stipulated Summer Revenue	Stipulated Annual Revenue
Residential	13,646	2,245,353	4,460,352	$ 1.350	$ 0.23250	$ 3,031,226	$ 1,037,032	$ 1.53000	$ 0.37520	$ 3,435,389	$ 1,673,524
Commercial	2,190	848,959	1,777,842	$ 1.350	$ 0.23250	$ 1,146,094	$ 413,348	$ 1.53000	$ 0.37520	$ 1,298,907	$ 667,046
Other	53	56,403	129,979	$ 1.350	$ 0.23250	$ 76,144	$ 30,220	$ 1.53000	$ 0.37520	$ 86,297	$ 48,768
Subtotal	15,889	3,150,714	6,368,174			$ 4,253,464	$ 1,480,600			$ 4,820,593	$ 2,389,338
Universal Affordability	143			$ (1.35)			$ (193)				$ (295)
WSIC							$ 623,790				

	Present Revenue	Stipulated Revenue
Total Rate Schedule 1-A	**$ 6,357,661**	**$ 7,209,636**

Lakewood Sewer Service - Rate Schedule 2-A

	Billing Units	Annual Usage	Present Fixed Rate	Present Volumetric Rate	Present Fixed Revenue	Present Volumetric Revenue	Stipulated Fixed Rate	Stipulated Volumetric Rate	Stipulated Fixed Revenue	Stipulated Volumetric Revenue	Stipulated Total Revenue
Residential	197,976	13,121,255	$ 15.00	$ 0.45170	$ 2,969,640	$ 5,926,871	$ 17.00	$ 0.55730	$ 3,365,592	$ 7,312,476	$ 10,678,068
Commercial	11,832	3,478,334	$ 15.00	$ 0.45170	$ 177,480	$ 1,571,163	$ 17.00	$ 0.55730	$ 201,144	$ 1,938,475	$ 2,139,619
Other	456	146,090	$ 15.00	$ 0.45170	$ 6,840	$ 65,989	$ 17.00	$ 0.55730	$ 7,752	$ 81,416	$ 89,168
Subtotal	210,264	16,745,679			$ 3,153,960	$ 7,564,023			$ 3,574,488	$ 9,332,367	$ 12,906,855
Minimum (Unmetered)	300		$ 33.07		$ 9,924	$ 9,924	$ 39.30		$ 11,793		$ 11,793
WSIC					$ 714,976						
Universal Affordability	7,254		$ (15.00)		$ (108,810)						$ (65,057)

	Present Revenue	Stipulated Revenue
Total Rate Schedule 2-A	**$ 11,334,073**	**$ 12,853,591**

Adelphia Sewer Service - Rate Schedule 3-A

	Billing Units	Annual Usage	Winter Quarter Usage	Present Fixed Rate	Present Volumetric Rate	Present Fixed Revenue	Present Volumetric Revenue	Stipulated Fixed Rate	Stipulated Volumetric Rate	Stipulated Fixed Revenue	Stipulated Volumetric Revenue	Stipulated Total Revenue
Residential	45,624	1,581,014	1,448,205	$ 15.00	$ 0.47100	$ 684,360	$ 744,658	$ 17.00	$ 0.55730	$ 775,608	$ 807,084	$ 1,582,692
Comercial	540	68,502	68,738	$ 15.00	$ 0.47100	$ 8,100	$ 32,264	$ 17.00	$ 0.55730	$ 9,180	$ 38,308	$ 47,488
Subtotal	46,164	1,649,516	1,516,942			$ 692,460	$ 776,922			$ 784,788	$ 845,392	$ 1,630,180
WSIC						$ 157,119						
Universal Affordability	717			$ (15.00)		$ (10,755)						$ (5,210)

	Present Revenue	Stipulated Revenue
Total Rate Schedule 3-A	**$ 1,615,746**	**$ 1,624,970**

NEW JERSEY-AMERICAN WATER COMPANY
APPLICATION OF PRESENT AND SETTLEMENT RATES TO SEWER SERVICE DIVISION

Pottersville/COWS/Applied General Flat Rate Service - Rate Schedule 5-A

	Billing Units	Present Rate	Present Revenue	Stipulated Rate	Stipulated Revenue
ClassA	6,312	$ 81.00	$ 511,294	$ 86.00	$ 542,855
Class B	15,084	$ 97.87	$ 1,476,245	$ 100.00	$ 1,508,373
Subtotal	21,396		$ 1,987,539		$ 2,051,228
WSIC			$ 56,369		
Total Rate Schedule 5-A			**$ 2,043,908**		**$ 2,051,228**

Pottersville/COWS/Applied General Metered Services - Rate Schedule 6-A

	Billing Units	Annual Usage	Present Fixed Rate	Present Volumetric Rate	Present Fixed Revenue	Present Volumetric Revenue	Stipulated Fixed Rate	Stipulated Volumetric Rate	Stipulated Fixed Revenue	Stipulated Volumetric Revenue	Stipulated Total Revenue
Residential	38,040	1,198,507	$ 50.00	$ 0.76000	$ 1,902,000	$ 910,866	$ 65.68	$ 0.78090	$ 2,498,467	$ 935,914	$ 3,434,381
Commercial	1,500	89,975	$ 50.00	$ 0.76000	$ 75,000	$ 68,381	$ 65.68	$ 0.78090	$ 98,520	$ 70,262	$ 168,782
Subtotal	39,540	1,288,483			$ 1,977,000	$ 979,247			$ 2,596,987	$ 1,006,176	$ 3,603,163
WSIC					$ 109,920						
Universal Affordability	431		$ (19.85)		$ (8,555)						$ (7,453)

	Present Revenue	Stipulated Revenue
Total Rate Schedule 6-A	**$ 3,057,612**	**$ 3,595,710**

Other Contracts - Rate Schedule 8-A

	Billing Units	Annual Usage	Present Fixed Rate	Present Volumetric Rate	Present Fixed Revenue	Present Volumetric Revenue	Stipulated Fixed Rate	Stipulated Volumetric Rate	Stipulated Fixed Revenue	Stipulated Volumetric Revenue	Stipulated Total Revenue
Fixed Charge	2,047.94		$ 120.00		$ 245,754	$ -	$ 141.10	$ -	$ 288,965	$ -	$ 288,965.00
Bulk Users (Former EDC)		1,352,810		$ 0.74900		$ 1,013,255		$ 0.88090		$ 1,191,691	$ 1,191,691
Subtotal	2,048	-			$ 245,754	$ 1,013,255			$ 288,965	$ 1,191,691	$ 1,480,656

	Present Revenue	Stipulated Revenue
Total Rate Schedule 8-A	**$ 1,259,009**	**$ 1,480,656**

NEW JERSEY-AMERICAN WATER COMPANY
APPLICATION OF PRESENT AND SETTLEMENT RATES TO SEWER SERVICE DIVISION

Jensen's Deep Run - Rate Schedule 10-A

	Billing Units	Annual Usage	Present Fixed Rate	Present Volumetric Rate	Present Fixed Revenue	Present Volumetric Revenue	Stipulated Fixed Rate	Stipulated Volumetric Rate	Stipulated Fixed Revenue	Stipulated Volumetric Revenue	Stipulated Total Revenue
Residential	2,916	55,760	$ 30.00	$ 0.74000	$ 87,480	$ 41,262	$ 40.00	$ 0.78090	$ 116,640	$ 43,543	$ 160,183
Commercial	24	180	$ 30.00	$ 0.74000	$ 720	$ 133	$ 40.00	$ 0.78090	$ 960	$ 141	$ 1,101
Subtotal	2,940	55,940			$ 88,200	$ 41,395			$ 117,600	$ 43,684	$ 161,284
WSIC					$ 7,532						

	Present Revenue	Stipulated Revenue
Total Rate Schedule 10-A	**$ 137,127**	**$ 161,284**

Haddonfield Borough - Rate Schedule 11-A

	Billing Units	Annual Usage	Winter Quarter Usage	Present Fixed Rate	Present Volumetric Rate	Present Fixed Revenue	Present Volumetric Revenue	Stipulated Fixed Rate	Stipulated Volumetric Rate	Stipulated Fixed Revenue	Stipulated Volumetric Revenue	Stipulated Total Revenue
Residential	47,040	2,576,820	1,965,943	$ 6.00	$ 0.36750	$ 282,240	$ 946,981	$ 12.50	$ 0.51020	$ 588,000	$ 1,003,024	$ 1,591,024
Comercial	4,188	372,286	335,876	$ 6.00	$ 0.36750	$ 25,128	$ 136,815	$ 12.50	$ 0.51020	$ 52,350	$ 171,364	$ 223,714
Other	408	48,435	41,955	$ 6.00	$ 0.36750	$ 2,448	$ 17,800	$ 12.50	$ 0.51020	$ 5,100	$ 21,405	$ 26,505
Subtotal	51,636	2,997,541				$ 309,816	$ 1,101,596			$ 645,450	$ 1,195,793	$ 1,841,243
WSIC						$ 211,133						
Universal Affordability	29			$ (6.00)		$ (174)						$ (1,467)

	Present Revenue	Stipulated Revenue
Total Rate Schedule 11-A	**$ 1,622,371**	**$ 1,839,776**

Elk Township - Rate Schedule 12-A

	Billing Units	Usage	Present Fixed Rate	Present Volumetric Rate	Present Fixed Revenue	Present Volumetric Revenue	Stipulated Fixed Rate	Stipulated Volumetric Rate	Stipulated Fixed Revenue	Stipulated Volumetric Revenue	Stipulated Total Revenue
Residential	660	36,380	$ 20.00	$ 0.85000	$ 13,200	$ 30,923	$ 17.00	$ 0.55730	$ 11,220	$ 20,275	$ 31,495
Commercial	-	-	$ 20.00	$ 0.85000	$ -	$ -	$ 17.00	$ 0.55730	$ -	$ -	$ -
Subtotal	660	36,380			$ 13,200	$ 30,923			$ 11,220	$ 20,275	$ 31,495
WSIC					$ 1,754						
PSTAC					$ (14,555)						

	Present Revenue	Stipulated Revenue
Total Rate Schedule 12-A	**$ 31,322**	**$ 31,495**

NEW JERSEY-AMERICAN WATER COMPANY
APPLICATION OF PRESENT AND SETTLEMENT RATES TO SEWER SERVICE DIVISION

Mt. Ephraim - Rate Schedule 13-A

	Billing Units	Winter Quarter Usage	Present Rate	Present Revenue	Stipulated Fixed Rate	Stipulated Volumetric Rate	Stipulated Fixed Revenue	Stipulated Volumetric Revenue	Stipulated Revenue
Each additional Employee	2,977		$ 1.82	$ 5,418	$ -	$ -	$ -	$ -	$ -
Unrecirculated Air-Con Unit	-		$ 2.27	$ -	$ -	$ -	$ -	$ -	$ -
Self service laundries	-		$ 3.64	$ -	$ -	$ -	$ -	$ -	$ -
Lodges, meeting halls	-		$ 4.56	$ -	$ -	$ -	$ -	$ -	$ -
Post offices	-		$ 7.29	$ -	$ -	$ -	$ -	$ -	$ -
Single Family dwelling	26,321		$ 9.11	$ 239,786	$ -	$ -	$ -	$ -	$ -
Gas Service Stations	12		$ 18.22	$ 219	$ -	$ -	$ -	$ -	$ -
Drive In Restaurants < 50 seats	-		$ 27.32	$ -	$ -	$ -	$ -	$ -	$ -
Restaurants 51-75 seats	8		$ 36.42	$ 291	$ -	$ -	$ -	$ -	$ -
Restaurants 76-100 seats	24		$ 45.54	$ 1,092	$ -	$ -	$ -	$ -	$ -
	29,342			$ 246,806			$ -	$ -	$ -
Residential	20,040	796,396	$ -	$ -	$ 12.50	$ 0.01440	$ 250,500	$ 11,468	$ 261,968
Non-Residential	1,164	135,601	$ -	$ -	$ 12.50	$ 0.01440	$ 14,550	$ 1,953	$ 16,503
	21,204	931,997					$ 265,050	$ 13,421	$ 278,471
WSIC				$ -					
Universal Affordability	143		$ (9.11)	$ (1,303)					$ (109)

	Present Revenue	Stipulated Revenue
Total Rate Schedule 13-A	**$ 245,503**	**$ 278,362**

Long Hill (Flat Rate) - Rate Schedule 14-A

	Bills	Current Price	Current Revenue	Proposed Price	Proposed Revenue
Fixed Service Charge	876	$ 15.47	$ 13,554	$ 15.93	$ 13,958
Res- Flat Rate Service Charge	816	$ 50.84	$ 41,497	$ 52.37	$ 42,746
Non Res Flat Rate Service Charge	60	$ 106.09	$ 6,365	$ 109.27	$ 6,556
			61,416		$ 63,260

	Present Revenue	Stipulated Revenue
Total Rate Schedule 14-A	**$ 61,416**	**$ 63,260**

Long Hill (Volume-Based)- Rate Schedule 15-A

	Bills	Annual Usage	Current Fixed Price	Current Volumetric Price	Current Fixed Revenue	Current Volumetric Revenue	Stipulated Fixed Price	Stipulated Volumetric Price	Stipulated Fixed Revenue	Stipulated Volumetric Revenue	Stipulated Total Revenue
Residential	30,024	702,199	$ 15.47	$ 1.93830	$ 464,471	$ 1,361,071	$ 15.93	$ 1.99640	$ 478,282	$ 1,401,870	$ 1,880,152
Non-Residential	1,608	110,097	$ 15.47	$ 1.93830	$ 24,876	$ 213,401	$ 15.93	$ 1.99640	$ 25,615	$ 219,798	$ 245,414
Other	132	7,130	$ 15.47	$ 1.93830	$ 2,042	$ 13,820	$ 15.93	$ 1.99640	$ 2,103	$ 14,235	$ 16,337
Subtotal	31,632	812,296			491,389	1,588,292			506,001	1,635,902	$ 2,141,903
Universal Affordability	99		$ (15.47)		(1,532)						(1,401)
Universal Affordability Senior	5,281		$ (3.33)		(17,586)		$ (3.43)				(18,114)

	Present Revenue	Stipulated Revenue
Total Rate Schedule 15-A	**$ 2,060,564**	**$ 2,122,388**

Egg Harbor (Flat Rate) - Rate Schedule 16-A

	Bills	Current Price	Current Revenue	Proposed Price	Proposed Revenue
Res- Flat Rate Service Charge	132	$ 58.33	$ 7,700	$ 46.40	$ 6,125
Non Res Flat Rate Service Charge	24	$ 58.33	$ 1,400	$ 46.40	$ 1,114
			9,100		$ 7,238
PSTAC			(2,803)		

	Present Revenue	Stipulated Revenue
Total Rate Schedule 16-A	**$ 6,297**	**$ 7,238**

Egg Harbor (Metered) - Rate Schedule 17-A

	Billing Units	Annual Usage	Winter Quarter Usage	Current Fixed Rate	Current Volumetric Rate	Current Fixed Revenue	Current Volumetric Revenue	Stipulated Fixed Rate	Stipulated Volumetric Rate	Stipulated Fixed Revenue	Stipulated Volumetric Revenue	Stipulated Total Revenue
5/8" Monthly	15,588	819,044	756,631	$ 10.83	$ 0.75000	$ 168,818	$ 614,284	$ 12.50	$ 0.42240	$ 194,850	$ 319,601	$ 514,451
3/4" Monthly	132			$ 10.83		$ 1,430		$ 12.50	$ 0.42240	$ 1,650		$ 1,650
1" Monthly	672			$ 10.83		$ 7,278		$ 12.50	$ 0.42240	$ 8,400		$ 8,400
1 1/2" Mthly	120			$ 21.67		$ 2,600		$ 12.50	$ 0.42240	$ 1,500		$ 1,500
2" Monthly	180			$ 21.67		$ 3,901		$ 12.50	$ 0.42240	$ 2,250		$ 2,250
3" Monthly	60			$ 21.67		$ 1,300		$ 12.50	$ 0.42240	$ 750		$ 750
4" Monthly	12			$ 21.67		$ 260		$ 12.50	$ 0.42240	$ 150		$ 150
Subtotal	16,764	819,044				$ 185,587	$ 614,284			$ 209,550	$ 319,601	$ 529,151
PSTAC						$ (339,992)						
Universal Affordability	12			$ (10.83)		$ (130)						$ (441)

	Present Revenue	Stipulated Revenue
Total Rate Schedule 17-A	**$ 459,748**	**$ 528,710**

Bound Brook (Flat Rate) - Rate Schedule 18-A

	Bills	Current Price	Current Revenue	Proposed Price	Proposed Revenue
Flat Rate Service Charge - Well	540	$ 39.58	$ 21,373	$ 40.77	$ 22,016
Flat Rate Service Charge - Bridgewater	4,572	$ 32.50	$ 148,590	$ 32.50	$ 148,590
			169,963		$ 170,606

	Present Revenue	Stipulated Revenue
Total Rate Schedule 18-A	**$ 169,963**	**$ 170,606**

NEW JERSEY-AMERICAN WATER COMPANY
APPLICATION OF PRESENT AND SETTLEMENT RATES TO SEWER SERVICE DIVISION

Bound Brook (Volume-Based) - Rate Schedule 19-A

	Bills	Annual Usage	Current Fixed Price	Current Volumetric Price	Current Fixed Revenue	Current Volumetric Revenue	Proposed Fixed Price	Proposed Volumetric Price	Proposed Fixed Revenue	Proposed Volumetric Revenue	Stipulated Total Revenue
Class A (Res Com Class 1)	34,536	2,452,808	$ 5.00	$ 0.64000	$ 172,680	$ 1,569,797	$ 5.15	$ 0.65920	$ 177,860	$ 1,616,891	$ 1,794,751
Multiple Dwellings	-	-	$ 5.00	$ 0.70400	$ -	$ -	$ 5.15	$ 0.72510	$ -	$ -	$ -
Class B - (Com Class 2)	108	22,463	$ 5.00	$ 0.80000	$ 540	$ 17,970	$ 5.15	$ 0.82400	$ 556	$ 18,510	$ 19,066
Subtotal	34,644	2,475,271			173,220	1,587,767			178,417	1,635,401	$ 1,813,817
Universal Affordability	96		$ (5.00)		(480)						(529)

	Present Revenue	Stipulated Revenue
Total Rate Schedule 19-A	**$ 1,760,507**	**$ 1,813,288**

Somerville (Metered & Flat) - Rate Schedule 20-A

	Bills	Annual Usage	Current Fixed Price	Current Volumetric Price	Current Fixed Revenue	Current Volumetric Revenue	Stipulated Fixed Price	Stipulated Volumetric Price	Stipulated Fixed Revenue	Stipulated Volumetric Revenue	Stipulated Total Revenue
Residential - Somerville		1,720,161		$ 0.86898		$ 1,494,786		$ 0.34759	$ -	$ 597,911	$ 597,911
Commercial - Somerville		1,509,409		$ 0.86898		$ 1,311,646		$ 0.34759	$ -	$ 524,655	$ 524,655
Other - Somerville		803,194		$ 0.86898		$ 697,960		$ 0.34759	$ -	$ 279,182	$ 279,182
Residential - Bridgewater		15,529		$ 1.00267		$ 15,571		$ 0.48128	$ -	$ 7,474	$ 7,474
Commercial - Bridgewater		15,072		$ 1.00267		$ 15,112		$ 0.48128	$ -	$ 7,254	$ 7,254
Other - Bridgewater		-		$ 1.00267		$ -		$ 0.48128	$ -	$ -	$ -
Subtotal	-	4,063,365			-	3,535,074			-	1,416,476	$ 1,416,476
Flat Rate - Somerville	288		$ 45.00		$ 12,960		$ 32.00		$ 9,216		9,216
Flat Rate - Bridgewater	-		$ 53.33		$ -		$ 40.33		$ -		-
					$ (3,744)	$ (2,118,600)					
PSTAC											

	Present Revenue	Stipulated Revenue
Total Rate Schedule 20-A	**$ 1,425,691**	**$ 1,425,692**

Environmental Disposal Corp. (EDC) Flat Rate Services-Rate Schedule 21-A

	Bills	Winter Quarter Usage	Current Fixed Price	Current Volumetric Price	Current Fixed Revenue	Current Volumetric Revenue	Stipulated Fixed Price	Stipulated Volumetric Price	Stipulated Fixed Revenue	Stipulated Volumetric Revenue	Stipulated Total Revenue
Single Family & Two- Family	16,644	795,359	$ 68.95	$ -	$ 1,147,604	$ -	$ 43.14	$ 0.78090	$ 718,022	$ 621,095	$ 1,339,118
Residential Flat: Townhouse & Condo	33,192	1,082,729	$ 57.43	$ -	$ 1,906,217	$ -	$ 43.14	$ 0.78090	$ 1,431,903	$ 845,503	$ 2,277,406
Commercial - Non Residential Flat	4,261	87,800	$ 68.95	$ -	$ 293,785	$ -	$ 43.14	$ 0.78090	$ 183,813	$ 68,563	$ 252,376
Industrial & OPA - Non Residential Flat	66	4,940	$ 68.95	$ -	$ 4,575	$ -	$ 43.14	$ 0.78090	$ 2,863	$ 3,858	$ 6,720
Subtotal	54,163	1,970,827	264.28		3,352,181	-			2,336,601	1,539,019	$ 3,875,619
Unmetered											
Single Family & Two- Family	168		$ 68.95		$ 11,584		$ 74.38		$ 12,496		$ 12,496
Residential Flat: Townhouse & Condo	14,028		$ 57.43		$ 805,628		$ 74.38		$ 1,043,403		$ 1,043,403
Commercial - Non Residential Flat	3,536		$ 68.95		$ 243,802		$ 74.38		$ 263,002		$ 263,002
Industrial & OPA - Non Residential Flat	540		$ 68.95		$ 37,233		$ 74.38		$ 40,165		$ 40,165
Subtotal	18,272	-	264.28		1,098,247	-			1,359,065	-	$ 1,359,065

	Present Revenue	Stipulated Revenue
Total Rate Schedule 21-A	**$ 4,450,428**	**$ 5,234,685**

Salem (Metered & Flat) - Rate Schedule 22-A

	Bills	Annual Usage	Current Fixed Price	Current Volumetric Price	Current Fixed Revenue	Current Volumetric Revenue	Stipulated Fixed Price	Stipulated Volumetric Price	Stipulated Fixed Revenue	Stipulated Volumetric Revenue	Stipulated Total Revenue
Residential - Flat	27,456	-	$ 56.88	$ -	$ 1,561,697	$ -	$ 56.88	$ -	$ 1,561,697	$ -	$ 1,561,697
Non Residenital	1,524	192,136	$ 56.88	$ 0.88500	$ 86,685	$ 170,040	$ 56.88	$ 0.88500	$ 86,685	$ 170,040	$ 256,725
Subtotal	28,980	192,136			1,648,382	170,040			1,648,382	170,040	$ 1,818,422

	Present Revenue	Stipulated Revenue
Total Rate Schedule 22-A	**$ 1,818,422**	**$ 1,818,422**

Municipal Contracts

	Bills	Annual Usage	Current Fixed Price	Current Volumetric Price	Current Fixed Revenue	Current Volumetric Revenue	Stipulated Fixed Price	Stipulated Volumetric Price	Stipulated Fixed Revenue	Stipulated Volumetric Revenue	Stipulated Total Revenue
Fixed Charge	225	-	$ 148.75	$ -	$ 33,469	$ -	$ 148.75	$ -	$ 33,469	$ -	$ 33,469
Volumetric Charge	-	62,855	$ -	$ 0.31238	$ -	$ 19,635	$ -	$ 0.43367	$ -	$ 27,258	$ 27,258
Subtotal	225	62,855			33,469	19,635			33,469	27,258	$ 60,727

	Present Revenue	Stipulated Revenue
Total Municipal Contracts	**$ 53,104**	**$ 60,727**

	Present Revenue	Stipulated Revenue
Total Sewer Revenues	**$ 39,970,473**	**$ 44,371,724**

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES
SERVICE AREA SA-1

Customer Charges, per Month:

Meter Size	Present Rates		Stipulated Rates	
	Non-Exempt*	Exempt	Non-Exempt	Exempt
5/8	$ 23.51	$ 20.14	$ 22.65	$ 19.56
3/4	35.29	30.74	34.00	29.36
1	58.76	50.88	56.61	48.89
1-1/2	117.60	101.77	113.30	97.85
2	188.26	162.33	181.38	156.64
3	352.86	304.39	339.96	293.60
4	587.77	507.67	566.28	489.05
6	1,175.38	1,015.25	1,132.41	977.97
8	1,880.58	1,624.60	1,811.83	1,564.73
10	2,350.75	2,030.50	2,264.81	1,955.94
12	2,938.19	2,537.91	2,830.77	2,444.71
16	4,701.51	4,060.99	4,529.62	3,911.88

* Includes DSIC

Consumption Charges, per Hundred Gallons:

All Usage - GMS	$ 0.77752	$ 0.67156	$ 0.88724	$ 0.76624
All Usage - Regular SFR	0.77752	0.67156	0.88724	0.76624
All Usage - Peaking Rate SFR - Rate "H"	0.96542	0.83386	1.05500	0.91112
All Usage - Aberdeen - Rate "I"	0.57031	0.49259	0.62470	0.53950

Private Fire Connections (Monthly):

Size	Present Monthly Rates		Stipulated
	Sch. L-1, L-7	Schedule L-2	State-Wide
2-inch	$ 24.60		$ 28.36
3-inch	55.34		63.80
4-inch	98.37		113.41
6-inch	221.34		255.17
8-inch	393.51		453.66
10-inch	615.00		709.00
12-inch	885.60		1,020.96
16-inch	1,574.40		1,815.04
Private Hydrant - L-1		$ 221.34	66.00
Private Hydrant - L-2		54.00	66.00
Private Hydrant - L-7		44.96	52.50
Sprinkler Head - L-2		1.25	1.44

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES
SERVICE AREA SA-1

Public Fire Hydrant (Monthly):		**Present**	**Stipulated**
State-Wide	M-1	$ 58.90	$ 66.00
Logan/Ortley	M-2	54.00	61.50
Adelphia	M-3	54.00	61.50

Sales for Resale

	Present Rates		Stipulated Rates	
	Non-Exempt	Exempt	Non-Exempt	Exempt
Rates Applicable to Commodity-Demand Tariff:				
Customer Charges, per Month:				
By Meter Size	Same as GMS		Same as GMS	
Consumption Charges, per Hundred:				
All Usage	$ 0.05952	$ 0.05141	$ 0.06605	$ 0.05704
Demand Charge per Month:				
Per Hundred Gallons of				
Maximum Day Nomination	$ 7.06721	$ 6.1040	$ 7.84240	$ 6.77286
Off-Peak Demand Charge per Month:				
Per Hundred Gallons of				
Maximum Day Nomination	$ 6.50000	$ 5.61422	$ 7.21063	$ 6.22725
Rates Applicable to Manasquan:				
Customer Charges, per Month:				
By Meter Size	Same as GMS		Same as GMS	
Consumption Charges, per Hundred:				
Uninterruptible Sales	$ 0.19390	$ -	$ 0.21581	$ 0.18638
Uninterruptible Sales - Keyport "J"	0.27885	-	0.31093	0.26853
Regular Sales	0.77752	-	0.88724	0.76624

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES
SERVICE AREA SA-2

Customer Charges, per Month:

Meter Size	Present Rates		Stipulated Rates	
	Non-Exempt*	Exempt	Non-Exempt	Exempt
5/8	$ 23.51	$ 20.14	$ 22.65	$ 19.56
3/4	35.29	30.74	34.00	29.36
1	58.76	50.88	56.61	48.89
1-1/2	117.60	101.77	113.30	97.85
2	188.26	162.33	181.38	156.64
3	352.86	304.39	339.96	293.60
4	587.77	507.67	566.28	489.05
6	1,175.38	1,015.25	1,132.41	977.97
8	1,880.58	1,624.60	1,811.83	1,564.73
10	2,350.75	2,030.50	2,264.81	1,955.94
12	2,938.19	2,537.91	2,830.77	2,444.71
16	4,701.51	4,060.99	4,529.62	3,911.88

* Includes DSIC

Consumption Charges, per Hundred Gallons:	Present Rates		Stipulated Rates	
	Non-Exempt	Exempt	Non-Exempt	Exempt
All Non-seasonal Usage - GMS	$ 0.77752	$ 0.67156	$ 0.88724	$ 0.76624
All Usage - OIW "F"	0.40117	0.34650	0.44754	0.38651
All Usage - SOS "G"	0.31251	0.26992	0.34582	0.29866
All Usage -Peaking "H"	0.96542	0.83386	1.05500	0.91112

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES
SERVICE AREA SA-2

Private Fire Connections (Monthly) L-3:

Size	Present Rates	Stipulated Rates
2-inch	$ 45.00	$ 51.83
3-inch	88.40	101.82
4-inch	142.54	164.17
6-inch	264.41	304.54
8-inch	451.50	520.03
10-inch	589.59	679.08
12-inch	848.98	977.84
16-inch	1,668.15	1,921.34
20-inch	3,040.13	3,501.55
Private Hydrant	62.84	66.00

Public Fire Hydrant (Monthly) M-5:

Fire Hydrants Zone 2A	$ 53.00	$ 60.50
Fire Hydrants Zone 2C	58.90	66.00
Fire Hydrants Zone 2D	59.00	66.00
Fire Hydrants Zone 2E	61.00	66.00
Fire Hydrants Zone 2F	61.00	66.00
Fire Hydrants Zone 2G	61.00	66.00
Fire Hydrants Zone 2H	63.74	66.00
Fire Hydrants Zone 2I	65.78	66.00
Fire Hydrants Zone 2J	66.67	66.00
Fire Hydrants Zone 2K	70.59	66.00
Fire Hydrants Zone 2L	70.59	66.00

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES
SERVICE AREA SA-3, SOUTH HAMPTON

Customer Charges, per Month:

Meter Size	Present Rates		Stipulated Rates	
	Non-Exempt*	Exempt	Non-Exempt	Exempt
5/8	$ 23.51	$ 20.14	$ 22.65	$ 19.56
3/4	35.29	30.74	34.00	29.36
1	58.76	50.88	56.61	48.89
1-1/2	117.60	101.77	113.30	97.85
2	188.26	162.33	181.38	156.64
3	352.86	304.39	339.96	293.60
4	587.77	507.67	566.28	489.05
6	1,175.38	1,015.25	1,132.41	977.97
8	1,880.58	1,624.60	1,811.83	1,564.73
10	2,350.75	2,030.50	2,264.81	1,955.94
12	2,938.19	2,537.91	2,830.77	2,444.71
16	4,701.51	4,060.99	4,529.62	3,911.88

* Includes DSIC

Consumption Charges, per Hundred Gallons:				
All Usage - South Hampton GMS	$ 0.77752	$ 0.67156	$ 0.88724	$ 0.76624

Private Fire Connections (Monthly) L-7:

Size	Present Rates	Stipulated Rates
2-inch	$ 24.60	$ 28.36
3-inch	55.34	63.80
4-inch	98.37	113.41
6-inch	221.34	255.17
8-inch	393.51	453.66
10-inch	615.00	709.00
12-inch	885.60	1,020.96
16-inch	1,574.40	1,815.04
Private Hydrant	44.96	52.50

Public Fire Hydrant (Monthly) M-6:

Fire Hydrants Zone 3A	$ 35.00	$ 42.50
Fire Hydrants Zone 3B	40.25	47.80
Fire Hydrants Zone 3C	44.75	52.30
Fire Hydrants Zone 3D	49.25	56.80
Fire Hydrants Zone 3G	56.00	63.50

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES
SERVICE AREA SA-1A

Customer Charges, per Month:

Meter Size	Present Rates		Stipulated Rates	
	Non-Exempt*	Exempt	Non-Exempt	Exempt
5/8	$ 23.51	$ 20.14	$ 22.65	$ 19.56
3/4	35.29	30.74	34.00	29.36
1	58.76	50.88	56.61	48.89
1-1/2	117.60	101.77	113.30	97.85
2	188.26	162.33	181.38	156.64
3	352.86	304.39	339.96	293.60
4	587.77	507.67	566.28	489.05
6	1,175.38	1,015.25	1,132.41	977.97
8	1,880.58	1,624.60	1,811.83	1,564.73
10	2,350.75	2,030.50	2,264.81	1,955.94
12	2,938.19	2,537.91	2,830.77	2,444.71
16	4,701.51	4,060.99	4,529.62	3,911.88

* Includes DSIC

Consumption Charges, per Hundred Gallons:				
All Usage - GMS	$ 0.77752	$ 0.67156	$ 0.88724	$ 0.76624

Private Fire Connections (Monthly) L-7:

Size	Present Rates	Stipulated Rates
2-inch	$ 24.60	$ 28.36
3-inch	55.34	63.80
4-inch	98.37	113.41
6-inch	221.34	255.17
8-inch	393.51	453.66
10-inch	615.00	709.00
12-inch	885.60	1,020.96
16-inch	1,574.40	1,815.04
Private Hydrant	44.96	52.50

Public Fire Hydrant (Monthly) M-7:	$ 44.96	$ 52.50

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES
SERVICE AREA SA-1B, PENNSGROVE

Customer Charges, per Month:

Meter Size	Present Rates		Stipulated Rates	
	Non-Exempt*	Exempt	Non-Exempt	Exempt
5/8	$ 23.51	$ 20.14	$ 22.65	$ 19.56
3/4	35.29	30.74	34.00	29.36
1	58.76	50.88	56.61	48.89
1-1/2	117.60	101.77	113.30	97.85
2	188.26	162.33	181.38	156.64
3	352.86	304.39	339.96	293.60
4	587.77	507.67	566.28	489.05
6	1,175.38	1,015.25	1,132.41	977.97
8	1,880.58	1,624.60	1,811.83	1,564.73
10	2,350.75	2,030.50	2,264.81	1,955.94
12	2,938.19	2,537.91	2,830.77	2,444.71
16	4,701.51	4,060.99	4,529.62	3,911.88

* Includes DSIC

Consumption Charges, per Hundred Gallons:				
All Usage - GMS	$ 0.77752	$ 0.67156	$0.88724	$0.76624

Private Fire Connections (Monthly) L-9:

Size	Present Rates	Stipulated Rates
2-inch	$ 26.75	$ 28.36
3-inch	60.18	63.80
4-inch	106.97	113.41
6-inch	240.68	255.17
8-inch	427.90	453.65
10-inch	668.75	709.00
12-inch	963.00	1,020.96
16-inch	1,712.00	1,815.04
Private Hydrant	37.80	45.30

Public Fire Hydrant (Monthly) M-8	$ 37.80	$ 45.30

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES
SERVICE AREA SA-1C, SHORELANDS

Customer Charges, per Month:

Meter Size	Present Rates Non-Exempt*	Present Rates Exempt	Stipulated Rates Non-Exempt	Stipulated Rates Exempt
5/8	$ 23.51	$ 20.14	$ 22.65	$ 19.56
3/4	35.29	30.74	34.00	29.36
1	58.76	50.88	56.61	48.89
1-1/2	117.60	101.77	113.30	97.85
2	188.26	162.33	181.38	156.64
3	352.86	304.39	339.96	293.60
4	587.77	507.67	566.28	489.05
6	1,175.38	1,015.25	1,132.41	977.97
8	1,880.58	1,624.60	1,811.83	1,564.73
10	2,350.75	2,030.50	2,264.81	1,955.94
12	2,938.19	2,537.91	2,830.77	2,444.71
16	4,701.51	4,060.99	4,529.62	3,911.88

* Includes DSIC

Consumption Charges, per Hundred Gallons:				
All Usage - GMS	$ 0.77752	$ 0.67156	$ 0.88724	$ 0.76624
All Usage - Bulk ("I")	0.57031	0.49259	0.62470	0.53950

Private Fire Connections (Monthly) L-10:

Size	Present Rates w/ Hose	Present Rates w/o Hose	Stipulated w/ Hose	Stipulated w/o Hose
1-inch				
2-inch	$ 155.00	$ 52.00	$ 178.51	$ 59.89
3-inch	155.00	109.00	178.51	125.54
4-inch	258.00	182.00	297.13	209.62
6-inch	516.00	364.00	594.27	419.23
8-inch	826.00	582.00	951.29	670.31
10-inch	1,280.00	909.00	1,474.30	1,046.92
Private Hydrant	70.50	70.50	66.00	66.00

Public Fire Hydrant (Monthly) M-9:		$ 70.50		$ 66.00

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES
SERVICE AREA SA-1D, APPLIED

Customer Charges, per Month:

Meter Size	Present Rates		Stipulated Rates	
	Non-Exempt*	Exempt	Non-Exempt	Exempt
5/8	$ 23.51	$ 20.14	$ 22.65	$ 19.56
3/4	35.29	30.74	34.00	29.36
1	58.76	50.88	56.61	48.89
1-1/2	117.60	101.77	113.30	97.85
2	188.26	162.33	181.38	156.64
3	352.86	304.39	339.96	293.60
4	587.77	507.67	566.28	489.05
6	1,175.38	1,015.25	1,132.41	977.97
8	1,880.58	1,624.60	1,811.83	1,564.73

* Includes DSIC

Consumption Charges, per Hundred Gallons:				
All Sales - Irrigation	$ 0.77752	$ 0.67156	$ 0.88724	$ 0.76624

Private Fire Connections (Monthly) L-11:

Size	Present Rates	Stipulated Rates
2-inch	$ 24.60	$ 28.36
3-inch	55.34	63.80
4-inch	98.37	113.41
6-inch	221.34	255.17
8-inch	393.51	453.66
10-inch	615.00	709.00
12-inch	885.60	1,020.96
16-inch	1,574.40	1,815.04
Private Hydrant	33.20	40.30

Public Fire Hydrant (Monthly): M-10	$ 33.20	$ 40.30

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES
SERVICE AREA SA-1E, HADDONFIELD

Customer Charges, per Month:

Meter Size	Present Rates Non-Exempt	Stipulated Rates Non-Exempt
5/8	$20.96	$ 22.65
3/4	27.49	34.00
1	37.41	56.61
1-1/2	59.90	113.30
2	85.81	181.38
3	144.86	339.96
4	224.47	566.28
6	1,175.38	1,132.41
8	1,880.58	1,811.83
10	2,350.75	2,264.81
12	2,938.19	2,830.77
16	4,701.51	4,529.62

* Includes DSIC

Consumption Charges, per Hundred Gallons:		
All Usage - GMS	$ 0.77752	$ 0.88724

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES
SERVICE AREA SA-1F, ROXBURY

Customer Charges, per Month:

Meter Size	Present Rates Non-Exempt	Stipulated Rates Non-Exempt
5/8	$ 20.96	$ 22.65
3/4	27.49	34.00
1	37.41	56.61
1-1/2	59.90	113.30
2	85.81	181.38
3	144.86	339.96
4	224.47	566.28
6	1,175.38	1,132.41
8		1,811.83
10		2,264.81
12		2,830.77
16		4,529.62
Consumption Charges, per Hundred Gallons:		
All Usage - GMS	$ 0.39158	$ 0.44640
Private Fire Connections (Monthly) L-12:		
Private Hydrant	$ 32.80	$ 40.30
Public Fire Hydrant (Monthly) M-11:	$ 32.80	$ 40.30

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES[1]
SERVICE AREA SA-1G, EGG HARBOR CITY UTILITY (GENERAL METERED SERVICE)

Customer Charges, per Month:

Meter Size	Present Rates Non-Exempt	Stipulated Rates Non-Exempt
5/8	$ 34.17	$ 22.65
3/4	34.17	34.00
1	44.19	56.61
1-1/2	251.96	113.30
2	307.43	181.38
3	469.06	339.96
4	515.02	566.28
6		1,132.41
8		1,811.83
10		2,264.81
12		2,830.77
16		4,529.62

Consumption Charges, per Hundred Gallons:		
All Usage - GMS	$ 0.70000	$ 0.88724

Private Fire Connections (Monthly) L-13:

Size	Present Rates	Stipulated Rates
2-inch	$ 62.50	$ 58.28
3-inch	62.50	58.28
4-inch	62.50	58.28
6-inch	133.33	124.33
8-inch	250.00	233.13
10-inch	-	-
12-inch	583.33	543.94
16-inch	-	-
Private Hydrant	10.42	15.00

Public Fire Hydrant (Monthly) M-12:	$ 10.42	$ 15.00

[1] Stipulated rates go into effect June 2, 2025

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES[2]
SERVICE AREA SA-1G, EGG HARBOR CITY UTILITY (IRRIGATION)

Customer Charges, per Month:

Meter Size	Present Rates Non-Exempt	Stipulated Rates Non-Exempt
5/8	$ -	$ 5.00
3/4	-	7.50
1	7.08	12.50
1-1/2	8.33	25.00
2	16.67	40.00
3	-	75.00
4	-	125.00
6	-	250.00
8	-	400.00
10	-	500.00
12	-	624.90
16	-	999.90
Consumption Charges, per Hundred Gallons:		
All Usage - GMS	$ 0.70000	$ 0.88724

[2] Stipulated rates go into effect June 2, 2025

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES[3]
SERVICE AREA SA-1H, SALEM (RESIDENTIAL, LIGHT COMMERCIAL)

Customer Charges, per Month:

Meter Size	Present Rates Non-Exempt	Stipulated Rates Non-Exempt
5/8	$30.87	$30.87
3/4	61.41	61.41
1	110.15	110.15
1-1/4	244.99	244.99
1-1/2	244.99	244.99
2	429.22	429.22
3		
4		
6		
8		
10		
12		
16		

Consumption Charges, per Hundred Gallons:		
Block 1	$ 0.84600	$ 0.84600
Block 2	1.01300	1.01300

Private Fire Connections (Monthly) L-14:

Size	Present Rates	Stipulated Rates
2-inch	$ 53.01	$ 53.01
3-inch	-	-
4-inch	249.06	249.06
6-inch	438.86	438.86
8-inch	619.14	619.14
10-inch	805.36	805.36
12-inch	-	-
16-inch	-	-
Private Hydrant	-	-

Public Fire Hydrant (Monthly) M-8:	$ 37.80	$ 45.30

[3] See footnote on Rate Schedules A-19 and L-14 for outer year rate increases pursuant to the Agreement of Sale.

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES[4]
SERVICE AREA SA-1H, SALEM (INSTITUTIONAL, HEAVY COMMERCIAL, INDUSTRIAL)

Customer Charges, per Month:

Meter Size	Present Rates Non-Exempt	Stipulated Rates Non-Exempt
5/8	$30.98	$30.98
3/4	62.85	62.85
1	110.30	110.30
1-1/4	245.25	245.25
1-1/2	245.25	245.25
2	429.26	429.26
3	614.10	614.10
4	1,226.25	1,226.25
6	1,837.25	1,837.25
8	3,571.63	3,571.63
10		
12		
16		

Consumption Charges, per Hundred Gallons:		
Block 1	$ 0.84600	$ 0.84600
Block 2	1.01300	1.01300

Private Fire Connections (Monthly) L-14:

Size	Present Rates	Stipulated Rates
2-inch	$ 53.01	$ 53.01
3-inch	-	-
4-inch	249.06	249.06
6-inch	438.86	438.86
8-inch	619.14	619.14
10-inch	805.36	805.36
12-inch	-	-
16-inch	-	-
Private Hydrant	-	-

Public Fire Hydrant (Monthly) M-8:	$ 37.80	$ 45.30

[4] See footnotes on Rate Schedules A-20, and L-14 for outer year rate increases pursuant to the Agreement of Sale.

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES
SEWER SERVICE

OCEAN CITY (1-A)

	Present Rates		Stipulated Rates	
	Non-Exempt	Exempt	Non-Exempt	Exempt
Minimum Service Charge per Hundred Gallons:	$ 1.3500	$1.1660	$ 1.53000	$ 1.32134
Sewer Usage Charge, per Hundred Gallons:	$ 0.23250	$ 0.20082	$ 0.37520	$ 0.32403

LAKEWOOD (2-A)

	Present Rates		Stipulated Rates	
Customer Charges, per Month:	Non-Exempt	Exempt	Non-Exempt	Exempt
Fixed Service Charge	$ 15.00	$ 12.96	$ 17.00	$ 14.68
Sewer Usage Charge, per Hundred Gallons:	$ 0.45170	$ 0.39015	$ 0.55730	$ 0.48130

ADELPHIA (3-A)

	Present Rates		Stipulated Rates	
Customer Charges, per Month:	Non-Exempt	Exempt	Non-Exempt	Exempt
Fixed Service Charge	$ 15.00	$ 12.96	$ 17.00	$ 14.68
Sewer Usage Charge, per Hundred Gallons:	$ 0.47100	$ 0.40682	$ 0.55730	$ 0.48130

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES
SEWER SERVICE

Statewide Sewer Service - 5-A, 6-A, 10-A		Present Rates Non-Exempt	Stipulated Rates Non-Exempt
Flat Rate Billed Customers (5-A)			
Class A - Flat Rate Fixed Service Charge, per Month		$ 81.00	$ 86.00
Class B- Flat Rate Fixed Service Charge, per Month		97.87	100.00
General Metered Service Customers (6-A)			
Fixed Service Charge, per Month		$ 50.00	$ 65.68
Sewer Usage Charge, per Hundred Gallons:		$ 0.76000	$ 0.78090
General Metered Service Customers - Jensen (10-A)			
Fixed Service Charge, per Month		$ 30.00	$ 40.00
Sewer Usage Charge, per Hundred Gallons:		$ 0.74000	$ 0.78090
Haddonfield (11-A)			
Fixed Service Charge, per Month		$ 6.00	$ 12.50
Sewer Usage Charge, per Hundred Gallons:		$ 0.36750	$ 0.51020
Elk Township (12-A)			
Customer Charges, per Month:			
Fixed Service Charge		$ 20.00	$ 17.00
Sewer Usage Charge, per Hundred Gallons:		$ 0.85000	$ 0.55730
Other Contracts (8-A)			
Fixed Charge	Flat Rate	$ 120.00	$ 141.10
Bulk Users (Former EDC)	Volumetric Rate	0.74900	0.88090

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES
SEWER SERVICE

Mt Ephraim (13-A)				
Each additional Employee	$	1.82	$	-
Unrecirculated Air-Con Unit		2.27		-
Self service laundries		3.64		-
Lodges, meeting halls		4.56		-
Post offices		7.29		-
Single Family dwelling		9.11		-
Gas Service Stations		18.22		-
Drive In Restaurants < 50 seats		27.32		-
Restaurants 51-75 seats		36.42		-
Restaurants 76-100 seats		45.54		-
Customer Charges, per Month:				
Fixed Service Charge		-		12.50
Sewer Usage Charge,				
per Hundred Gallons:		-		0.01440
Long Hill (14-A) [5]				
Fixed Service Charge, per Month	$	15.47	$	15.93
Res- Flat Rate Service Charge	$	50.84	$	52.37
Non Res Flat Rate Service Charge		106.09		109.27
Long Hill (15-A)				
Fixed Service Charge, per Month	$	15.47	$	15.93
Sewer Usage Charge,				
per Hundred Gallons:	$	1.93830	$	1.99640
Egg Harbor (16-A) [6]				
Fixed Service Charge, per Month	$	58.33	$	46.40
Egg Harbor (17-A)				
Fixed Service Charge, per Month				
5/8" Monthly	$	10.83	$	12.50
3/4" Monthly		10.83		12.50
1" Monthly		10.83		12.50
1 1/2" Mthly		21.67		12.50
2" Monthly		21.67		12.50
3" Monthly		21.67		12.50
4" Monthly		21.67		12.50
Sewer Usage Charge,				
per Hundred Gallons:	$	0.75000	$	0.42240

[5] Rate changes on Rate Schedules 14-A and 15-A go into effect October 23, 2024.

[6] Stipulated rates for Egg Harbor go into effect June 2, 2025.

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES
SEWER SERVICE

Bound Brook (18-A) [7]		
Fixed Service Charge, per Month		
Flat Rate Service Charge - Well	$ 39.58	$ 40.77
Bound Brook (19-A) [7]		
Fixed Service Charge, per Month	$ 5.00	$ 5.15
Sewer Usage Charge,		
per Hundred Gallons:		
Class A (Res Com Class 1)	$ 0.6400	$ 0.65920
Multiple Dwellings	0.70400	0.72510
Class B - (Com Class 2)	0.80000	0.82400
Somerville (20-A) [7]		
Fixed Service Charge, per Month		
Flat Rate - Somerville	$ 45.00	$ 32.00
Flat Rate - Bridgewater	53.33	40.33
Sewer Usage Charge,		
per Hundred Gallons:		
Residential - Somerville	$ 0.86898	$ 0.34759
Commercial - Somerville	0.86898	0.34759
Other - Somerville	0.86898	0.34759
Residential - Bridgewater	1.00267	0.48128
Commercial - Bridgewater	1.00267	0.48128
Other - Bridgewater	1.00267	0.48128

[7] See footnotes on Rate Schedules 18-A, 19-A, and 20-A for outer year rate increases pursuant to Agreements of Sale.

NEW JERSEY-AMERICAN WATER COMPANY

COMPARATIVE SCHEDULE OF PRESENT AND STIPULATED RATES
SEWER SERVICE

Environmental Disposal Corp (21-A)				
Fixed Service Charge, per Month				
Single Family & Two- Family	$	68.95	$	43.14
Residential Flat: Townhouse & Condo		57.43		43.14
Commercial - Non Residential Flat		68.95		43.14
Industrial & OPA - Non Residential Flat		68.95		43.14
Sewer Usage Charge,				
per Hundred Gallons:		-		0.78090
Fixed Service Charge, per Month (Unmetered)				
Single Family & Two- Family	$	68.95	$	74.38
Residential Flat: Townhouse & Condo		57.43		74.38
Commercial - Non Residential Flat		68.95		74.38
Industrial & OPA - Non Residential Flat		68.95		74.38

Salem (22-A)[8]				
Flat Service Charge, per Month				
Residential	$	56.88	$	56.88
Non-Residential				
Customer Charges, per Month:				
Fixed Service Charge	$	56.88	$	56.88
Sewer Usage Charge,				
per Hundred Gallons:	$	0.88500	$	0.88500

[8] See footnote on Rate Schedules 22-A for outer year rate increases pursuant to the Agreement of Sale.

Attachment 5

MIDDLESEX WATER COMPANY

August 13, 2024

Honorable Tricia M. Caliguire, ALJ
New Jersey Office of Administrative Law
3444 Quakerbridge Road
Quakerbridge Plaza, Building 9
Mercerville, NJ 08619

RE: IN THE MATTER OF THE PETITION OF NEW JERSEY AMERICAN WATER COMPANY FOR APPROVAL OF INCREASED TARIFF RATES AND CHARGES FOR WATER AND WASTEWATER SERVICE, CHANGE IN DEPRECIATION RATES, AND OTHER TARIFF MODIFICATIONS
BPU Docket No. WR24010056
OAL Docket No. PUC 02409-2024S

Dear Judge Caliguire:

Please be advised that Middlesex Water Company ("Middlesex Water"), an Intervenor in the above-referenced matter (New Jersey American Water Company's rate case proceeding), has reviewed the proposed final Stipulation of Settlement provided today with respect to that matter. Although Middlesex Water will not be a signatory to the Stipulation of Settlement, it has no objection to the same.

Respectfully submitted,

Jay L. Kooper
Vice President, General Counsel & Secretary

cc: Service List (via e-mail)

Attachment 5

FORNARO FRANCIOSO LLC
COUNSELLORS AT LAW
1540 KUSER ROAD, SUITE A1, HAMILTON, NEW JERSEY 08619-3828
TELEPHONE 609-584-6104 ♦ TELEFAX 609-584-2709

RICHARD D. FORNARO*
ANTHONY R. FRANCIOSO*

Of Counsel
KATHLEEN A. FRANCIOSO*

***MEMBERS OF THE NEW JERSEY & PENNSYLVANIA BAR**

August 13, 2024
Via Regular Mail

The Honorable Tricia Caliguire
Administrative Law Judge
Office of Administrative Law
P.O. Box 049
9 Quakerbridge Plaza
Trenton, New Jersey 08625

Re: In the Matter of the Petition of New Jersey American Water Company, Inc. for Approval of Increased Tariff Rates and Charges for Water and Wastewater Service, Change in Depreciation Rates, and Other Tariff Modifications
BPU Docket No. WR24010056
OAL Docket No. PUC 02409-2024 S

Dear Judge Caliguire:

Fornaro Francioso LLC represents Mount Laurel Township Municipal Utilities Authority in the referenced matter. With respect to this matter, this letter shall serve as confirmation to Your Honor that the Mount Laurel Township Municipal Utilities Authority will not be a signatory to the Stipulation of Settlement but will not be filing any opposition.

Thank you Your Honor for your attention to the foregoing.

Respectfully submitted,
FORNARO FRANCIOSO LLC
Anthony R. Francioso
Anthony R. Francioso, Esq.

ARF/

c: Service List
Pamela J. Carolan, Executive Director

ROTHFELDER STERN, L.L.C.

Attorneys at Law

Martin C. Rothfelder, Esq.
(Admitted in NJ, NY, NH, PA, MO)

407 Greenwood Ave., Unit #301
Trenton, NJ 08609-2158
Tel: (609) 394-1000
mrothfelder@rothfelderstern.com

Bradford M Stern, Esq.
(Admitted in NJ, PA)

22 Lakeview Hollow
Cherry Hill, NJ 08003
Tel: 856-520-6806
Fax: 856-375-2151
bstern@rothfelderstern.com

Please reply to Trenton

August 13, 2024

Via Electronic Mail
The Honorable Tricia Caliguire
Office of Administrative Law
P.O. Box 049
Trenton, NJ 08625-0049
kelly.lee@oal.nj.gov

Re: In the Matter of the Petition of New Jersey American Water Company, Inc., for Approval of Increased Base Tariff Rates and Charges For Water And Wastewater Service, Change In Depreciation Rates, and Other Tariff Revisions
OAL Docket No. PUC 02409-2024-S
BPU Docket No. WR24010056

Dear Judge Caliguire:

On behalf of intervenors Rutgers, The State University of New Jersey; The Trustees of Princeton University; Johanna Foods, Inc.; Cogen Technologies Linden Ventures, L.P.; and Phillips 66 Company, we advise Your Honor that we have reviewed the executed Stipulation of Settlement submitted this day to Your Honor by the Petitioner, and have no objection to it.

Sincerely,

Bradford M. Stern

cc: Service List (via email)

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 23-0383-W-42T
WEST VIRGINIA-AMERICAN WATER COMPANY,
Rule 42T application to increase water rates and charges.

and

CASE NO. 23-0384-S-42T
WEST VIRGINIA-AMERICAN WATER COMPANY
Rule 42T application to increase sewer rates and charges.

February 23, 2024

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PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

At a session of the PUBLIC SERVICE COMMISSION OF WEST VIRGINIA in the City of Charleston on the 23rd day of February 2024.

COMMISSION ORDER

The Commission grants a rate increase to West Virginia-American Water Company (WVAWC or Company) for its water operations in West Virginia. The Company originally filed for $41,175,752 in additional annual net water revenues over revenues at present rate, and $470,801 in additional annual sewer revenues over revenues at the present rates. The Commission grants a $24,133,275 increase in water rates including the incorporation of the previously approved Distribution System Improvement Charge (DSIC) surcharge and DSIC-related rate base investment through February 29, 2024, approved in this case. The Commission grants a net increase in sewer rates that will equal the percentage increase granted in the companion Water Rate Case after allocation of a portion of the sewer revenue requirements to the water operations.

BACKGROUND

The following is an abbreviated summary of the procedural background of the case. Additional procedural background can be found in Appendix A of this Order.

Water Rate Case Filing, Case No. 23-0383-W-42T

On May 1, 2023, the Company tendered for filing revised tariff sheets reflecting net increased water rates and charges of approximately $41.2 million annually (a 22.5 percent increase) for furnishing potable water to approximately 168,000 customers in Boone, Braxton, Cabell, Clay, Fayette, Harrison, Jackson, Kanawha, Lewis, Lincoln, Logan, Mason, Mercer, Putnam, Raleigh, Roane, Summers, Wayne, and Webster Counties, to become effective on February 24, 2024. (Tariff Form No. 8.) The requested increase incorporated the rate impact of the cumulative investment that has been (or is projected to be) placed into service through the date that the new base rates go into effect.

The $41.2 million requested increase in annual net water revenues consisted of an increase in base rates of $51.3 million in annual revenue, or approximately 28.0 percent, and a decrease in the Company's DSIC surcharge of $10.1 million in annual revenue, or 5.5 percent. The net effect of the overall $41.2 million is an annual revenue

increase of 22.5 percent. This requested increase included an allocation of a portion of a requested sewer revenue requirement to the water revenue requirement to support the same percentage increase in rates for both water and sewer customers. The Company also proposed a new set of low-income tariffs, and other rate mechanisms designed to allow annual issue-specific rate filings outside of traditional base rate filings.

Because of inter-utility operating agreements whereby the Company provides full service to customers of other utilities, the water service customers of the following utilities or entities will be directly or indirectly affected by the water rate changes:

- Boone County Public Service District;
- Cumberland Public Service District;
- Flatwoods Canoe-Run Public Service District;
- Jumping Branch-Nimitz Public Service District;
- Kanawha County Regional Development Authority;
- Lashmeet Public Service District;
- Lewis County Economic Development Authority;
- New Haven Public Service District;
- Oakvale Road Public Service District;
- Putnam County Building Commission;
- Salt Rock Public Service District; and
- Webster County Economic Development Authority.

(Tariff Form No. 8.)

The sale for resale customers potentially affected by the Company's tariff changes include:

- Bluefield Valley Water Works Company;
- Lavalette Public Service District;
- Flatwoods Canoe-Run Public Service District;
- Aqua Ohio Water;
- Jane Lew Public Service District;
- Lincoln Public Service District;
- City of Milton; and
- City of Hurricane.

Id.

Sewer Rate Case Filing, Case No. 23-0384-S-42T

On May 1, 2023, the Company filed revised tariff sheets reflecting sewer rates and charges of $470,801 annually, or approximately a 24.9 percent increase, for furnishing sewer utility service to 1,100 customers in Fayette County[1]. (Tariff Form No. 8[2]) The Company proposed to implement the sewer increase across-the-board to all customer classes. The increase included an allocation of the sewer revenue requirement to the water revenue requirement to support the same percentage increase in rates for both water and sewer customers. The Company also proposed a new set of low-income tariffs, and other rate mechanisms.

Combined Cases

The Company filed additional motions and support with its rate filings. Specifically, the Company filed:

- Proposed tariffs;
- Tariff Form No. 2 – Report on Tariff Change;
- Tariff Form No 8 – Public Notice of Change in Rates;
- A Utility Management Report as required by W. Va. Code § 24-2-4a; and information required by Rule 20.1 (Historic Rule 42) of the Rules for the Construction and Filing of Tariffs 150 C.S.R. 2 (Tariff Rules) (Rule 42 exhibit);
- Motion for Limited Waiver regarding public notice;
- Motion for Protective Order;
- Direct testimonies of Robert R. Burton, Christopher J. Carew, Michael P. Raymo, Christina E. Chard, Lori N. O'Malley, Charles B. Rea, Thomas G. O'Drain, Wesley E. Selinger, Melissa Ciullo, Ann E. Bulkley, Robert V. Mustich, and Patrick L. Baryenbruch.

On May 26, 2023, the Commission (i) made the Company a respondent in these proceedings, (ii) suspended the proposed increased rates and charges through February 24, 2024[3], (iii) granted a waiver to allow the Company additional

---

[1] The Company wastewater service was provided in only Fayette County at the time of the filing. Subsequent to the filing, the Company has expanded its wastewater service to Jefferson County. Rate changes from this case may eventually affect customers throughout the WVAWC wastewater service territory.

[2] The Tariff sheets filed included a proposed effective date of February 26, 2024 for certain new ratemaking proposal tariff sheets and February 25, 2024 for revised tariff sheets for wastewater service rates and charges. Tariff Form No. 8 indicated that the increased rates and charges were requested to go into effect February 25, 2024.

[3] Under West Virginia Code §24-2-4a, upon the filing of a schedule changing rates the Commission may suspend the operation of such schedule but not for a longer period than two hundred seventy days beyond the time when the requested rates would otherwise go into effect. Since the tariffs filed requested an effective date of February 25 or 26, 2024, and therefore would not have gone into effect until the proposed effective dates, the Commission's "suspension" did not change the originally requested effective date, as a suspension normally does, but merely clarified that the rates could not go into effect until the earliest

time to provide individual notice, (iv) set the intervention date, (v) granted requests to intervene from the Consumer Advocate Division (CAD) and the Kanawha County Commission (KCC), and (vi) encouraged the parties to submit a proposed procedural schedule by June 2, 2023.

By Order issued June 9, 2023, the Commission established a procedural schedule. The Commission held a virtual public comment hearing on November 2, 2023, and an evidentiary hearing on December 5th and 6th, 2023, at the Commission hearing room in Charleston, West Virginia.

DISCUSSION[4]

The Company's requested increase included the $10.1 million currently included in the DSIC surcharge and already being charged to customers. The effective increase in revenue requested by the Company, net of the DSIC surcharge already included in rates, is $41.2 million, and a sewer increase of approximately $470,000, with each representing an increase of approximately 22.5 percent over present rates. (Direct Testimony of Robert R. Burton, Burton Direct, at 4.)

I. RATE BASE

A. Overview

Utility plant and the appropriate level of rate base is the largest revenue requirement issue in this case. The Company presented its base rate filings in three parts: (1) a Historical Test Year (HTY) of January 1, 2022 through December 31, 2022, including terminal rate base as of December 31, 2022, and a capital structure based on the twelve months ending December 31, 2022; (2) the Addendum Period (Addendum or Addendum Period) of fourteen months (January 1, 2023 through February 29, 2024), with terminal rate base and a projected capital structure as of the end of that period; and (3) a Future Test Year (FTY) presentation covering March 1, 2024 through February 24, 2025 (end of the rate year), with a thirteen-month average rate base and capital structure. (Direct Testimony of Christina E. Chard, hereinafter Chard Direct, Co. Ex. CEC-D at 4.)

Staff and CAD recommended that the Commission deny the use of the FTY. Staff and CAD instead determined an appropriate average historical rate base matching the 2022 historical test year (HTY) and then applied certain post-test year adjustments as discussed herein.

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proposed effective date, which would be February 25, 2024 for the rate changes and February 26, 2024 for the special rate mechanism tariff pages, unless otherwise ordered by the Commission.

[4] The hearing transcript for the evidentiary hearing held on December 5, 2023, is referred to as "Tr. I." The hearing transcript for the evidentiary hearing held on December 6, 2023, is referenced as "Tr. II."

B. Commission Rules for Rate Base Determination

Under Tariff Rule 19.4, the Commission requires utility rate filings and the supporting Rule 42 exhibits to be based on HTY average rate base made up of a thirteen monthly balance average of rate base components as of the beginning of the test year and as of the end of each month of a test year.[5]

As the Commission recognized in the Final Order in the Company's last base rate cases, Case Nos. 21-0369-W-42T and 21-0370-S-42T, the Commission has not limited rate base to the average HTY balance. *See generally*, February 24, 2022 Order in Case Nos. 21-0369-W-42T and 21-0370-S-42-T (February 2022 Order). Tariff Rule 19.4 specifically permits a utility to request an alternative rate base as long as it files data to represent the average HTY rate base filing requirement. The utility must show the departure in supplemental schedules filed in a separate Addendum to the required HTY Rule 42 exhibit. The supplemental schedules included in the Addendum must provide a complete description of the proposed departure from the required average HTY rate base and an explanation of the underlying reasons and justifications for the proposed departure.

The Commission has often limited departures from an average HTY rate base to plant that is non-revenue producing/non-expense reducing. This ensures that the matching of rate base to expected revenue and expenses is reasonably preserved. The Commission has also, on occasion, allowed HTY departures to apply to terminal treatment of rate base (point-in-time rather than average) at the end of the HTY and for utility plant investments that a utility forecasts to place in service after the HTY, including forecasted investments to the beginning of the period that new rates being adjudicated and determined by the Commission will go into effect.

Departure from the matching of an average HTY rate base and HTY units of revenue and expenses is a fact-based decision for the Commission and such departure in a prior case is not justification for departure in every subsequent case. In a C&P Telephone Company appeal of a Commission decision that disallowed rate base investment for purchases from an affiliate, Western Electric, made after the Commission had rejected certain downward rate base adjustments in at least three previous rate cases, the West Virginia Supreme Court of Appeals stated:

---

[5] This historical test year average, which is technically referred to as a thirteen-month average, begins with the end-of-month balances of rate base components immediately preceding the test year, which is also the beginning-of-first month of the test year rate base, and includes charges and credits added to (or deducted from) rate base each month of the test year. Thus, the required traditional average rate base matches actual rate base components during the test year to actual revenue and expenses incurred during the test year.

> Furthermore, it is generally recognized that the doctrine of stare decisis does not normally apply to administrative decisions. As Professor Davis states in his respected treatise:
>
> When the purpose is one of regulatory action, as distinguished from merely applying law or policy to past facts, an agency must at all times be free to take such steps as may be proper in the circumstances, irrespective of the past decisions.... Even when conditions remain the same, the administrative understanding of those conditions may change, and the agency must be free to act ....
>
> 2 K. Davis, Administrative Law § 18.09 (1958) (footnotes omitted.)
>
> *Accord*, State v. Alabama Public Service Commission, 293 Ala. 553, 307 So. 2d 521 (1975); Rumney v. Public Utilities Commissioner, 172 Colo. 314, 472 P.2d 149 (1970). The Commission's decisions in previous cases therefore do not preclude it from reaching an opposite result in this case.

C&P Telephone Company v. Pub. Serv. Comm'n of West Virginia, 300 S.E.2d 607, 613. (1982).

C. Positions of the Parties

1. The Company

Company Witness Burton testified that the most significant driver for the Company's need for rate relief is the Company's ongoing infrastructure investment. (Burton Direct at 4.) This investment, the Company argued, includes investment added since its last rate case as well as new investment projected to be made through early 2025. (Burton Direct at 6.) Mr. Burton testified that infrastructure investment accounts for more than two-thirds – approximately $36 million – of the Company's total requested revenue rate increase. (Burton Direct at 4.)

Company Witness Chard testified that the Company's HTY presentation contains the exhibits required under Tariff Rule 20.3 (Historic Rule 42). (Chard Direct at 23.) The Company derived the financial information contained in the

Rule 42 exhibit from its operational and financial records. The HTY in this case is the twelve months ended December 31, 2022. Id.

The Addendum Period reflects a forecasted terminal rate base for the period ending February 29, 2024. Id. The Company brought rate base components as well as the capital structure components forward to the period ending February 29, 2024. Id. Beyond that date, unlike our traditional consideration of terminal rate base adjustments for the test year and up to the date new base rates take effect, the Company further included an average projected rate base and projected revenues and operating expenses and taxes for the FTY beginning February 29, 2024. (Chard Direct at 23-24.)

The FTY presentation reflected a fully forecasted average rate base for the period ending February 28, 2025. According to Dr. Chard, the ending balances contained on HTY Statements A and B, which represent terminal rate base at December 31, 2022, are brought forward to Addendum Statements A and B. The ending balances contained on Addendum Statements A and B, which represent terminal rate base at February 29, 2024, are brought forward to FTY Statements A and B in the FTY. (Chard Direct at 24.) In addition, the Company added revenues to represent projected acquisition-related revenues for the FTY period. Id.

2. Staff

Staff opposed the Company's full Addendum rate base approach. Staff further opposed the Company's use of the FTY. Staff instead recommended a post-test year adjustment to include only DSIC-qualified plant. Staff recommended an annual revenue increase of $12.8 million for the water operations based on the use of the HTY after including certain adjustments for terminal treatment of DSIC-qualified plant rate base. (Direct Testimony of Susan E. Kuhn, Kuhn Direct, at 5.)

To the extent that Staff's recommended revenue requirement does not include full DSIC cost rolled-in to base rates, Staff also did not include the offset/netting of DSIC revenues.

Staff made several significant adjustments that differed from the Company's rate base adjustments. Staff removed a large portion of the non-DSIC rate base adjustments related to the Addendum Period, as explained above. Staff also recommended a lower adjustment than requested by the Company to reflect certain water utility acquisitions.

3. CAD

CAD proposed a base rate revenue increase of $25.0 million, or an increase of approximately 13.7 percent. After elimination of $10.1 million of DSIC surcharges, the net impact on customers would be an increase of $14.9 million, or 8.2 percent. (Direct Testimony of Ralph C. Smith, Smith Direct, CAD ex. RCS-D, at Schedule A, Bates 120.) CAD used an HTY with certain known and measurable adjustments. (Smith direct at 9.) CAD objected to the Company's proposed allocation of a portion of its sewer revenue requirement to water customers. (Smith Direct at 16.)

4. Company Rebuttal

Company Witness Burton addressed the testimony of Staff and CAD regarding the appropriate level of rate base in his rebuttal testimony. Mr. Burton testified that Staff's position would "effectively deny the Company the ability to ever earn its appropriate and authorized return on its investment in this case, even on actual investment that was known, measurable and prudent at the end of the historical test year." (Rebuttal Testimony of Robert R. Burton, Burton Rebuttal, at 2.) Mr. Burton further asserted that Staff's position would result in the DSIC rate not fully resetting, and "further drive the need for rate cases." (Burton Rebuttal at 3.)

With respect to CAD's position, Mr. Burton testified that CAD "took an approach more in line with the February 2022 Order in the last base rate case." Specifically, he testified that CAD recognized part of the Addendum Period investment, including the DISC investment in mains, hydrants, services, and meters. (Burton Rebuttal at 2.) Mr. Burton also testified that the CAD position "comes closer to accomplishing the policy goals of encouraging investment and resetting the DSIC rate." (Burton Rebuttal at 3.)

Mr. Burton contended that the positions of Staff and CAD reject constructive polices that support investment in aging infrastructure. Mr. Burton urged recognition of the FTY. Otherwise, he stated, the adoption of the Staff or CAD positions would undermine the Company's ability to attract capital investment and compromise its ability to continue investment in existing infrastructure and expand service to unserved or underserved areas, including those impacted by troubled and failing systems. (Burton Rebuttal at 4.)

In her rebuttal, Company Witness Chard testified that the difference amongst the parties' recommendations is the test year period. (Rebuttal Testimony of Christina E. Chard, Chard Rebuttal, at 5.) Ms. Chard produced a chart comparing each parties' determination of rate base in this proceeding:

West Virginia American Water Company
Case No. 23-0383-W-42T & 23-0384-S-42T
Total Company Rate Base Comparison

	WVAW - FTY	CAD - Partial Addendum		Staff - HTY	
	Total	Total	Difference	Total	Difference
Utility Plant In Service	$1,455,363,686	$1,335,998,974	($119,364,712)	$1,294,287,748	($161,075,938)
Utility Plant Held For Future Use	-	-	-	-	-
Unclassified Plant in Service	-	-	-	-	-
Construction Work In Progress - Completed And In Service	-	-	-	-	-
Total Utility Plant	1,455,363,686	1,335,998,974	(119,364,712)	1,294,287,748	19,396,246
Accumulated Provision For Depreciation, Depletion And Amortization	200,685,986	163,056,394	(37,829,592)	164,773,388	(36,112,598)
Retirement Work In Progress	10,769	2,632	(8,137)	107,888	97,119
Contributions In Aid Of Construction	97,359,636	96,496,036	(863,600)	110,208,533	12,848,897
Customer Advances	8,013,944	6,430,610	(1,583,333)	6,318,577	(1,695,367)
Total	306,270,335	265,985,672	(40,284,663)	281,408,386	(24,861,949)
Net Investment In Utility Plant	$1,149,093,352	$1,070,013,303	($79,080,049)	$1,012,879,362	(136,213,990)
Working Capital Allowance:					
Materials And Supplies	10,322,573	11,456,780	1,134,207	8,080,963	(2,241,610)
Prepayments	-	-	-	-	-
Working Cash	(3,294,000)	(2,234,000)	1,060,000	(2,637,436)	656,564
Total Working Capital Allowance	7,028,573	9,222,780	2,194,207	5,443,527	(1,585,046)
Other:					
Customer Deposits	-	-	-	-	-
Accumulated Deferred Income Taxes	(207,823,346)	(198,901,834)	8,921,512	(216,497,018)	(8,673,672)
Accumulated Deferred Investment Tax Credit	(196,292)	(289,140)	(92,849)	(321,216)	(124,924)
Other Deferred Debits	6,960,662	5,585,239	(1,375,423)	4,746,389	(2,214,273)
Other Deferred Credits	-	-	-	-	-
Total Other Rate Base	(201,058,976)	(193,605,735)	7,453,241	(212,071,846)	(11,012,869)
Total Average Rate Base	**$955,062,948**	**$885,630,348**	**($69,432,600)**	**$806,251,043**	**($148,811,905)**

Figure 3

(*See* Chard Rebuttal, Figure 3 at 6.)

According to Ms. Chard, CAD's "recommendation is not as stifling as the Staff's, but still results in an insufficient recognition of capital investment the Company has already made and that it reasonably projects to make in the rate year beginning February 29, 2024." (Chard Rebuttal at 5.)

D. Commission Rate Base Decision

The Commission is charged with "the responsibility for appraising and balancing the interests of current and future utility service customers, the general interests of the state's economy, and the interests of the utilities subject to its jurisdiction in its deliberations and decisions." W.Va. Code § 24-1-1(b). As we noted in the February 2022 Order, since the 1990's the Commission has approved a variety of approaches to rate base that modify the HTY approach.

The Company focuses extensively on Commission approval of the FTY. The Commission, however, will not grant that approval.

Each rate case decision is based on the facts and circumstances associated with that rate case. As the West Virginia Supreme Court agreed in the 1982 C&P case, "an agency must at all times be free to take such steps as may be proper in the circumstances, irrespective of the past decisions ... [e]ven when conditions remain the same, the administrative understanding of those conditions may change, and the agency must be free to act." C & P, supra at 613. Commission understanding of current conditions leads us to grant the use of certain adjustments included in the Addendum period.

The Staff presented its own Revenue Requirement Schedule and a reconciliation of differences between its adjustments from the Company's revenue requirement proposal. We find it convenient to adjust the Staff recommended revenue requirement elements for those rate base elements in controversy that will be allowed by the Commission.

1. Roll-in of DSIC Rate Base and Other Addendum Adjustments

The Company proposed to roll all current DSIC-related investments into the rate base in this proceeding and reset the DSIC surcharge to zero. (Company Initial Brief at 000013.) Staff did not account for a full reset of the DSIC surcharge to zero. (Staff Initial Brief, fn. 3 at 000006.) By contrast, Staff recommended that the Commission reset the DSIC, but carry forward about $9 million of terminal 2023 DSIC investment together with another $1.7 million of DSIC-eligible balances for January and February 2024, for a total of $10.7 million. (*See, e.g.*, CAD Initial Brief at 000009-10.)

Consistent with the February 2022 Order, the Commission finds that full roll-in of all DSIC investment up to February 29, 2024 in this case is appropriate. (February 2022 Order at 12.) The current DSIC surcharge will be reset to zero

effective with the date rates in this proceeding go into effect. A new DSIC surcharge, as approved in the pending DSIC proceeding, Case No. 23-0558-WS-DSIC, will be implemented pursuant to an Order that should issue within a few days of this Order.

In addition, while we are not bound by prior Commission decisions, we continue to see merit in adjustments in base rate cases to recognize not only DSIC qualified non-revenue producing, non-expense reducing rate base beyond the average HTY, but also post-test year investment that does not disturb the principle of matching rate base investment to revenue and expenses. The Commission does not usually allow post-HTY adjustments for plant investments that have not been identified as largely non-revenue producing, non-expense reducing. In this case, we find no evidence that the non-DSIC proposed Addendum plant additions are revenue-producing or expense-reducing to such an extent that including those plant additions will skew the relationship between rate base, revenue, and expenses.

We caution the Company not to attempt in future DSIC cases to bootstrap this decision to include plant investment beyond the specific plant categories we traditionally have allowed in prior DSIC cases. In this fully litigated base rate case, the parties had an opportunity to address, and the Commission had the opportunity to consider, the matching principle and whether there was a danger of skewing the matching relationships that might occur if the Company Addendum adjustments were allowed. In a DSIC case, we do not have before us all of the revenue requirement components in detailed Rule 42 format as evidence and do not wish to require that format. To do so would effectively do away with the expedited DSIC review and turn each DSIC case into a full base rate case. Solely based on the facts and circumstances of this base rate case, and without any requirement or representation that future cases will be afforded the same rate-making treatment, we will adjust the average HTY rate base to reflect the terminal treatment of the Addendum adjustments proposed by the Company up to February 29, 2024.

2. Acquisition Adjustment and Investments in Troubled Systems

The Company included investment and proposed investment in several water and sewer systems: Jefferson Utilities, Inc. (JUI), Valley Water & Sewer Services, Inc. (VWSS), East Jefferson Sewer Services, LLC (EJSS), and Shenandoah Junction Public Sewer, Inc. (SJPS) (collectively, JUI, *et al.*). In addition, the treatment of projected investments in certain troubled systems was an issue in this case. Those systems are: Armstrong Public Service District (Armstrong PSD);

Kanawha Falls Public Service District (Kanawha Falls); the City of Nitro (Nitro); and Boone-Raleigh Public Service District (PSD) sewer system.

The parties differ on the amount that should be included in the rate base for the purchase of the JUI, *et al.* systems.

The Company initially proposed JUI, *et al.* purchase costs roll-in of $36.9 million per the Company's Rule 42 Exhibit-Water, Supplement to Schedule C (Bates page 000241). (Company filing May 1, 2023). Later in rebuttal testimony, the Company adjusted the JUI, *et al.* cost-roll-in to $28.4 million to more closely match the Commission's ordered acquisition price of $27 million. (*See* Chard Rebuttal at 39.)

Staff Witness Kuhn asserted the Company's rate base adjustments do not reflect the actual prices at the October 2, 2023 closing date, nor do the Company's adjustments comply with the Commission's directives in the Commission's May 26, 2023 order in Case No. 22-0796-WS-PC (JUI, *et al.*). (Kuhn Direct at 24-25.)

The Company argued that the full acquisition price should be recognized in the rate base, along with the full acquisition and transaction costs. Indeed, the Company stated that these outcomes "formed the basis for the Company's decision to acquire these assets ... [otherwise] the Company assuredly would not have proceeded to acquire those asses for the $27 million amount specified in the Order." (Company Initial Brief at 21.)

CAD noted that the Commission approved a purchase price of $27 million for JUI, *et al.* (CAD Initial Brief at 13.)

We find that the Staff is correct that the Company has failed to comply with the Commission's directives in the Commission's May 26, 2023 order in Case No. 22-0796-WS-PC with regard to recording the JUI, *et al.* acquisitions. We made numerous attempts in the JUI, *et al.* to have the Company inform us of its Journal Entries and to direct the Company that it must comply with the Uniform System of Accounts (USOA) to record the acquisition. After several unsuccessful attempts to ascertain proposed Journal Entries that complied with the USOA, the Commission ordered the Company to file its Journal Entries reflecting such accounting upon closing the transaction. The Journal Entries filed by the Company did not follow the USOA. Under the USOA, utility plant acquisitions must be recorded by charging plant accounts with the original cost of the plant when it was first placed into service. The Company Journal Entries do not follow the USOA. The Company seems to be under the mistaken impression that if it records an acquisition adjustment, that amount will not be allowed in rate base. Thus, it apparently refuses to record an acquisition adjustment.

Indeed, the Commission did approve a purchase price of $27 million in the JUI, *et al.*, recognizing that the price, when recorded in accordance with the USOA would result in an acquisition adjustment (JUI, *et al.*, Order entered May 26, 2023, at Conclusion of Law No. 9.) Further, the Commission stated that it would allow the full purchase price to be included in the Company's rate base in future rate cases. Id. We simply cannot fathom why the Company refused to follow the Commission Orders and directives that: (i) the JUI, *et al.* property, plant, and equipment accounts, including accumulated depreciation accounts, related to the acquisition be recorded at original cost; and (ii) an acquisition adjustment be recorded following the USOA, even after the Commission clearly ruled that the $27 million, including the acquisition adjustment, will be allowed in rate base for setting base rates as required by W.Va. Code 24-2-4g.

We do not agree with the Company brief that Staff is attempting to remove the excess purchase price above net original cost from rate base. In its brief, echoing the rebuttal testimony of Company witness Chard, the Company states:

> Staff argued that ... an acquisition adjustment, similar to the one it advocated for unsuccessfully in the acquisition case, must be applied to reduce the rate base utility plant recognition to approximately $15.4 million, rather than the $27 million purchase price approved in the order approving the acquisition. Staff Ex. SEK-D at 23-30.

(Company Initial Brief at 000020.)

This is incorrect. The Staff testimony in the above-cited Direct testimony is very clear:

> Consistent with the Commission Final order in Case No. 22-0796-WS-PC, Staff's rate base **includes the Acquisition Adjustments**. For water, the total rate base net original cost is $15,367,368 net original cost **PLUS** the $8,104,885 acquisition adjustment or $23,472,253. For sewer, the total rate base is $495,950 net original cost **PLUS** the $2,916,393 acquisition adjustment or $3,412,343.

(Kuhn Direct at 23-30. Emphasis added)

Simple addition tells us that the Staff testimony and exhibits recommended inclusion of $26,884,596 in rate base related to the JUI, *et al.* acquisitions. If the Company has a concern about the $27 million purchase price and the Staff failure to include the purchase price for rate base revenue requirement purposes in this case, it should have rebutted, cross-examined, and briefed the $115,404 difference between the Staff numbers and $27 million rather than incorrectly arguing that the Staff is including "$15.4 million, rather than $27 million."

The $1.5 million transaction cost associated with the JUI, *et al.* acquisition is a legitimate unresolved issue. By misreading the Staff recommendation and focusing on a non-issue relating to the $27 million purchase price, the Company did not justify its proposed additions to the $27 million purchase price, including the $1.5 million transaction cost, leaving us with an insufficient record to include anything other than the $27 million purchase price in rate base in this case. Staff correctly points out that the Commission specifically addressed the transaction costs in the Order authorizing the acquisition of the JUI, *et al.* utilities:

> WAWC asked to include in rate base "the Company's reasonable transaction and acquisition costs (including legal and closing costs) related to the Transaction and obtaining Commission approval of it, to be determined after the closing has occurred but currently projected to be $1,500,000..." Application at 12. The Company should include transaction and acquisition in the appropriate accounts and disclose where those amounts will be booked when it files proposed journal entries as discussed herein. The actual costs will be subject to review for reasonableness and prudence in the next base rate case in which those costs are included for rate base purposes. Allowable acquisition and transaction costs should be incremental costs that would not otherwise have been incurred, but for the acquisition transaction approved herein. To the extent these costs are determined by the Commission to be necessary, reasonable, and prudently incurred, they will be included in rate base.

(JUI, *et al.*, Order entered May 26, 2023, at 25.)

When the Company filed its Journal Entries, it did not indicate the accounting for the $1.5 million by account or address the reasonableness of the costs, which were still estimated at the time. The filed Journal Entries are difficult to decipher, but it appears the Company recorded $28,384,593 in utility plant accounts and $35,993 in Construction Work in Progress. It also booked $1,134,307 in Inventory Accounts and $397,099 in what should have been Accounts Receivable (141), but the Account numbers used imply that the receivables were recorded as Notes Receivable (144 and 146). There was also a small amount of $14,241 for inactive Accounts Receivable and Penalties charged to an account that is not in the System of Accounts (590). There was also a charge of $3,052,122 for Contributions in Aid of Construction charged to Mains and Hydrants accounts with an offsetting credit to the Contributions Account(s) (271). The credits (payments) recorded were $29,967,134, ($27 million being identified as the purchase price). The aggregate $29,967,134 was credited to what appears to be a customer deposit account (235).

Disregarding the confusion over the accounts used, we can glean that the Company booked a $29,967,134 cost for purchasing the JUI, *et al.* property, $27 million of which was designated as a "purchase price, $1.5 million was designated as "acquisition cost 10/02/23 estimate", $411,241 was designated as "outstanding A/R [accounts receivable] at closing", and $1,055,793 was described as "designated interim projects."

Nowhere in the Journal Entries do we see charges and credits to Account 104, Utility Plant Purchased and Sold, even though the Uniform System Accounts requires:

> 104. Utility Plant Purchased or Sold
>
> A. This account shall be charged with the cost of utility plant acquired as an operating unit or system ... pending the distribution to appropriate accounts in accordance with Accounting Instruction 21.
>
> B. Within six months from the date of ... the utility shall file with the Commission the proposed journal entries to clear from this account the amounts recorded herein.

Accounting Instruction 21 is equally clear and unequivocal. After describing charges and credits in Account 104 and clearing Account 104 to appropriate plant (and other balance sheet) accounts, the instructions state: "The amount remaining in account 104 – utility plant Purchased and Sold, shall then be closed to Account 114 – Utility Plant Acquisition Adjustments."

Instructions for Account 114 state: "The amounts recorded in this account with respect to each property acquisition shall be amortized, or otherwise disposed of, as the Commission may approve or direct." (*See* Account 114, Accumulated Provision for Amortization of Utility Plant in Service.)

We have taken the time to explain the accounting for the acquisition of utility property because, after multiple attempts to ensure that the Company follows the System of Accounts, we have not yet been successful. We require information and justification by the Company to ensure proper recordation of acquired property and proper treatment of such property for rate making purposes. While prior Commission Orders are clear that the $27 million purchase price will be recoverable in rates, we also made it clear that additional related acquisition costs would be considered after the Company provided evidence related to such costs. In the acquisition case, we cautioned: "WAWC should file its proposed accounting for the acquisition adjustment so that the entire $27 million purchase price can be included in rate base and properly amortized in future rate cases." (JUI, *et al.*, Order entered

May 26, 2023, at 25.) With regard to costs other than the $27 million purchase price, the Commission said: "[t]he actual costs will be subject to review for reasonableness and prudence in the next base rate case in which those costs are included for rate base purposes ... [a]llowable acquisition and transaction costs should be incremental costs that would not otherwise have been incurred, but for the acquisition transaction approved herein ... [t]o the extent these costs are determined by the Commission to be necessary, reasonable, and prudently incurred, they will be included in rate base." Id.

The Company did not provide evidence of the reasonableness and prudence of costs beyond the $27 million purchase price. The Company did not provide evidence that acquisition transaction incremental costs would not otherwise have been incurred, but for the acquisition transaction. The Company did not provide evidence that allows the Commission to make an adjustment to include anything other than the $27 million purchase price in rate base in this case. Moreover, the Company did not argue that the apparent shortfall in the Staff proposed adjustment of $26,884,596 in the water and sewer cases is not included in some of the other going level or Addendum adjustments. Therefore, we will include the Staff proposed adjustments (which are functionally the same as the CAD proposed adjustments) in our final Revenue Requirement calculations in this case and the companion sewer rate case. If the Company has properly recorded in its books other transaction costs, or inventory costs, it can in future rate cases illuminate the Commission on the basis, reasonableness, and prudence of those costs and how they should be treated for ratemaking purposes.

Armstrong PSD, Kanawha Falls, and Nitro

The Company argued for the inclusion of projected acquisition costs for Armstrong PSD, Kanawha Falls and Nitro systems. Staff and CAD opposed the inclusion of the acquisition costs for these utilities in rate base.

The Company argued that it has "every reason to expect that the Armstrong PSD and Nitro transactions will occur in the FTY period." (Company Initial Brief at 000021.) The Company acknowledged that there is some uncertainty regarding an acquisition of Kanawha Falls, but argued that the Commission should include a projected acquisition in rate base in this proceeding. (Company Initial Brief at 000021.) On this, the Company stated that "[t]he fact that some investments may be uncertain does not mean that using an FTY is inappropriate, and certainly similar uncertainties have not prevented many other states from using this approach ... "[i]nstead, the Commission can apply [an] FTY and tailor the investments and costs it believes are reasonable within the context of FTY-based regulation." (Company Reply Brief at 000014.)

The Commission agrees with Staff and CAD, and will not include the acquisition of Armstrong PSD, Kanawha Falls, or Nitro in rate base.

First, in the Armstrong PSD distressed utility case, Case No. 22-0911-PWD-DU (the Armstrong DU Case), the Commission ordered the acquisition of Armstrong PSD by the Company. (*See* Armstrong DU Case, August 25, 2023, Commission Order.) That acquisition is not complete, and will not be complete by the end of February 2024. The parties have not submitted an acquisition agreement for approval by the Commission. In fact, the parties recently requested an extension of time to file a further progress report on or before Monday March 4, 2024, in order to consider funding developments regarding a Powellton Tank Project. (*See generally*, Armstrong DU Case, Joint Request for Extension of Time filed on February 2, 2024.) In that Joint Request for Extension of Time, the parties stated that certain grant funds made available for the Powellton tank project will remain available and will not have to be repaid "provided that the project is complete before the acquisition by [the Company] occurs." (Armstrong DU Case, Joint Request for Extension of Time at 000001.) Thus, the date of the acquisition, details of the acquisition, and final acquisition price are unknown. The Commission will not include this in rate base.

With respect to Kanawha Falls, the Commission has not ordered the acquisition of Kanawha Falls. Rather, the Commission ordered Kanawha Falls and the Company to enter into a public-private O&M agreement. (*See generally*, Case No. 22-0631-PWD-DU, Commission Ordered entered August 25, 2023.) Kanawha Falls and the Company have not, to date, been able to negotiate a mutually agreed-upon O&M agreement, and no acquisition has been requested, proposed, ordered, or approved by the Commission. Thus, the Commission will not include the projected acquisition costs in rate base in this proceeding.

Similarly, the Company has not filed a petition to acquire the Nitro system, nor has the Commission approved of an acquisition of Nitro. As such, the Commission will not include the Company's projected acquisition of Nitro in rate base in this base rate case.

3. Tax-Related Rate Base Adjustments

The Company and Staff disagree on the appropriate level of accumulated deferred income taxes (ADIT) at per books and going-level. In the Addendum Period, the Company further adjusted the ADIT credit to rate base while Staff did not include the addendum adjustments proposed by the Company.

The Company included HTY ADIT credits of $193,289,211 in its Rate Base, as compared to the Staff ADIT credits of $199,841,989, a variance of $6,552,778. At going-level, the Company included an adjustment increasing the ADIT credit balance by $4,430,870, as compared to a Staff adjustment increasing ADIT credits by $15,461,210, a variance of $11,030,340. As part of its Addendum Rate base, the Company further increased the ADIT credit balance by $6,851,823.

As we have stated, we intend to roll-in DSIC Rate Base, as well as non-DSIC Rate Base up to the end of the Company proposed Addendum Period. To ensure that the ADIT component of Rate Base matches the terminal Rate Base of DSIC and non-DSIC net plant investment we will adjust the Staff recommended Rate Base to include the variances in ADIT discussed above. We will also adjust the Staff recommended Rate Base by the full amount of the Company's "Total Addendum Going-Level Adjustments to Rate Base," identified by Staff in its Statement of Variances, but excluded from the Staff recommended Rate Base.

4. Negative Acquisition Adjustment

Similar to the tax related adjustment, the parties dispute the amount presented in Staff's adjustment No. 87. Staff adjustment No. 87 treats negative acquisition adjustments of $450,804 as a credit or increase to contributions in aid of construction (CIAC). (Staff Initial Brief at 000054.) Again, the Company agrees with the concept of this adjustment, but disputes the amount of the calculation. Id. Again, and for similar reasons, the Commission adopts Staff's adjustment No. 87. Staff's adjustment complies with the Commission decision in the February 2022 Order. *See* February 2022 Order at 15.

E. Cash Working Capital

Staff calculated a negative working case allowance, or cash working capital (CWC) requirement of $2,676,436 which is $416,436 greater than the Company's proposed negative CWC amount of $2,260,000. (Company Initial Brief at 000022.) Here, the parties used the same lead/lag days but the values are different based upon changes to rate base and expense. The Commission will set a reasonable level for CWC based on the numbers calculated by Staff and the Company. While each variance in expenses in our decision could cause a *de minimus* change in CWC, the net impact on Revenue Requirements would be even more *de minimus* on an allowance-for-return basis. Moreover, there is no single "correct" CWC Level because the accounts receivable and expense lags and leads can change from month to month. We will adopt the Staff level of CWC in this case. We also note

that we are concerned with the inclusion of non-cash items and items other than expenses in the lead-lag studies. The Rate Base increment is called "Working Cash Allowance" for a reason. The lead-lag studies should capture the time difference between the cash payment of expenses by the Company, and the day that the cash to cover the expense payments is received from customers. The Company is placed on notice that prior allowances of non-cash items and items other than expenses in a lead-lag study are subject to review in future cases and are not a "right," even if included in prior rate cases.

II. Capital Structure and Cost of Capital

A. Overview

The capital structure of a utility reflects all of the sources of capital used by the utility and consists of various types of capital supporting the utility's net utility assets. A utility capital structure will normally reflect the capital acquired through borrowing (debt capital) and through the issuance of stock, retained earnings, and other paid-in capital (jointly, equity capital). Other sources of utility capital, such as customer contributions, customer advances, and some deferred credits, could be treated as zero-cost capital. However, these credit balances are normally treated as a rate base offset and, therefore, are not included in the total capitalization of the utility.

For purposes of calculating the utility's cost of capital, the debt components are typically divided into short-term and long-term debt. Equity capital is divided into common equity and preferred equity. The measurement of the ratio of individual capital components to the total capital establishes the relationship for subsequent use in determining a composite weighted cost of capital. *See, e.g.*, West Virginia-American Water Co., Case No. 10-0920-W-42T, Comm'n Order at 10 (April 18, 2011). The cost rate for each type of capital is multiplied by the percentage that component comprises of the total capital structure to derive a weighted cost of capital for each component. The weighted costs are then added to reach a total cost of capital that is generally regarded as a measure of the overall Weighted Average Cost of Capital (WACC or WACOC), commonly referred to in ratemaking as Rate of Return (ROR), which is the percentage that a utility is traditionally authorized to earn on its rate base.

Because the cost rate authorized for equity capital is usually higher than the cost of a utility's debt, the ratio of debt and equity to total capital (capital structure) is often an issue in rate cases involving ROR. The Commission has historically

used a variety of techniques, and its judgment and experience, to determine a reasonable capital structure. Depending on economic or other circumstances, the Commission may review various historical, projected, and hypothetical capital structures. The Commission determines a capital structure that (i) is reasonable, (ii) fairly balances the interests of current and future customers, the general interests of the State's economy and the interests of the utilities and (iii) produces the lowest reasonable overall revenue requirement that maintains financial integrity and flexibility for the utility. *See*, *e.g.*, Black Diamond Power Co., Case No. 12-0064-E-42T, Comm'n Order at 4 (Aug. 10, 2012); W.Va. Code § 24-1-1.

While it might appear that a heavily leveraged capital structure (high percentage of debt) is preferred, the Commission considers the end result of an over-leveraged capital, such as low-interest coverage, to arrive at a reasonable capital structure that is neither overly leveraged with debt nor overloaded on the equity side. While parties to rate cases often rely heavily on the actual capital structure of a utility at a point in time or over a restricted time frame, such reliance does not reasonably consider the changes in capital structure over time or the danger of over or under-leveraged capital structure.

B. Capital Structure

As described above, the Company's rate filings were presented in three parts comprising three time periods: HTY, Addendum, and FTY. (Company's Initial Brief at 10, *citing* Chard Direct, at 4.) The Company focused on actual or projected capital structures expected for the Company during those time periods. We find such time-period restricted views of capital structure are helpful, but not dispositive of a reasonable capital structure.

Staff recommended a capital structure based on an HTY consisting of thirteen months ending December 31, 2022. CAD recognized part of the Addendum Period investment. The table below represents the differing approaches taken by the parties:

Table 2

Capital Structure Components - Positions of the Parties

	WVAWC FTY @ 10.50%			CAD Addendum @ 9.80%			PSC Staff HTY @ 9.30%		
	Percent	Cost	Wtd Cost	Percent	Cost	Wtd Cost	Percent	Cost	Wtd Cost
Long Term Debt	45.270%	4.790%	2.170%	46.370%	4.390%	2.040%	43.168%	4.500%	1.940%
Short Term Debt	1.920%	4.690%	0.090%	3.510%	5.320%	0.190%	5.916%	3.700%	0.220%
Preferred Stock	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Common Equity	52.810%	10.500%	5.550%	50.120%	9.800%	4.910%	50.916%	9.298%	4.730%
Total Cost of Capital			7.810%			7.140%			6.890%

(Chard Rebuttal at Figure 8.)

While the Company urges the Commission to adopt its FTY approach, the Commission declines to do so. Moreover, even if we had adopted the FTY for rate-making purposes, that would not be dispositive as to whether a projected capital structure containing nearly 53 percent equity is reasonable.

The Commission finds that using the Addendum Period is reasonable for this case. Once again, however, we must also consider the ranges of debt and equity capital structure ratios that are reasonable.

We determine that the capital structure recommended by the CAD is consistent with an Addendum Period rate base and also represents a reasonable capital structure comprised of approximately 50 percent debt and 50 percent equity[6]. Thus, the capital structure we will use is 3.51 percent short-term debt, 46.37 percent long-term debt, 0.00 preferred equity, and 50.12 percent common equity. We will also adopt the debt cost rates recommended by CAD.

C. Return on Equity

The West Virginia Supreme Court of Appeals has held that utility rates should allow a public utility the opportunity to earn a level of revenue sufficient to attract capital in the competitive capital market, balanced with the interests of the consuming public in receiving fair and reasonable rates. *See, e.g.*, Monongahela Power Co. v. Public Serv. Comm'n, 276 S.E.2d 179 (W. Va. 1981). The Commission determines a return on equity (ROE) based on empirical studies of returns in the capital markets while balancing the interests of ratepayers in receiving fair and reasonable rates. Black Diamond Power Co., Case No. 12-0064-E-42T, Comm'n Order at 5 (Aug. 10, 2012); West Virginia-American Water Co., Case No. 10-0920-W-42T, Comm'n Order at 15 (Apr. 18, 2011).

The Commission has, on numerous occasions, stated that recommendations of expert witnesses on cost of common equity are useful as guides, but that the determination of an appropriate cost of common equity for a utility must rest principally with the best judgment of the Commission. *See, e.g.*, West Virginia-American Water Co., Case No. 10-0920-W-42T, Comm'n Order at 18 (Apr. 18, 2011). The Commission recently stated that the data that underlies the recommendations of ROE witnesses must be evaluated and judged carefully and practically, based on our judgment of the methods used by the expert witnesses, the data presented by those witnesses and the current market conditions. There is

[6] The Company argument that its short-term debt was recently reduced does not change our decision regarding capital structure. Whether the debt is short-term or long-term debt is immaterial as far as capital structure is concerned. Different forms of debt are a factor impacting the interest rates.

no absolute, correct answer with regard to ROE even though the determination of a reasonable ROE involves calculations on a mass of data presented by expert witnesses. We have always held that the fair ROE result lies within a zone of reasonableness that is framed by the evidence, including the testimony and exhibits of the various witnesses. The final determination of ROE, however, rests with the Commission based on our judgment and the application of regulatory principles and policies that have been used by this Commission. Id.

The Company proposed an ROE of 10.50 percent, developed from a range of 10.00 percent to 11.00 percent. (Company Initial Brief at 000028.) Company Witness Bulkley provided an overview of the economic and legal principles regarding the determination of ROE. (Direct Testimony of Ann Bulkley, Bulkley Direct, at 6.)

Staff found WVAWC's proposed ROE excessive and unsupported. Staff Witness Estep recommended a ROE of 9.06 percent in 2021 and now recommends a ROE of 9.30 percent – based on his analysis of empirical data supporting a conclusion that the Company's cost of equity has increased since his testimony in November 2021. Similarly, CAD Witness Smith increased his ROE recommendation from a range of 9.00 percent to 9.50 percent in 2021 to 9.80 percent in this case. See below for comparison:

	Case Nos. 21-0369-W-42T 21-0370-S-42T	Case Nos. 23-0383-W-42T 23-0384-S-42T
Mr Estep		
DCF	9.06%	9.37%
CAPM (Scenario Range)	7.35% - 10.57%	8.85% - 10.83%
ROE Recommendation	9.06%	9.30%
Mr. Smith		
ROE Recommendation	9.00% - 9.50%	9.80%

(*See, e.g.*, Company Initial Brief at 000039.)

CAD did not sponsor ROE testimony, but recommended 9.80 percent contending that figure is reasonable because it is in line with the ROE of 9.75 percent included in the recent settlement filed in Mountaineer Gas's 2023 rate case. (Smith Direct at 26-27.)

Commission Decision

While we have at times in the past gone through each and every model presented by expert witnesses and offered criticism or support for their models and inputs, that exercise often leads one to conclude that the Commission is not applying its reasoned judgment to the facts and circumstances of a case and how those facts lead to a reasonable case specific ROR. In this case we are faced with

a number of models and inputs as well as observations of recent ROE decisions of other jurisdictions. We find it appropriate in this case to review and compare the outputs of the models.

Company Witness Bulkley presented a variety of models with multiple ranges under multiple scenarios. The witness criticized Staff for recommending a return below the 9.80 percent authorized by this Commission in the last rate case of the Company. This criticism is based on Ms. Bulkley's observations that financial markets and financial policies of the government have changed since that case, and in her view, the indicators all point to higher costs of equity today than at the time of the last rate case. There is apparent logic in her synergism comparisons. She does not consider, however, that the return on equity does not compress to a single, absolutely correct, answer. Instead, our analyses, as do hers, arrive at a range of returns that might extend well below and well above the single point established in a previous case, such as 9.80 percent. If for example the range of reasonableness in a previous case was 9.00 percent to 10.00 percent, approving a 9.80 percent allowable ROE would have required a myriad of considerations by the Commission that justified a return near the high end of the range. If the range changes to 9.30 percent to 10.30 percent in a later case, Ms. Bulkley would argue that because the models produced higher results, we must find something higher than 9.80 percent to be reasonable. We disagree. Conditions may have justified the high-end of the range decision in the last case and a mid-point, or 9.80 percent decision in the latter case. The ROE exercise is not a science that boils down to a precise formulistic answer. We take that into consideration as well as the judgment of an expert witness such as Ms. Bulkley into consideration, but we must ultimately apply our judgment and the end result of our decision in determining a reasonable ROE.

Company Witness Bulkley presented her opinion of an ROE range from 10.00 percent to 11.00 percent and ultimately recommended the midpoint or 10.5 percent. To properly analyze her two-point range and her arguments about the changing financial markets since the last case, we have reviewed the full range of her evidence and testimony.

We first consider Discounted Cash Flow (DCF) data. Based on several DCF models Company Witness Bulkley presented ROE outputs ranging widely from 8.21 percent to 10.74 percent. The average of that range is 9.48 percent. Clearly the DCF data indicates the possibility of a lower limit range for ROE well below the 10.00 percent chosen by Ms. Bulkley.

The same witness presented a narrower range, going from a low of 8.70 percent to a high of 10.11 percent in the Company's last base rate case, Case No. 21-0369-W-42T. Interestingly, the low end of her range in the last rate case was

nearly 50 basis points higher than the 8.21 percent low DCF number she presented in this case. Admittedly, the high end of her DCF range in the last rate case was only 10.11 percent, while the high end in this case is 10.74 percent. In the last rate case Ms. Bulkley presented a DCF range from 8.70 percent to 10.11 percent, or an average of 9.41 percent. In this case, her DCF range is a much lower 8.21 percent low point, to a high point of 10.74 percent. The average of her DCF range in this case is 9.48 percent, or only 7 basis points higher than the last case.

We next consider the Capital Asset Pricing Model (CAPM) data and ranges presented by Ms. Bulkley. She presented a CAPM range going from a low of 10.67 percent to a high of 12.18 percent (an average of 11.43 percent) in Case No.21-0369-W-42T. In her testimony in this case, considering capital markets that she believes justify a higher return than the last case, she calculated a DCF range with a low point of 9.87 percent and a high point of 10.55 percent. The average of her CAPM data in this case is 10.21 percent.

We have considered Ms. Bulkley's alternative CAPM recommendation, but we find it to be faulty and not useful for purposes of determining a reasonable ROE. Based on a theory that the traditional Capital Asset Pricing Model tends to "understate" the cost of equity for companies with low Betas, "such as regulated utilities" she presented an alternative CAPM approach called ECAPM. Other than a footnote reference to a book by Roger Morin entitled "New Regulatory Finance," and a brief description of ECAPM formula inputs, the witness did not explain why the traditional CAPM calculation, which derives the expected results of lower ROEs for lower-risk companies such as utilities, should be modified or "enhanced" using a mathematical formula purposely designed to drive those lower indicated returns upward.

We note that the ECAPM calculations result in outputs ranging from 10.43 to 10.94 percent. The midpoint of this range is 10.69 percent. This range and average is higher than those derived from her CAPM data, but that is to be expected because the ECAPM approach, by design, is structured to increase the CAPM-indicated return on equity for low-risk companies with low betas. The Commission will not use the ECAPM results in evaluating the ranges of ROE's because it is not sufficiently explained and supported by the testimony to allow us to determine whether the change or "enhancement" that is designed to increase the indicated ROE on companies with low betas (market risk) like regulated utilities is reasonable or appropriate.

The cross-model ranges of ROE recommended by the Company witness, based on the DCF model and CAPM model were from a low of 8.21 percent to a high of 12.18 percent. The average of that range is 10.19 percent.

The average of the DCF average of 9.48 percent and the CAPM average of 10.21 percent is 9.85 percent.

Based on these data and Ms. Bulkley's testimony, we find that her recommended range of 10.00 percent to 11.00 percent unreasonably discounts the low points of her DCF model outputs and unreasonably uses the high points of her CAPM analyses to justify the 10.00 percent low end and 11.00 percent high end.

Ms. Bulkley testified at length on accounting issues like flotation costs, environmental regulation risks, rate regulatory issues like capital spending related to troubled system and other perceived regulatory risks in West Virginia, and macro-economic factors such as inflation, elevated supply costs and increasing interest rates to support moving to a relatively high ROE as compared to the traditional models we have used. We have taken all of that testimony into consideration in making our decision.

The Company argued that the Staff recommendation was out of touch because, among other reasons, it was far below the 9.60 percent median of recently authorized ROEs for water and natural gas utilities. We note that the Company is correct that the Staff recommendation is below the 9.60 percent median of recently authorized ROEs for water and natural gas utilities. In fact, it is 54 basis points below 9.60 percent. However, the 10.5 percent recommended by the Company witness is 90 basis points above the median that she cited.

If we were to focus only on the Staff recommendation and the Company-proposed DCF and CAPM ranges, along with the 9.6 percent cited by the Company witness, we could conclude from the evidence that a 9.6 percent ROE is reasonable in this case. However, we have considered all of the evidence and determined that this is not the time to time to drop the ROE to 9.06 percent as recommended by Staff although we find the Staff recommendation to be well presented and based on a review of the data, albeit on the low side within a range of reasonableness. This is also not the time, and it would not be supportable by the evidence, to jump to the 10.5 percent requested by the Company which we find to be unreasonable.

Moreover, whether by accident or the natural outcome of common sense, we find that the intuitive 9.80 percent recommendation of CAD witness Smith falls within a range of reasonableness which is justified by the record developed by the Staff and Company. We are not basing our decision on the CAD recommendation but find it to be reasonable based on our own review of the entire record.

Based on the evidence and market conditions we should approve an ROE of 9.80 percent in this case. The academic models, the judgment of the expert witnesses, and the judgment of the Commission justify 9.8 percent ROE. The

Commission determines that a ROE of 9.80 percent is reasonable, falls within the range of reasonable ROEs presented by the parties, fairly balances the interests of WVAWC and its customers and meets the standards set forth by the United States Supreme Court and the Supreme Court of Appeals of West Virginia.

D. Summary of Capital Structure and Cost of Capital

Based on the discussion and determinations described above concerning the capital structure, cost of debt, preferred stock and ROE, the Commission determines that an overall weighted cost of capital of 7.134 percent is reasonable for establishing rates in this proceeding and fairly balances the interests of the Company and its customers. The component parts of the capital structure and cost rates are as shown in the following table:

	Percentage of Total Capital	Cost Rate	Weighted Cost
Short Term Debt	3.51%	5.32%	0.187%
Long Term Debt	46.37%	4.39%	2.036%
Equity	50.12%	9.80%	4.912%
			7.134%

III. Operating Income and Operation and Maintenance Expenses

A. Operating Income

1. Customer Attrition Adjustment

Staff opposed the customer attrition adjustment for residential customers. Specifically, Mr. Estep argued that the analysis going back to 2018 indicates that there is no significant ongoing decline and that the additional data going back to 2018 shows that the adjustment is not needed. (Direct Testimony of Roger Estep, Estep Direct, at 6-9.)

The Company argues that it still experiences customer losses in the residential classes and small growth in the commercial class. (Company Initial Brief at 000058.) The Company argues that the Commission allowed this adjustment in the February 2022 Order (*see*, February Order at 2022), and should continue to do so in this case (Company Initial Brief at 50). For the same reasons that the Commission approved this adjustment in the February 2022 Order, we will approve this adjustment in this proceeding.

B. Operation and Maintenance Expenses

The overall O&M expense proposed by the Company is $68,672,136. Staff and CAD took issue with several of the Company's adjustments to O&M expenses which are discussed below.

1. Huntington Temporary Intake

The Company included costs associated with an unexpected emergency project in its rate filing. In February of 2023, a train derailed in Palestine, Ohio, resulting in a chemical spill that impacted the Ohio River. (Company Initial Brief at 000055.) The Company incurred costs related to the deployment of a temporary intake at an alternative raw water supply source.

Staff and CAD argued for the removal of the Huntington Temporary Intake expense. CAD argued that the Company failed to support the amount of the deferral or that the event leading to the expense was rare. (CAD Initial Brief at 000018.) Similarly, Staff argued that the Company failed to provide the actual costs associated with the Huntington Temporary Intake at the time of the rate filing, and therefore the expense should be removed. (Staff Initial Brief at 000073-74.)

In the February 2022 Order, the Commission recognized that "[w]hen unplanned, extraordinary events occur and swift action is needed a utility should be able to act with confidence that prudently incurred costs can be deferred to await a future Commission ruling on whether to amortize the deferred costs, disallow recovery for good cause, or incorporate an averaging technique to reflect the fact that such costs are not annual occurrences but do recur from time to time." (February 2022 Order at 31.)

The choice of deferring and amortizing or averaging as well as the amortization period or the averaging period is a matter of judgment by the Commission. In the case of this cost, the Commission agrees with the Company request for deferral and will allow the expenses related to the Huntington Temporary Intake to be recovered amortized at 33.3 percent per year. The Company should credit deferred costs at the 33.3 percent annual rate. The net unrecovered cost will not be included in rate base. Because this amortization will expire after three years and may fully recover the cost of the intake before the next base rate case, it will be allowed as a revenue requirement in the next DSIC rate.

2. Reamer Hill Emergency Assistance

Similarly, the Company seeks recovery of costs associated with the emergency assistance it provided to a small community water system in Kanawha County. According to the Company, "[i]n a letter filed on June 13, 2022 in Case No. 21-0860-W-PC, the Company informed the Commission of the emergency aid it was providing and sought permission to book the associated expenses as a regulatory asset for recovery in a future rate case." (Company Initial Brief at 000054.) In that proceeding, the Commission ordered that "West Virginia-American Water Company shall book the expenses it incurs for its assistance to Reamer Hill Water Association, Inc. as a regulatory asset for recovery in a future rate case." Case No. 21-0860-W-PC, Commission Order dated July 29, 2022 at 5.

Staff and CAD urged the Commission to reject this expense, largely because the amount, $16,459, is not "extraordinary." (*See, e.g.*, Staff Initial Brief at 000073.) For the same reason that we will allow the expenses of the Huntington Temporary Intake, the Commission will allow the Reamer Hill Emergency Assistance Expense. Again, the Company may recover this expense amortized at 33.3 percent per year. The Company should credit deferred costs at the 33.3 percent annual rate. The net unrecovered cost will not be included in rate base. Because this amortization will expire after three years and may fully recover the cost of the intake before the next base rate case, it will be allowed as a revenue requirement in the next DSIC rate.

3. Cave Road Water Expenses

The parties agreed that Staff correctly calculated the billing determinants and revenue calculation for the Cave Road Water acquisition. (Staff Initial Brief at 000074; Company Reply Brief at 000030.) Staff rejected, however, the Company's proposed $92,948 expense adjustment which far exceeds the projected water revenues of $41,496 and included unreasonable estimates, considering the small number of Cave Road customers. (Staff Initial Brief at 000074; Company Reply Brief at 000030.) The Company argued that this fact does not mean that the Company will not incur these costs. (Company Reply Brief at 000030.) Moreover, the Company stated that the revenue calculation is based upon the initial rates of the Commission's rate phase-in for this acquisition. Id.

The Company proposed expense adjustment is problematic because it is late-filed with no detailed supporting documentation. Although it is a small amount relative to the total revenue requirement of the Company, the procedural problem inherent in late-filed changes to the Company case raises this adjustment to a level worthy of discussion in this Order. We have in the past warned utilities that they have the responsibility to prepare a full case and file a full case on all revenue

requirement items. Waiting until a party opposes a portion of a rate filing to input a totally new adjustment is not appropriate. A utility may rebut a party's case, but rebuttal that in effect says "yes, they are correct, but here is an offsetting adjustment that we forgot to make in our case originally" is not really rebuttal so much as it is creating a new case filing. That is not appropriate.

Even if there is a colorable justification for what amounts to a revised case filing, such a filing requires a high burden of proof. Bringing in an adjustment months after a case is filed is unfair to parties and does not afford the Commission sufficient time to test the reasonableness of such a late-filed adjustment.

The late-filed adjustment of $92,948 is comprised of certain incremental operating costs, including fuel and power, chemicals, and waste disposal. The total of these incremental operating expenses associated with serving the Cave Road customers is $24,808. The Company added an additional amount of $15,124 to the Company adjustment for distribution plant maintenance. Then, the Company added an amount of $53,016 for increased Service Company Expenses. Some adjustments for fuel, chemicals and waste disposal might be reasonable, but the Company must provide evidence and supporting documentation for the adjustments.

The Company offered no detail in support of its adjustment or how it was calculated other than to say in the rebuttal testimony, that "it was calculated on a per-customer basis." We accept the testimony as truthful, but it does not tell us what total data the Company used to assign, allocate, or calculate a Cave Road expense on a per-customer basis, whether the underlying costs were truly variable costs that would vary in direct proportion to the number of customers served, how the underlying costs were derived, or various other elements of the adjustment that would be necessary before we could find that it was correct and reasonable.

The $92,948 adjustment was not part of the Company's original filing and was not adequately supported by evidence. We will not include the adjustment in the revenue requirements approved by the Commission.

4. Labor Expense

The Company proposed going-level labor and labor related expense adjustments was based on 317 full-time positions – 314 positions supporting water operations and 3 positions supporting wastewater operations. (Direct Testimony of Lori N. O'Malley, O'Malley Direct at 6.) The Company has three classifications of employees: union/collective bargaining unit hourly employees (union positions or union employees); non-collective bargaining unit hourly employees (non-union positions or non-union employees); and exempt employees. (O'Malley Direct at 5.)

The Company adjusted the HTY labor expense to reflect a full complement of 357 water and sewer employees that are expected through the Addendum Period, which includes 18 positions for water operations to backfill employees that have left the business, 2 new positions, 18 water and sewer positions for the pending JUI, *et al.* acquisition, 3 positions for the PSD acquisition and the removal of one position which moved to American Water Works Service Company, Inc. (AWWSC). (O'Malley Direct at 6.)

The Company annualized and adjusted the HTY labor hours to a normalized level. (O'Malley Direct at 7.) These hours were then multiplied by the actual 2023 wage rates by employee position to determine an annualized going-level of expense through the end of the Addendum Period. Id. The Company then adjusted wage rates based on a three-year average of historical percentage increases, and the expense was annualized through the FTY. Id. In addition, to adjust the level of expense for union employees, the most recent collective bargaining agreements (CBAs) that remain in effect were used to determine going-level and FTY costs. Id. The CBA for the Laborers International Union of North America, Local 1353 expires on April 25, 2024. As such, the Company used an estimated wage rate increase based upon a national benefits agreement which allows a one-year extension of a CBA with a 3 percent wage increase. Id.

The Company calculated capitalization percentages based on the HTY ratio of direct labor dollars charged to capital to total direct labor costs and those that are charged to expenses. The capitalization percentages calculated in that manner are 39.37 percent for the Company's water operations, 7.98 percent for its sewer operations, and a total Company ratio of 39.06 percent. Id.

Staff used specific capitalization factors based on test year capitalization of the labor components (regular hours, overtime hours, shift premiums, meals, and performance plans) to reflect going-level costs. (Kuhn Direct at 18.) Staff calculated a 63.18 percent expense factor specific to the test year base, a 42.84 percent expense factor specific to test year overtime payroll, and a 65.26 percent expense factor specific to Performance Plan expense. Id. Staff's payroll adjustment results in total expensed payroll labor costs of $1,731 0,779. Staffs going-level payroll adjustment is $278,453 less than the Company's adjustment. Id.

CAD reduced labor costs by $256,473 to remove seven vacant positions as of June 30, 2023. This adjustment also reduces payroll tax expense by $20,088 and other employee benefits expense by $99,956 (CAD Initial Brief at 000020, *citing* Smith Direct at 64-66; Ex. LA-I, Schedule C-8; Ex. LA-I, Schedule C-9).

Both CAD and Staff denied labor costs associated with the acquisitions of Armstrong PSD, Kanawha Falls, and Nitro.

CAD also removed Long-Term Performance Plan (LTPP) costs. Company Witness O'Malley, in her rebuttal testimony, argued against CAD's position on this issue. Specifically, Ms. O'Malley testified that the Company's LTPP benefits customers and shareholders by reducing costs and disruptions associated with employee turnover by providing incentives for employees to remain with the Company and improve Company performance. (O'Malley Rebuttal at 000229.)

In the February 2022 Order, the Commission recognized that employee counts are almost always an area of contention. February 2022 Order at 40. In that case, the Commission adopted Staff's method of using test year hours worked applied to the Company's known pay rates. Id. We will adopt the Staff payroll adjustments.

The appropriate capitalization factor causes us concern that the factor can change from year to year and skew the relationship between expected payroll charged to expenses and expected capitalized payroll. The Commission will require the Company to defer any calculated capitalized payroll that is based on a capitalization factor that exceeds the factor included in this case. The Company should amortize deferred amounts as though they were included in the appropriate plant accounts, but the Company may also defer the amortization. The Commission will review the deferred amounts and the reasons for excess capitalized payroll in the next base rate case of the Company. The Company is on notice that the Commission will not allow an automatic transfer of the deferred excess capitalized wages to plant accounts in the next base rate case if the Commission determines that the Company reduced expected payroll costs charged to expenses below amounts allowed for ratemaking in this proceeding. The Commission will make a final determination on the disposition of the deferred amounts not transferred to appropriate plant accounts in the next base rate case.

In addition, as in the February 2022 Order, the Commission will allow the total LTPP in revenue requirements. Id. As it did in the February 2022 Order, the Commission agrees with the Company on this issue, and it is reasonable to maintain that course in this proceeding.

5. Training Expense

Staff calculated training expense based on a three-year average (Staff Initial Brief at 000067-68), while the Company used a five-year average (Company Initial Brief at 000049). The Company argued that the use of the five-year average "is necessary because training expense in 2020 was abnormally much lower because of work from home policies arising from the COVID pandemic." (Company Initial

Brief at 000049.) According to Staff, the difference in approaches produces a variance of $69,751.

The Commission agrees with the Company's approach here, and will approve the training expense based upon the five-year average. The Commission finds here that the Company's approach is reasonable, and that the COVID pandemic was a unique time in our recent history. The Commission may revisit this approach in future rate cases as we get farther in time from the COVID pandemic.

We will adjust the Revenue Requirement Staff Rule 42, which is the starting point for our calculation of revenue requirements, upward by $10,491. We cannot reconcile the Staff Rule 42 adjustments and variances from the Company numbers with the $69,751 variances cited in the Staff Brief. The Company made an adjustment to Training Expense of $11,296. (Company adjustment 30). Staff made an adjustment of $805 (Staff adjustment 32), creating a variance of $10,491.

6. Telephone Expense

Initially, the Company concluded that no telephone expense adjustment was necessary given that the test year amount of $906,979 aligned with the three-year average (2020-2022) amount of $927,539. However, Staff reduced the Company's telephone expense by $172,310 by calculating a three-year average based on what the Company referred to as "incorrect inputs." (Company Initial Brief at 000049.) In its Initial Brief, Staff conceded this issue. (Staff Initial Brief at 000069.) As such, we will not adopt the Staff adjustment.

7. Legal Expenses

In its Brief, Staff noted that the Company used a five-year average of the years 2018 through 2022 to determine going-level legal expense of $777,530. (Staff Initial Brief at 000069.) Staff further stated that it used a three-year average of the years 2020 through 2022 which results in a going-level expense of $593,185 for water operations, which is $184,345 less than that of the Company. (Staff Initial Brief at 000069.)

In the last rate case, Staff used a five-year average to account for the fluctuations in legal expense, an approach the Commission adopted. February 2022 Order at 35.

The Commission will adopt the Company's proposed adjustment, however, the variance between the Staff and Company going level expense is not $184,345. The Company used a five-year average of the years 2018 through 2022 to determine going-level legal expenses of $705,370 (Adjustment 40). Because the

test year legal expense was $777,530, the Company adjusted expenses downward by $72,160 (Adjustment 40). Using a different number of years for an average, Staff adjusted legal expenses downward by $184,345, creating a variance of $112,185. We will adjust the Revenue Requirements from the Staff Rule 42, which is the starting point for our calculation of Revenue Requirements, upward by $112,185 to adopt the Company adjustment.

8. Insurance other than Group Expense (IOTG)

The Company calculated going-level IOTG expense of $3,887,633 based upon the annualization of current insurance policy premiums for the twelve months ending December 31, 2022. The Company then adjusted the IOTG expense by applying specific policy escalation factors for each policy group for 2023 and 2024. (Company Initial Brief at 000052; Company Rule 42 Exhibit at Adjustment 41; O'Malley Direct at 28.) The Company also included a three-year average of actual retrospective premiums incurred in the going-level expense. Id.

CAD, on the other hand, recommended an IOTG expense of $3.617 million. (CAD Initial Brief at 000023.) CAD accepted the Company's proposed increase for 2023, but not 2024. Moreover, CAD used a two-year average of 2021 and 2022 costs. (CAD Initial Brief at 000023.)

In the last rate case, CAD argued that because this expense has fluctuated over the years, not using an average could over or understate this expense. February 2022 Order at 36. In fact, CAD argued for, and the Commission granted, the use of a five-year average in that case. Id. The Commission will not deviate from its holding on this issue in the February 2022 Order. Thus, the Commission will accept the Company's approach to IOTG expense.

9. OPEBs

The Company and Staff both proposed adjustments for OPEB. Staff made three adjustments to the Company's OPEB expense:

	Company	Staff
WV 2023 OPEB Service Cost	$166,444	$166,444
Increment for Approved Alternate Calculation	399,000	324,000
Total PBOP	565,444	490,444
Percentage to Expense	60.63%	60.63%
PBOP Expense	342,829	297,356
WV 2023 OPEB Non-Service Cost	(1,992,660)	(1,826,216)
Union Medical VEBA Amortization	166,288	0
Total OPEB Expense	(1,483,543)	(1,528,860)
Percentage to Water	100.00%	100.00%
Going-Level PBOP Expense	(1,483,543)	(1,528,860)
Less: Per Books Adjusted PBOP Expense	(2,788,774)	(2,788,774)
Adjustment	$1,305,231	$1,259,914

(See Rebuttal Testimony of Lori N. O'Malley, O'Malley Rebuttal, at 6.)

First, Staff used the 2024 amount of $324,000 for the "Increment Approved Alternate Calculation" instead of the incremental amount for 2023 of $399,000. (See Company Initial Brief at 000047; Staff Initial Brief at 62.) Next, Staff erroneously used the total OPEB expense amount for 2023 of ($1,826,216) instead of the non-service cost of ($1,992,660). Id. Third, Staff removed the Union Medical VEBA amortization in contradiction to the requirement to preserve the Union Medical VEBA established in the 2021 Rate Case. (Company Initial Brief at 000047, citing February 2022 Order at 42.)

Initially, Staff accepted the Company's position, that Staff should have used the WV 2023 OPEB Non-Service Cost amount of ($1,992,660) presented by the Company. (Staff Initial Brief at 62-63.) Thus, the Commission will accept the Staff and Company positions on that adjustment.

For the remaining OPEB issues, the Commission agrees with the Company's position here and adopts the Company's proposed OPEB expense.

IV. Revenue Requirements

The Commission will authorize the rate increase herein approved to be calculated by the Company on a percentage basis across-the-board to its water and sewer rate schedules as further described herein. The Commission has fully considered all of the issues presented by the parties in this proceeding. We have discussed many, but not all of the issues presented in this case. We will develop a Revenue Requirement for the Company by starting with the Revenue Requirement proposed by Staff and making adjustments thereto to reflect the Commission decisions on variances from the Company filing. Where we differ with the Staff variances from the Company, we have discussed those variances and adjusted the Staff numbers. In those instances, when we have not adjusted the Staff numbers, we have fully reviewed the differences between the Staff numbers, the Company numbers, and the recommendations of other parties and find that the Staff numbers for those Revenue Requirement components are reasonable and should be adopted by the Commission. Attached to this Order as Appendix B is a schedule showing the total water revenue requirements approved by the Commission.

V. Proposed Tariffs and Tariff Revisions

The Company proposed several new tariffs, including (i) a revenue stabilization mechanism (RSM); (ii) cost trackers, including a production cost tracker and pension and OPEB expense trackers; and (iii) low income tariff.

A. Revenue Stabilization Mechanism

The Company again proposed an RSM "to address its inability to recover Commission-established revenue requirement levels in the rate year and between rate cases." (Company Initial Brief at 000062.) As noted by Staff, the Commission denied a similar request in the February 2022 Order. February 2022 Order at 49-51.

As the Commission noted in the February 2022 Order, the Company's proposed RSM is "a radical change in regulatory policy in West Virginia." February 2022 Order at 51. Moreover, the RSM "implicitly shifts risk from investors to customers that would require an adjustment to the authorized rate of return." Id.

Staff and CAD requested that the Commission deny the request here for the same reasons that the Commission denied the similar request from the Company in the last rate case. The Commission has reviewed the Company's request, and sees no reason to depart from its reasoning in the February 2022 Order. As such, the Commission will deny the requested RSM in this proceeding.

B. Cost Trackers

The Company proposed what it called "fair and reasonable mechanisms to combat the negative effects of volatility in (1) production costs and (2) pension and OPEB expense." (Company Initial Brief at 000066.) This included a production cost tracker that it argued would protect both its customers and the Company against sustained volatility in production expenses, including chemical expense. Id.

In addition, the Company proposed a Pension and OPEB Tracker. The Company argued through Dr. Chard that this tracker would allow the Company to address fluctuations in pension and OPEB expense. (Company Initial Brief at 000069.)

Staff and CAD objected to these cost trackers. Staff witness Mr. Cooke recommended the Commission deny the Company's proposed production cost tracker because the Company's "production costs" do not compare in nature or magnitude to the costs utilities pass through in the current ENEC and PGA rate mechanisms. (Staff Initial Brief at 000020.) Mr. Cooke further noted "both the Company and Staff have included adjustments to the Company's per books amounts related to these costs." (Direct Testimony of Geoffrey M. Cooke, Cooke Direct, at 19.) Staff asserted that this proposed tracker does not encourage the Company "to reign in cost and to efficiently seek to keep the cost of certain items in check." (Staff Initial Brief at 000020.)

Similarly, Staff recommended the Commission deny the Company's proposed pension and OPEB tracker. Mr. Cooke noted that "the Company and Staff have included adjustments to the Company's per books amounts related to these costs." (Cooke Direct at 20.) Moreover, CAD stated that "[t]hese trackers are part of a slew of mechanisms the Company has proposed in this case that are designed to benefit stockholders with little to no benefit to ratepayers." (CAD Initial Brief at 000027.)

The Commission has reviewed the positions of the parties, and agrees with Staff and CAD. The Commission will deny the Company's request to include the production cost tracker and pension and OPEB expense tracker.

C. Low Income Tariff

The Company proposed a low-income tariff to assist low-income customers to replace the rate freeze established by the Commission in the 2022 Order for special reduced rate residential service (SRRRS) customers (the SRRRS Tariff). The SRRRS Tariff imposed a rate freeze for all customers who qualify. (February 2022 Order at 54-55.) Specifically, in the February 2022 Order, the Commission

required that the current tariff rates continue for an identifiable and limited number of certain low-income customers that are currently receiving (i) Social Security Supplemental Security Income, (ii) Temporary Assistance for Needy Families, (iii) Temporary Assistance for Needy Families-Unemployed Parent Program, and (iv) assistance from the Supplemental Nutrition Assistance Program if they are sixty years of age or older. These customers are the same customers included in W. Va. Code § 24-2A-5. In addition to the rate freeze, these customers received a statutory 20 percent discounted rate. W. Va. Code § 24-2A-5(b).

The Company's proposed Low-Income Tariff would be available to the Company's water and sewer residential customers with an annual household income at or below 200 percent of the federal poverty level (FPL)[7] and would discount an eligible customer's bill up to 65 percent. The proposed tariff would offer discounts for both the minimum charge and the usage rate. The table below depicts the different discounts under the Company's proposed Low-Income Tariff:

Range of Percentage of FPL	Discount Percentage
0% - 50%	65%
50% - 100%	50%
100% - 150%	30%
150% - 200%	15%

(Cooke Direct at 8.)

The Company included $229,200 in its O&M expenses related to Dollar Energy administrative expenses to administer the program. (*See, e.g.*, Staff Initial Brief at 000079.) The Company assumes a 25 percent participation rate, and proposed to establish a regulatory accounting deferral to address the difference in actual participation and assumed participation, and the difference in actual cost and the estimated cost related to Dollar Energy administrative expenses it included in its base rates. Id.

Staff and CAD oppose the replacement of the SRRRS with the proposed low-income tariff. Staff and CAD argued, in particular, that the low-income tariff would shift costs from the customers that signed up for the low-income tariff to the Company's other customers, including the 75 percent of the customers that would qualify for the low-income tariff but failed to sign up for the low-income tariff. (Tr. II at 82.)

[7] The FPL for 2024 for the contiguous U.S. states is $15,060.

The Commission will reject the proposed low-income tariff. The Commission will, however, expand the customers that qualify for the SRRRS Tariff from those customers that are currently receiving (i) Social Security Supplemental Security Income, (ii) Temporary Assistance for Needy Families, (iii) Temporary Assistance for Needy Families-Unemployed Parent Program, and (iv) assistance from the Supplemental Nutrition Assistance Program if they are sixty years of age or older, to include water and sewer residential customers with an annual household income at or below 200 percent of the FPL. Only customers that qualify for the statutory reduced rate will receive the 20 percent discounted rate. Customers that do not qualify for the statutory rate reduction, but have an annual household income at or below 200 percent of the FPL will receive the SRRS tariff rate established in the February 2022 Order. (February 2022 Order at 54.) The current SRRS rate will not be changed by this Order. As in the February 2022 Order, the Company should file separate tariff pages designated RS-1 SRRS, RS-1A SRRS, RS-1B SRRS, etc., applicable to only residential customers and reflecting the current residential rates and charges plus the roll-in of the current DSIC surcharge for this group of customers. When designing rates in compliance with this Order, the Company should calculate the SRRS base rates at their current level plus a roll-in of the current DSIC percentage.

The Commission will approve the included $229,200 in the Company's O&M expenses related to Dollar Energy administrative expenses to administer the expanded SRRRS program.

The Commission recognizes that the Company will lose revenue for the additional customers added to the expanded SRRRS tariff. We do not have a basis upon which to estimate the amount at this time. The Company can defer this amount and request it when it files its next DSIC proceeding. At that time the Commission will determine the appropriate recovery of the deferred amount and set a rate increment to recover going-forward lost revenue.

Kanawha County Commission

The KCC participated in this case through the testimony of then KCC President, W. Kent Carper. The KCC opposed the rate increase, citing, among other things, increased utility costs for West Virginia rate-payers. (Tr. I at 23-25.) Mr. Carper testified that no rate increase should be approved. (*See generally*, Direct Testimony of W. Kent Carper, Carper Direct, KCC ex. WKC-D.)

VI. Sewer Rate Case

A. Positions of the Parties

The positions of the parties on the use of a Historical Test Year, Addendum Test Year, or Future Test Year are explained in detail above in the discussion regarding the water rate case. While there are issues addressed in the water rate case section that do not apply to the sewer rate case, to the extent that the positions of the parties extend to the sewer portion of this order, they are discussed above.

B. Discussion and Commission Decision

The Commission discussed multiple issues in the water case Order, some of which apply to this case. The Rebuttal Testimonies and Briefs in the Water Rate Case and this case often combined both water operations issues and issues relating only to sewer to such an extent that extracting only the arguments and issues for this case would be difficult and not particularly productive.

We have developed our approved revenue requirement for this case using the Staff proposed revenue requirements and the Staff Statement of Variances as a starting point because those documents delineate sewer revenue requirement components where there are differences between the position of the Company and the Staff.

1. Summary of Capital Structure and Cost of Capital

As a preliminary matter, we discuss the overall rate of return that will be used in this case. The Commission determination of capital structure and cost of capital applies to both the water rate case and this Case. For a detailed discussion of the cost of capital, refer to the detailed discussion in the water case Order. We apply the same Capital Structure and Cost of Capital for the development of the Revenue Requirements in this case as discussed and approved in the water case Order.

Based on the discussion and determinations described in that Order concerning the capital structure, cost of debt, and ROE, the Commission determines that an overall weighted cost of capital of 7.134 percent is reasonable for establishing rates in this proceeding and fairly balances the interests of the Company and its customers. The parts of the capital structure and cost rates are shown in the following table.

	Percentage of Total Capital	Cost Rate	Weighted Cost
Short Term Debt	3.51%	5.32%	0.187%
Long Term Debt	46.37%	4.39%	2.036%
Equity	50.12%	9.80%	4.912%
			7.134%

2. Rate Base

The Company proposed a rate base of $4,151,314 for its going-level HTY Rate Base. (HTY Rule 42 Exhibit, 000057.) The Company then proposed adjustments that include the JUI, *et al.* acquisitions and the Boone Raleigh Public Service District Acquisition to arrive at an Addendum Rate Base of $11,576,431. Id. The Company also adjusted the rate base for its FTY proposal, increasing the rate base by $21,757,758, bringing its FTY rate base to $33,304,189. Id.

Staff started with a HTY. Staff then calculated adjustments of $8,883,628 to the historical rate base relating to the JUI, *et al.* acquisitions and the Boone Raleigh Public Service District acquisition. Including those adjustments, and other going-level adjustments, Staff proposed a going-level rate base $13,052,091. (Attachment CDW-2, Statement of Variances Between Company Rule 42 and Staff Rule 42, hereafter Statement of Variances, 0000188.) Therefore, the Staff recommended rate base to use for revenue requirements in this case is $3,115,758 higher than the Company Addendum rate base.

The Commission explained above in the water rate case that it was accepting the Addendum adjustments, but is not accepting the fully projected Future Test Year Adjustments. At the Company Addendum Rate Base, the Sewer Revenue Requirements would be calculated on a Rate Base of $11,576,091. We find the Staff recommendations in this case to be reasonable and internally consistent. Therefore, we will not accept the Company proposed $11.6 million Rate Base and will adopt the Staff recommended $13.1 million Rate Base.

The revenue at present rates recommended by the Company to determine how much of an increase is needed is $1,932,695. (Statement of Variances, 0000181.) This value is before the Company proposed FTY adjustments and is comparable to the Staff-proposed going-level revenue of $1,841,012. Id. Once again, the use of the Staff recommended number will produce a higher rate increase than we would arrive at if we adopted the $1,932,695 going-level revenue at present rates proposed by the Company before FTY adjustments. We find the Staff recommendations in this case to be reasonable and internally consistent.

Therefore, we will not accept the Company proposed $1.9 million revenue at present rates number and will adopt the Staff recommended $1.8 million as revenue at present rates.

The O&M Expenses proposed by the Company, before its FTY Adjustments, totaled $1,292,033. (Statement of Variances, 0000182.) Staff proposed O&M Expenses at going-level (excluding any consideration of a FTY) totaled $1,225,671. Id. Therefore, unlike the rate base and revenue at present rates items, the Staff recommended O&M Expenses reduce the revenue requirements, and resulting rate increase, by $66,362.

In the water rate case, we discussed several issues concerning the Staff averaging method of calculating a going-level adjustment and how it differed from the Company proposal and from what the Commission traditionally allowed. These Expense categories that we addressed in the water rate case are legal expenses, bad debt expenses, and training expenses. In the water rate case, we adopted the Company going-level adjustments for those expenses. In this case, the Staff adjustments for those categories of expense were $13,148 lower than the Company adjustments. (Statement of Variances, 0000182.) We will adopt the Company going-level adjustments for legal expenses, bad debt expenses, and training expenses, and increase the Staff recommended O&M Expenses by $13,148.

The Commission has fully considered all of the issues presented by parties in this proceeding. We have discussed many issues in this Order, but some have not been discussed. We will develop a revenue requirement for the Company by starting with the revenue requirement proposed by Staff and adjusting thereto to reflect the Commission decisions on variances from the Company filing. Where we disagree with the Staff variances from the Company, we have discussed those variances and adjusted the Staff numbers. When we have not adjusted the Staff numbers, we have fully reviewed the differences between the Staff numbers, the Company numbers, and the recommendations of other parties and find that the Staff numbers for those revenue requirement components are reasonable and should be adopted by the Commission. Attached to this Order as Appendix C is a schedule showing the total sewer revenue requirements approved by the Commission.

The Commission approves the calculation made by the Company to reallocate a portion of the sewer revenue requirements to the water operations to result in an increase in water rates and sewer rates by approximately equal percentages. The Company should make a similar pro-rata calculation, considering the rate increases approved by the Commission, and design sewer rates to produce the adjusted sewer revenue requirements so that the rates designed following this order reflect a pro-rata decrement from its originally proposed rates in this case.

VII. Protective Treatment

On May 1, 2023, the Company filed a Motion for Protective Order seeking protective treatment for the following information collectively referred to as the "Confidential Information":

a. information derived from American Water Works Company, Inc. ("American Water") tax returns, provided in response to the requirements of Rule 42, Statement A, Schedule 5 Supplemental Information in both the Water and Sewer Rule 42 Exhibits ("Tax Return Data"); and

b. information provided in response to Statement C (pages 14-16) in both the Water and Sewer Rule 42 Exhibits related to the details of the debt and equity positions of American Water, the Company's parent ("Parent Financial Data"); and

c. Exhibit RVM-1 to the Robert V. Mustich direct testimony (the Willis Towers Watson Total Remuneration Study) and portions of Water Workpapers 22-24 & 57; and Wastewater Workpapers 11-13 & 40, containing salary, wage, and other compensation detail ("Compensation Data"); and,

d. information relating to the Company's chemical unit pricing in Water Workpaper 35 and Wastewater Workpaper 22 ("Chemical Procurement Data.").

It is not necessary to resolve the issue of permanent protective treatment for the various documents designated as confidential by the Company at this time. No entity has requested that the Commission provide copies of any information designated as confidential and/or subject to interim protective treatment. The Commission will continue to segregate and maintain the documents described in the Company Motion for Protective Order and First Amendment to Motion for Protective Order under seal until the future time, if any, that the Commission receives a Freedom of Information Act request for them. On receipt of that filing, the Commission will notify WVAWC and provide it with an opportunity to argue whether the documents are entitled to permanent protective treatment, consistent with our handling of similar requests for protective treatment in recent cases.

Other Issues:

Our review in this case has been complicated by some incorrect or incomplete discussions in briefs. We hope that parties will strive to provide better briefs in future cases. References to Rule 42 Exhibit adjustments that are at issue should identify the Adjustment Numbers, not just a citation to testimony. Also, the

Bates numbered pages are not consistently referenced in briefs and testimony. If a witness has numbered exhibit or testimony pages internally, such as TE-D page 1 of 20, of Statement B, page 10 of 12 (which are Bates pages 0076 and 0121 in the filed document), references to that testimony or exhibits, either by Rebuttal witnesses or in briefs, should reference the Bates page numbers (page 0076 or page 0121, or Bates 76 or Bates 121), not the internal numbering (TE-D page 1 or Statement E page 12).

We have also determined that massive filings of testimony and exhibits that include both water and sewer testimony, exhibits, and data burden the record with documents that are too large. We will direct the Company to file future testimony and exhibits relating to a sewer filing as completely separate and stand-alone documents. In addition, the compilation of testimony and exhibits from multiple witnesses into single documents is not ideal. See, for example, the Company filing of direct testimony of twelve witnesses in a 915-page document which occupies 72 Megabytes. That large PDF should have been divided into several documents limited to 20 to 25 Megabytes.

Closing

In closing the Commission strongly encourages the Company to strive to conduct its operations in a safe, reliable, efficient manner, and make the most out of the cost efficiencies discussed in its witnesses' testimony, which should allow the Company to avoid another base rate filing in the near future. The Commission is very concerned about the trend of rising rates and the short periods between base rate cases. Given the DSIC mechanism and the Commission's treatment of the acquisition of troubled systems, the Company should continue to replace aging infrastructure and work with troubled systems[8].

[8] Troubled system costs that were not included in this base rate case were excluded because the acquisition or costs were not finalized and known and measurable. The Commission will continue to consider both rate base and operating costs associated with Company acquisition or operation of troubled systems between base rate cases at the time of its DSIC filings.

FINDINGS OF FACT

WATER RATE CASE

Rate Base

1. This rate filing originally proposed a rate increase of $41.2 million annually for water utility customers and $470,801 annually for sewer customers.

2. The Company's Rule 42 exhibit filed in this proceeding included a standard HTY presentation, the Addendum Period of fourteen months (January 1, 2023 through February 29, 2024), with terminal rate base and a projected capital structure as of the end of that period, and an FTY presentation covering March 1, 2024 through February 24, 2025 (end of the rate year), with a thirteen-month average rate base and capital structure. (Chard Direct at 4.)

3. Staff recommended an annual revenue increase of $12.8 million for the water operations based on the use of the HTY after including certain adjustments for terminal treatment of DSIC-qualified plant rate base. (Kuhn Direct at 5.)

4. CAD proposed a base rate revenue increase of $25.0 million, or an increase of approximately 13.7 percent. After the elimination of $10.1 million of DSIC surcharges, the net impact on customers is an increase of $14.9 million, or 8.2 percent. (Smith Direct, at Schedule A, Bates 120.) CAD used an HTY with certain known and measurable adjustments. (Smith Direct at 9.)

5. Staff made several adjustments to the Company's rate base. Staff removed all adjustments related to the Addendum Period. Staff also adjusted HTY rate base including:

- Operating revenues;
- Employee Labor Costs;
- Incremental Costs of Water Treatment;
- Acquisition from Jefferson Utilities (Salaries and Wages, Pensions and Benefits, Purchased Water, Fuel and Power, Chemicals, Waste Disposal, and Materials and Supplies Maintenance);
- Group Insurance;
- 401k Expense;
- Defined Contribution Plan Expense;
- Training Expense;
- Purchased Power from anticipated changes in water consumption;
- Chemicals Expense;

- Chemicals Expense from anticipated changes in water consumption
- Legal expense;
- Amortization – Reamer Hill Emergency Assistance;
- Amortization – Huntington Temporary Intake;
- Bad Debt Expense;
- Relocation Expense;
- Inventory Physical Write-off Scrap Expense;
- Meals Deductible;
- Dollar Energy Administrative Expense;
- State Business and Occupation (B&O) Taxes;
- Federal and State Income Taxes;
- Federal Income Tax Parent Company Loss Allocation;
- Capitalized OPEB Expense;
- Materials and Supplies;
- Retirement Work in Progress;
- Accumulated Deferred Income Tax Credit;
- Other Deferred Debits;
- Working Cash Component;
- Contributions in Aid of Construction; and,
- Accumulated Deferred Income Taxes.

(Kuhn Direct at 6-8.)

6. After the evidentiary hearing, the following ratemaking items, inter alia, are at issue: whether to reset the DSIC rate to zero; the treatment of the investment and proposed investment in the JUI, *et al*. water and wastewater systems; the treatment of projected investments in certain troubled water and wastewater systems (Armstrong PSD, Kanawha Falls, Nitro, and Boone-Raleigh PSD); and the amount of CWC.

Capital Structure and Cost of Capital

7. Staff recommended a capital structure based on a HTY consisting of thirteen months ending December 31, 2022.

8. CAD's recommendation on capital structure recognized part of the Addendum Period investment.

9. The table in Figure 8 in the Chard Rebuttal, included in §11.B., *supra*, represents the differing approaches taken by the parties.

Return on Equity

10. Company Witness Bulkley analyzes WVAWC as part of the water utility industry estimated capital market information in her DCF, CAPM, ECAPM and Expected Earnings Analysis compared to groups of comparable risk, publicly-traded water, natural gas and electric utility companies.

11. Company Witness Bulkley presented ROE outputs ranging from 10.00 percent to 11.00 percent and ultimately recommended the midpoint or 10.5 percent. (Bulkley Direct, at 62.)

12. Staff Witness Estep recommended an ROE of 9.06 percent in 2021 and now is recommending an ROE of 9.30 percent-a recognition that the Company's cost of equity as he analyses empirical data has increased since his testimony in November 2021. (Estep Direct, at 27.)

Operating Income

Customer Attrition Adjustment

13. The Company proposed a customer attrition adjustment. The Company argued that it still experiences customer losses in the residential classes and small growth in the commercial class. (Company Initial Brief at 000058.)

14. Staff opposed the customer attrition adjustment for residential customers. (Direct Testimony of Roger Estep, Estep Direct, at 6-9.)

Operation and Maintenance Expenses

15. The overall O&M expense proposed by the Company is $68,672,136.

16. The Company included costs associated with the temporary intake it constructed in Huntington, West Virginia, related to the February 2023, train derailment in Palestine, Ohio, which resulted in a chemical spill that impacted the Ohio River. (Company Initial Brief at 000055.)

17. Staff and CAD recommended removal of the Huntington Temporary Intake expense.

18. The Company requested recovery of costs associated with the emergency assistance it provided to a small community water system in Kanawha County. (Company Initial Brief at 000054.)

19. Staff and CAD urge the Commission to reject the small Kanawha County water system emergency assistance expense, on the grounds that the amount, $16,459, is not "extraordinary." (*See, e.g.*, Staff Initial Brief at 000073.)

20. The Company proposed an expense adjustment related to the Cave Road Water acquisition of $92,948.

21. Staff disagreed with the Company's proposed Cave Road Water Expense adjustment because the adjustment exceeds the projected revenues of $41,496, and includes unreasonable estimates, considering the small number of Cave Road customers.

22. The Company's proposed going-level labor and labor related expense adjustments based on 317 full-time positions – 314 positions supporting water operations and 3 positions supporting wastewater operations. (O'Malley Direct at 6.)

23. The Company adjusted the HTY labor expense to reflect a full complement of 357 water and wastewater employees that are expected through the Addendum Period, which includes 18 positions for water operations to backfill employees that have left the business, 2 new positions, 18 water and wastewater positions for the pending Jefferson Utilities, Inc. acquisition, 3 positions for the Boone-Raleigh PSD acquisition and the removal of one position which moved to AWWSC. (O'Malley Direct at 6.)

24. The Company annualized and adjusted the HTY labor hours to a normalized level. (O'Malley Direct at 7.)

25. The Company then multiplied its proposed labor hours by the actual 2023 wage rates by employee position to determine an annualized going-level of expense through the end of the Addendum Period. Id.

26. The Company adjusted wage rates based on a three-year average of historical percentage increases, and the expense was annualized through the FTY. Id.

27. The Company has calculated capitalization percentages based on the HTY ratio of direct labor dollars charged to capital to total direct labor costs and those that are charged to expenses. The capitalization percentages calculated in that manner are 39.37 percent for the Company's water operations, 7.98 percent for its wastewater operations, and a total Company ratio of 39.06 percent. Id.

28. Staff used specific capitalization factors based on test year capitalization of the labor components (regular hours, overtime hours, shift premiums, meals, and performance plans) to reflect going-level costs. (Kuhn Direct at 18.) Staff calculated a 63.18 percent expense factor specific to the test year base, a 42.84 percent expense factor specific to test year overtime payroll, and a 65.26 percent expense factor specific to Performance Plan expense. Id. Staff's payroll adjustment results in total expensed payroll labor costs of $17,310,779. Staffs going-level payroll adjustment is $278,453 less than the Company's adjustment. Id.

29. CAD reduced labor costs by $256,473 to remove seven vacant positions as of June 30, 2023. This adjustment also reduces payroll tax expense by $20,088 and other employee benefits expense by $99,956 (CAD Initial Brief at 000020, *citing* Smith Direct at 64-66; Ex. LA-I, Schedule C-8; Ex. LA-I, Schedule C-9). CAD also removed LTPP costs.

30. Staff and CAD objected to labor costs associated with the acquisitions of Armstrong PSD, Kanawha Falls, and Nitro.

31. Staff calculated training expense based on a three-year average (Staff Initial Brief at 000067-68), while the Company used a five-year average (Company Initial Brief at 000049).

32. Staff calculated training expense based on a three-year average (Staff Initial Brief at 000067-68), while the Company used a five-year average (Company Initial Brief at 000049). The difference in approaches produces a variance of $69,751.

33. Staff calculated legal expenses using a three-year average of the years 2020 through 2022 which results in a going-level expense of $593,185 for water operations. (Staff Initial Brief at 000069.)

34. The Company used a five-year average of the years 2018 through 2022 to determine going-level legal expenses of $705,370 (Adjustment 40).

35. The Company test year legal expense of $777,530, was adjusted expenses downward by $72,160 (Adjustment 40). Using a different number of years for an average, Staff adjusted legal expenses downward by $184,345, creating a variance of $112,185.

36. The Company calculated going-level IOTG expense of $3,887,633 based upon the annualization of current insurance policy premiums for the twelve months ending December 31, 2022, which was then adjusted by the application of

specific policy escalation factors for each policy group for 2023 and 2024. (Company Initial Brief at 000052; Company Rule 42 Exhibit at Adjustment 41; O'Malley Direct at 28.) The Company also included a three-year average of actual retrospective premiums incurred in the going-level expense. Id.

37. CAD recommended an IOTG expense of $3.617 million. CAD accepted the Company's proposed increase for 2023, but not 2024. CAD used a two-year average of 2021 and 2022 costs. (CAD Initial Brief at 000023.)

38. Staff made three adjustments to the Company's OPEB expense. First, Staff used the 2024 amount of $324,000 for the "Increment Approved Alternate Calculation" instead of the incremental amount for 2023 of $399,000. (See Company Initial Brief at 000047; Staff Initial Brief at 62.) Next, Staff used the total OPEB expense amount for 2023 of ($1,826,216) in error instead of the non-service cost of ($1,992,660). Id. Third, Staff removed the Union Medical VEBA amortization in contradiction to the requirement to preserve the Union Medical VEBA established in the 2021 Rate Case. (Company Initial Brief at 000047, *citing* February 2022 Order at 42.)

39. Staff accepted the Company's position that Staff should have used the WV 2023 OPEB Non-Service Cost amount of ($1,992,660) presented by the Company. (Staff Initial Brief at 62-63.)

Tariff Revisions

40. The Company proposed several new tariffs, including (i) a revenue stabilization mechanism (RSM); (ii) cost trackers, including a production cost tracker and pension and OPEB expense trackers; and (iii) low income tariff.

41. Staff and CAD objected to each of the above-referenced tariff revisions.

SEWER RATE CASE

42. The Company filed revised tariff sheets reflecting sewer rates and charges of $470,801 annually, or approximately a 24.9 percent increase, for furnishing sewer utility service to 1,100 customers in Fayette County. (Tariff Form No. 8.) The Company proposed to implement the sewer increase across-the-board to all customer classes. (Company Initial Brief at 000059.) The proposed increase included an allocation of the sewer revenue requirement to the water revenue requirement to support the same percentage increase in rates for both water and sewer customers. This increase would be $3,296,044 without the Company's proposed sewer to water allocation. (Company Initial Brief at 000060.)

43. Like the water filing, the sewer filing consists of an HTY presentation, addendum, and FTY presentations. Many of the adjustments in the water filing apply equally to the sewer filing, as do the Company's positions on capital structure, rate base, revenues, operating expense adjustments, and tax issues. (Company Initial Brief at 000059.) The testimony of Company witnesses on capital structure, rate base, revenues, Service Company expenses, income taxes and taxes other than income taxes applies equally in the sewer case. Id.

44. Staff objects to the sewer to water allocation. Staff recommended the Commission approve a sewer revenue increase of $1,233,523, or 67 percent. (Watson Direct at 4).

45. Staff's variances include: (1) Relocation Expenses; (2) Legal Expenses: (3) Rate Case Expenses; (4) Bad Debt Expenses; (5) Training Expenses; (6) Administrative Cost of Low-Income Tariffs; (7) Federal and State Income Taxes; and, (8) Federal Income Tax Parent Company Loss Allocation. (Staff Initial Brief at 000087.) Staff's position on these issues are the same as Staff's positions with regard to the Company's water service rate issues. Id.

Protective Treatment

46. WVAWC requested permanent protective treatment of the information filed under seal in this proceeding including material produced in its May 1, 2023 filing and discovery. (*See generally*, Motion for Protective Order.)

CONCLUSIONS OF LAW

Rate Base

1. [I]t is generally recognized that the doctrine of stare decisis does not normally apply to administrative decisions. As Professor Davis states in his respected treatise:

> When the purpose is one of regulatory action, as distinguished from merely applying law or policy to past facts, an agency must at all times be free to take such steps as may be proper in the circumstances, irrespective of the past decisions.... Even when conditions remain the same, the administrative understanding of those conditions may change, and the agency must be free to act ....

2 K. Davis, Administrative Law § 18.09 (1958) (footnotes omitted.) *Accord*, State v. Alabama Public Service Commission, 293 Ala. 553, 307 So. 2d 521 (1975); Rumney v. Public Utilities Commissioner, 172 Colo. 314, 472 P.2d 149 (1970). The Commission's decisions in previous cases therefore do not preclude it from reaching an opposite result in this case. C&P Telephone Company v. Public Service Commission of West Virginia,300 S.E.2d 607, 613 (1982).

2. Each rate case decision is based on the facts and circumstances associated with that rate case. As the West Virginia Supreme Court agreed in the 1982 C&P case, "an agency must at all times be free to take such steps as may be proper in the circumstances, irrespective of the past decisions.... Even when conditions remain the same, the administrative understanding of those conditions may change, and the agency must be free to act." C & P, supra at 613.

3. The Commission should approve the use of the Company's proposed Addendum Period in this case, Thus, the Commission should accept the Company's adjustments to provide terminal treatment to certain non-plant rate base items including materials and supplies, retirement work in progress, accumulated deferred income taxes, accumulated deferred investment tax credits, and other deferred debits.

4. The Commission should approve the roll-in of all current DSIC-related investment into rate base as proposed by the Company so that the current DSIC surcharge is reset to zero.

5. The Company has failed to comply with the Commission's directives in the Commission's May 26, 2023 order in Case No. 22-0796-WS-PC with regard to recording the JUI *et al.* acquisitions. Staff testimony and exhibits recommend a rate base related to the JUI, *et al.* acquisitions to be included in this case is $26,884,596. Because the Company has not provided evidence of the reasonableness and prudence of costs beyond the $27 million purchase price, it is reasonable for the Commission to adopt Staff's proposed adjustments related to the JUI, *et al.* acquisition in our final Revenue Requirement calculations in this proceeding and the sewer rate proceeding.

6. The Commission should not include the acquisition of Armstrong PSD, Kanawha Falls, or Nitro in rate base because the related expenses are not reasonably known.

7. Deferred tax balances related to tax timing differences that were not normalized for ratemaking purposes should not be included in the determination of rate base for rate making purposes. The Commission should adopt the Staff

adjustment to rate base for the deferred income tax items identified in Staff Adj. No. 83.

8. The Commission should adopt Staff's adjustment No. 87 because it complies with the Commission's decision in the February 2022 Order. (*See* February 2022 Order at 15) and there is no reason to depart from this treatment in the present proceeding.

9. Because the evidence does not support using different revenue lag days or different expense service periods the Commission will use revenue lag days as reflected in the Company's analysis of its actual lag in the calculation of CWC.

Capital Structure and Cost of Capital

10. A utility capital structure should normally reflect the amount of capital acquired through borrowing (debt), the issuance of stock (common and preferred), retained earnings and other paid in capital contributions from stockholders.

11. For purposes of calculating the utility's cost of capital, the debt components are typically divided into short-term and long-term debt. Equity capital is divided into common equity and preferred equity. The measurement of the ratio of individual capital components to the total capital establishes the relationship among the various capital sources for use in determining a composite WACC. West Virginia-American Water Co., Case No. 10-0920-W-42T, Comm'n Order at 10 (April 18, 2011).

12. The Commission uses the cost rates for long-term debt, short-term debt, preferred equity, and common equity, multiplied by its percentage of the total capital structure, to derive a weighted cost of capital of each component. The weighted cost for each capital component is then combined to reach a composite WACC that the regulator uses as a guide to assist in determining what a utility can earn on the cost of its investment. West Virginia-American Water Co., Case Nos. 15-0675-S-42T, 15-0676-W-42T, Comm'n Order at 62 (February 24, 2016).

13. The capital structure utilized by the Commission to establish rates in any case should closely approximate the ratios of the capital structure components that will be in place during the first year the rates will be in effect in order to finance the rate base that the Commission authorizes in this case. February 2022 Order at Conclusion of Law 15.

14. The Commission should adopt the capital structure recommended by the CAD because it is consistent with an Addendum Period rate base and also represents a reasonable capital structure comprised of approximately 50 percent

debt and 50 percent equity. A capital structure of 3.51 percent short-term debt, 46.37 percent long-term debt, 0.00 preferred equity, and 50.12 percent common equity should be approved, including the debt cost rates recommended by CAD. This capital structure is just and reasonable for determining the appropriate cost of capital in this case and provides a proper matching of the capital component ratios that will fund the rate base authorized in this case.

Return on Equity

15. Utility rates should allow a public utility the opportunity to earn a level of revenue sufficient to attract capital in the competitive capital market balanced with the interests of the consuming public in receiving fair and reasonable rates. Bluefield Water Works v. Public Service Commission, 320 U.S. 679 (1923); Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591, 64 S. Ct. 281 (1944); Permian Basin Area Rate Cases, 390 U.S. 747, 88 S. Ct. 1344 (1968); Monongahela Power Company v. Public Service Commission, 276 S.E.2d 179 (W.Va. 1981).

16. An ROE is based on empirical studies of returns in the capital markets while balancing the interests of ratepayers in receiving fair and reasonable rates. Black Diamond Power Company, Case No. 12-0064-E-42T, Order at 5 (August 10, 2012); WVAWC 2010 Rate Case Order at 15.

17. Upon review of the record presented in this case, and based on Commission judgment and expertise in this area, an ROE of 9.80 percent is just and reasonable and falls within the range of reasonable ROEs presented by the parties. The approved ROE fairly balances the interests of the Company and its customers, and meets the standards set forth by the Supreme Court of Appeals of West Virginia. (*See generally,* C & P Telephone Company, 300 S.E.2d 607.)

18. Based on the discussion and determinations described above concerning the capital structure, cost of debt, preferred stock and ROE, an overall weighted cost of capital of 7.134 percent which fairly balances the interests of the Company and its customers.

Operation and Maintenance Expenses

19. The Company's customer attrition adjustment using the adjusted customer counts that exclude the growth attributable to the new systems acquired by the Company is reasonable because customer additions from acquisitions are accounted for in the adjustments

20. Net unrecovered costs of the Huntington Temporary Intake and the emergency assistance for Reamer Hill should not be included in rate base.

21. It is reasonable to allow recovery through deferred and amortization of the expenses related to the Huntington Temporary Intake at 33.3 percent annual rate. Because this amortization will expire after three years and the Company may fully recover the cost of the intake before the next base rate case, the Commission should allow it as a revenue requirement in the next DSIC rate.

22. The Commission should allow recovery through deferral and amortization of the Reamer Hill Emergency Assistance Expense at 33.3 percent per year. Because this amortization will expire after three years and the Company may fully recover the cost of the intake before the next base rate case, it will be allowed as a revenue requirement in the next DSIC rate.

23. The Company's proposed Cave Road Water acquisition expense adjustment of $92,948 should not be allowed because the adjustment was not part of the Company's original filing and was not adequately supported by evidence.

24. Staff's proposed payroll adjustments are reasonable and will be accepted.

25. The Company should defer any calculated capitalized payroll that is based on a capitalization factor that exceeds the factor included in this case. Deferred amounts should be amortized as though they were included in the appropriate plant accounts, but the amortization may also be deferred.

26. The Commission should accept the LTPP expense proposed by the Company.

27. Staff agreed with the Company's adjustment to training expense, and the Company's adjustment should be accepted.

28. The Company's five-year average adjustment to account for fluctuations in legal expense is reasonable and should be accepted.

29. The Company's approach to IOTG expense is reasonable and should be accepted.

30. Staff and the Company's positions on the OPEB adjustment should be accepted. For the remaining OPEB issues, the Company's position is reasonable, and the Commission will adopt the Company's proposed OPEB expense.

Proposed Tariffs and Tariff Revisions

31. The Company's proposed RSM rider is unreasonable and should be denied because it implicitly shifts risk from investors to customers which would require an adjustment to the authorized rate of return. (*See* February 2022 Order at 52.)

32. The Company's proposed production cost tracker is not reasonable because the Commission generally does not use cost tracking and deferred accounting for specific elements of utility costs, and rate adjustments are included in the Company's per books amounts related to these costs.

33. The Company's proposed pension and OPEB expense tracker is not reasonable and will be denied because the Commission generally does not use cost tracking and deferred accounting for specific elements of utility costs, and rate adjustments are included in the Company's per books amounts related to these costs.

34. The Company's proposed low-income tariff is not reasonable and will be denied because the low-income tariff would shift costs from the customers that signed up for the low-income tariff to the Company's other customers, including 75 percent of the customers that would qualify for the low-income tariff but failed to sign up for the low-income tariff, and because the Commission finds it reasonable to expand the existing SRRS tariff.

35. One policy of good rate design is that: "rates should not be so high in any category or class that it would force the blessings of electrical service to be economically out of reach of the poor or to lose the benefits of high usage which redound to the benefit of all, including the disadvantaged." Appalachian Power Company, Case No. 7083, Order dated Jan. 31, 1975 at 145.

36. It is reasonable and in the public interest to exercise the Commission's ratemaking authority to expand the customers that qualify for the SRRRS Tariff from those customers that are currently receiving (i) Social Security Supplemental Security Income, (ii) Temporary Assistance for Needy Families, (iii) Temporary Assistance for Needy Families-Unemployed Parent Program, and (iv) assistance from the Supplemental Nutrition Assistance Program if they are sixty years of age or older, to include water and wastewater residential customers with an annual household income at or below 200 percent of the FPL. Only customers that qualify for the statutory reduced rate should receive the 20 percent discounted rate. Customers that do not qualify for the statutory reduction in rate, but have an annual

household income at or below 200 percent of the FPL should have their current tariff rates continue.

37. The rate increase approved in this Order applies on a percentage basis across-the-board to all water and sewer rate schedules except for those that qualify for the expanded SRRS tariff.

Sewer Case

38. Use of the Addendum Period is reasonable for this case, consistent with the determination of rate base for the water case.

39. For the reasons explained in the water case, the Commission should accept the adjustments in the sewer case that were accepted in the water case.

40. A rate base of $13,052,091 is just and reasonable for the determination of the cost of service in this proceeding.

41. The Commission should use the capital structure and resulting overall cost of capital of 7.134 percent discussed above as just and reasonable for determining the cost of service in this proceeding.

42. Upon consideration of the Company's method of allocating expenses for water and sewer operations, it is reasonable to determine the rate increase applicable to sewer operations using the same percentage increase in rates that is being approved for water operations. To the extent that the resulting revenues under-recover or over-recover the revenue requirements determined in the separate sewer revenue requirements, such difference should be pro-rated to all water and sewer customers.

ORDER

IT IS THEREFORE ORDERED that the Commission authorizes an overall increase in water base rates of $24,133,275, plus the amount determined to be an appropriate allocation of sewer revenue requirements as discussed herein, and a reduction in the DSIC Rate to zero, as set out in this Order and in the revenue requirements calculation, attached and incorporated herein as Appendix B, which Appendix B is hereby established as the cost of service and revenue requirement approved in these proceedings for the Company for providing water utility service to its customers in West Virginia.

IT IS FURTHER ORDERED that the Commission authorizes an overall increase in sewer revenue requirements of $1,192,685, minus the amount determined to be an appropriate allocation of sewer revenue requirements to water operations as discussed herein and as set out in the requirement calculation, attached and incorporated herein as Appendix C, which Appendix C is hereby established as the cost of service and revenue requirement approved in these proceedings for the Company for providing sewer utility service to its customers in West Virginia. Any difference between the approved increase and the increase produced at the overall net percentage increase will be spread prorata to all customers receiving an increase in water or sewer rates.

IT IS FURTHER ORDERED that no later than ten days from the date of this Order, the West Virginia-American Water Company must prepare and file with the Commission revised tariff schedules that reflect the increase to base rates by tariff classification as shown on Appendices B (water) and C (sewer) and consistent with the Commission decisions contained in this Order. The revised rates should reflect a single percentage across- the board increase to recover both the water and sewer increases approved herein. The percentage increase shall be calculated excluding miscellaneous operating revenue that is not directly related to usage rate revenues and the revenue from customers that qualified for the SRRRS rates in the test year. To the extent that the single percentage increase applied to sewer rates results in a revenue difference in sewer total proforma operating revenue from the revenue requirement authorized herein such difference will be spread prorata to all water and sewer tariff rates excluding the SRRS tariffs as discussed herein on a revenue basis.

IT IS FURTHER ORDERED that West Virginia-American Water Company file separate tariff pages designated RS-1 SRRS, RS-1A SRRS. RS-1B SRRS, etc., applicable to only residential customers and reflecting the current residential rates and charges plus the roll-in of the current DSIC surcharge for this group of customers that is the same group identified in W.Va. Code §24-2A-5.

IT IS FURTHER ORDERED that in future rate cases, the West Virginia-American Water Company will file testimony and exhibits relating to a sewer filing as completely separate and stand-alone documents and all testimony and exhibits in accord with the discussion herein under Other Issues.

IT IS FURTHER ORDERED that the West Virginia-American Water Company requests for permanent protective treatment of the material filed under seal in this proceeding are deferred pending a request for that information.

IT IS FURTHER ORDERED that on entry of this Order these cases shall be removed from the Commission's docket of open cases.

IT IS FURTHER ORDERED that the Executive Secretary of the Commission serve a copy of this Order by electronic service on all parties of record who have filed an e-service agreement, and by United States First Class Mail on all parties of record who have not filed an e-service agreement, and on Commission Staff by hand delivery.

A True Copy, Teste,

Karen Buckley

Karen Buckley, Executive Secretary

JAF/lcw
230383ci

PROCEDURAL BACKGROUND

On May 1, 2023, West Virginia-American Water Company (WVAWC) filed a base rate case filing. The filing is seeking $41,175,752 in additional annual net water revenues over present rate revenues, or an overall increase in revenues of approximately 22.5 percent. The $41,175,752 consists of an increase in base rates of $51,308,960 in annual revenue and a decrease in the Company's Distribution System Investment Charge (DSIC) of $10,133,208 in annual revenue. The Company's filing also seeks $470,801 annually in additional wastewater revenues over present rate revenues, or an overall increase in revenues of approximately 24.9 percent. The annual wastewater revenue increase would be $3,280,265, or an overall annual increase in revenues of approximately 173.6 percent

On May 5, 2023, the Consumer Advocate Division (CAD) filed a Petition to intervene.

On May 9, 2023, the Kanawha County Commission filed a Petition to intervene.

On May 11, 2023, Direct Testimony of Robert R. Burton, Christopher J. Carew, Michael P. Raymo, Christina E. Chard, Lori N. O'Malley, Charles B. Rea, Thomas G. O'Drain, Wesley E. Selinger, Melissa Ciullo, Ann E. Bulkley, Robert V. Mustich, and Patrick L. Baryenbruch was filed by Counsel for WVAWC.

On May 15, 2023, Direct Testimony of Melissa Ciullo, Ann E. Bulkley, Robert V. Mustich, and Patrick L. Baryenbruch was filed by Counsel for WVAWC.

Also, on May 15, 2023, the Direct Testimony of Charles B. Rea, Thomas G. O'Drain and Wesley E. Selinger was filed by Counsel for WVAWC was filed.

On May 18, 2023, Comments were filed by City of Princeton.

On May 19, 2023, Comments were filed by the Cabell County Commission.

On May 22, 2023, Comments were filed by the Fayette County Commission.

Also, on May 22, 2023, Comments were filed by the Mercer County Commission.

On May 24, 2023, a Motion for suspension of proposed rates for full statutory period was filed by Staff.

On May 26, 2023, the Commission issued a Procedural Order setting a hearing for December 5, 2023, continuing, if necessary, through December 7, 2023. The Order further stated that: (i) the West Virginia-American Water Company is made a respondent to these proceedings and pending investigation and decision thereon the revised tariff sheets filed by WVAWC are suspended and use of the rates and charges stated therein deferred until the end of the day February 24, 2024, unless otherwise ordered by the Commission, to enable the Commission to examine and investigate the supporting data and provide time for Commission Staff to make reports concerning the matters involved therein; (ii) Case Nos. 23-0383-W-42T and 23-0384-S-42T are consolidated; (iii) the WVAWC motion for limited waiver of Tariff Rule 23 is granted and WVAWC must complete the mailing of notice of these rate cases in the form attached as Attachment A to individual customers within sixty days of the date of this Order; and (iv) the intervention deadline in this case is 4:00 p.m., Monday August 14, 2023; etc.

On May 26, 2023, Comments were filed by Jack Browning.

Also on May 26, 2023, an Initial Staff Memo was filed by Leslie Anderson.

On June 1, 2023, a Procedural schedule for the Commission's consideration was filed by Counsel for WVAWC.

On June 6, 2023, Comments were filed by Steve.

On June 9, 2023, the Commission issued a Procedural Order setting a hearing for December 5, 2023, continuing if necessary through December 7, 2023; Direct Testimony due by October 24, 2023, Including Rebuttal Testimony to WVAWC Testimony; Rebuttal Testimony to Staff and Interveners Direct Testimony due by November 10, 2023; Intervention Deadline August 14, 2023; Last Day to Serve Discovery Requests November 14, 2023; Last Day to Serve Discovery Responses November 28, 2023; Agreed Order of Witnesses and Filing of Stipulation November 30, 2023; etc.

On July 6, 2023, First data request of the West Virginia American Water Company was filed by Counsel for CAD.

On July 10, 2023, Affidavits of publication evidencing publication of the Public Notice of Change in Rates was published in The Hinton News, The Herald-Dispatch, Wayne County News, The Logan Banner, The Lincoln Journal, Coal Valley News, Roane County Reporter, The Jackson Star, The River Cities Register, The Exponent Telegram, The Weston Democrat, The Hurricane Breeze, Clay

County Free Press, The Fayette Tribune, The Register-Herald, Bluefield Daily Telegraph, Braxton Citizens' News, The Charleston Gazette-Mail, and Webster Echo, filed by Counsel for WVAWC.

On July 17, 2023, a Second data request of the WVAWC was filed by Counsel for CAD.

On July 20, 2023, a Response to CAD's first data request was filed by Counsel for WVAWC.

On July 26, 2023, another Response to CAD's first data request for information was filed by Counsel for WVAWC.

On August 7, 2023, a Response to CAD's second request for information was filed by Counsel for WVAWC.

On September 1, 2023, a Third data request of the WVAWC was filed by Counsel for CAD.

On September 15, 2023, a Fourth data request of the WVAWC, filed by Counsel for CAD.

On September 21, 2023, a Response to CAD's third request for information; pages 1-700 was filed by Counsel for WVAWC.

On September 28, 2023, the Commission issued a Procedural Order setting a Virtual Public Comment Hearing for November 2, 2023; that (i) the Commission will issue a press release detailing the process to register to speak at the virtual hearing; (ii) WVAWC shall publish the notice of the public comment hearing, attached hereto as Attachment A, one time not more than twenty days and not less than ten days prior to November 2, 2023, in qualified daily newspapers published in the counties in which the West Virginia-American Water Company serves its customers, making due return to the Commission of proper certification of publication as soon as that certification is received; etc.

On October 5, 2023, a Response to CAD's fourth request for information was filed by Counsel for WVAWC.

On October 6, 2023, the Commission issued a Procedural Order stating that the Commission would hold a virtual public comment hearing in these cases on Thursday, November 2, 2023, beginning at 5:30 p.m. The Commission will issue a press release detailing the process to register to speak at the virtual hearing; the

WVAWC shall publish the corrected notice of the public comment hearing, attached hereto as Attachment A, one time not more than twenty days and not less than ten days prior to November 2, 2023, in qualified daily newspapers published in the counties in which West Virginia-American Water Company serves its customers, making due return to the Commission of proper certification of publication as soon as that certification is received; the September 28, 2023 Order remains the same in all other respects.

On October 10, 2023, a Fifth data request of the WVAWC, filed by Counsel for CAD.

On October 17, 2023, a Motion to modify procedural schedule was filed by Counsel for WVAWC.

On October 20, 2023, a Response to CAD's fifth data request, pages 300-623 was filed by Counsel for WVAWC.

Also, on October 20, 2023, a Response to CAD's fifth data request, pages 1-299 was filed by Counsel for WVAWC.

Lastly, on October 20, 2023, the Commission issued a Procedural Order granting the motion to amend the procedural schedule to move the due date for Rebuttal Testimony from November 10, 2023 to being due November 9, 2023; etc.

On October 23, 2023, a Public Notice of change in rates with proposed effective dates was filed by Counsel for WVAWC.

On October 24, 2023, Confidential Direct Testimony of Ralph Smith was filed by Counsel for CAD.

On October 24, 2023, Direct Testimony of Ralph Smith and David Dismukes was filed by Counsel for CAD.

On October 24, 2023, Confidential Direct Testimony of Susan E. Kuhn was filed by Staff.

On October 24, 2023, Direct Testimony of W. Kent Carper was filed by Counsel for Kanawha County Commission.

On October 24, 2023, Direct Testimony of Susan E. Kuhn, Geoffery M. Cooke, Roger L. Estep, and Christine D. Watson was filed by Staff.

On October 27, 2023, the Commission issued a Procedural Order that WVAWC's proposed Public Notice is modified as reflected herein on Attachment B and approved for use. WVAWC should begin individual mailings and publish the public notice in Berkeley, Jefferson and Morgan Counties, as soon as possible; that West Virginia-American Water Company shall publish the notice of the public comment hearing, attached hereto as Attachment A, one time, as soon as possible, in qualified daily newspapers published in the counties of Berkeley, Morgan, and Jefferson, making due return to the Commission of proper certification of publication as soon as that certification is received; etc.

On October 31, 2023, pursuant to the October 27, 2023 Commission Procedural Order, a status update was filed by Counsel for WVAWC.

On November 9, 2023, Rebuttal Testimony of Robert R. Burton, Christopher J. Carew, Michael P. Raymo, Christina E. Chard, Lori N. O'Malley, Charles B. Rea, Melissa Ciullo, Ann E. Bulkley, and Robert V. Mustich was filed by Counsel for WVAWC.

Also, on November 9, 2023, the Transcript from hearing held before the Commission on Thursday, November 2, 2023, in Charleston, West Virginia, was filed.

On November 17, 2023, a Sixth data request of the WVAWC was filed by Counsel for CAD.

On November 22, 2023, the Commission issued a Procedural Order requiring WVAWC to publish the notice of the evidentiary hearing, attached hereto as Attachment A, one time, as soon as possible, in qualified daily newspapers published in each of the counties in which it provides service, making due return to the Commission of proper certification of publication as soon as that certification is received; etc.

Also, on November 22, 2023, a letter of protest was filed by the City of Charleston's City Council.

On November 27, 2023, an Objection to CAD's sixth request for information; CAD-A-7(d), CAD-A-8, and CAD-A-29(c-d) was filed by Counsel for WVAWC.

Also, on November 27, 2023, the Executive Secretary's Letter evidencing receipt of Protest letter filed by Emmett Pepper, City Councilor of City of Charleston was filed.

On November 28, 2023, a Response to CAD's sixth data request was filed by Counsel for WVAWC.

On November 29, 2023, a Motion to Compel was filed by Counsel for CAD.

On November 30, 2023, an agreed order of witnesses was filed by Counsel for WVAWC pursuant to the June 9, 2023 Procedural Order.

Also, on November 30, 2023, the Commission issued a Procedural Order requiring WVAWC to file responses to the remaining requests from the CAD's Sixth Request for Information as described in this Order by December 1, 2023; etc.

On December 1, 2023, Supplemental responses CAD-A-7, A-8, and A-29, pages 1- 287 was filed by Counsel for WVAWC.

Also, on December 1, 2023, the Commission issued a Procedural Order granting WVAWC's request to excuse the attendance of Thomas G. O'Drain and Patrick L. Baryenbruch at the evidentiary hearing and the Agreed Order of Witnesses is adopted; etc.

Lastly, on December 1, 2023, a replacement page for Statement B, Schedule 1-1 of the Staff Rule 42T-Water Exhibit was filed by Staff.

On December 5, 2023, Confidential Hearing Exhibits; Statement A - Schedule 5 - Water, Statement C - Capital Structure - Final - Water, Statement G Adjustment No. 22 and 35, and RVM-D Attachment 1 was filed by Counsel for WVAWC.

On December 7, 2023, an Affidavit of publication evidencing publication of the Notice of Change in Rates with Proposed Effective Dates in the Morgan Messenger, Journal (Martinsburg), and Spirit of Jefferson Advocate was filed.

On December 12, 2023, Exhibits from the hearing held before the Commission on Tuesday, December 5, 2023, in Charleston, West Virginia, was filed.

Also on December 12, 2023, the Transcript from the hearing held on Tuesday, December 5, 2023 in Charleston, West Virginia, before the Commission was filed.

On December 13, 2023, Exhibits from the hearing held before the Commission on Wednesday, December 6, 2023, in Charleston, West Virginia, was filed.

Also, on December 13, 2023, the Transcript from hearing held before the Commission on Wednesday, December 6, 2023, in Charleston, West Virginia, was filed.

On December 19, 2023, Confidential Exhibits from the hearing held before the Commission on Tuesday, December 5, 2023, in Charleston, West Virginia, was filed.

On December 21, 2023, Confidential CD Exhibits from the hearing held before the Commission on Tuesday, December 5, 2023, in Charleston, West Virginia, was filed.

On December 26, 2023, a Corrected Exhibit (WVAW S-1) from the hearing held before the Commission on December 5, 2023, in Charleston, West Virginia, was filed.

On December 27, 2023, a Second Corrected Exhibit from the hearing held before the Commission on December 5, 2023, in Charleston, West Virginia, was filed.

Also, on December 27, 2023, a Corrected confidential CD Exhibit from the hearing held before the Commission on Tuesday, December 5, 2023, in Charleston, West Virginia, was filed.

On January 6, 2024, an Initial Brief was filed by Counsel for CAD.

Also. on January 5, 2024, an Initial Brief was filed by Staff.

Further, on January 5, 2024, an Initial Brief was filed by Counsel for WVAWC.

Lastly, on January 5, 2024, an Affidavit of publication evidencing publication of the Notice of Public Comment Hearing in Clay County Free Press, Morgan Messenger, Webster Echo, Herald - Dispatch, Lincoln Journal, Logan Banner, Wayne County News Coal Valley News, Weston Democrat, River Cities Tribune, Jackson herald, Exponent Telegram, Fayette Tribune, Hinton News, Charleston Gazette-Mail, Hurricane Breeze, Roane County Reporter, Braxton Citizens' News, Register-Herald, Bluefield Daily Telegraph, Spirit of Jefferson Advocate, and Journal was filed.

On January 12, 2024, a Reply Brief was filed by Counsel for WVAWC.

Also on January 12, 2024, a Reply Brief was filed by CAD.

Lastly, on January 12, 2024, a Reply Brief was filed by Staff.

On February 9, 2024, Affidavits of publication evidencing publication of the Notice of Hearing in River Cities Tribune, Hinton News, Clay County Free Press, Wayne County News, Logan Banner, Lincoln Journal, Coal Valley News, Herald-Dispatch, Spirit of Jefferson Advocate, Charleston Gazette-Mail, Webster Echo, Weston Democrat, Jackson Herald, Exponent Telegram, Hurricane Breeze, Morgan Messenger, Roane County Reporter, Journal Martinsburg, Braxton Citizens' News, Fayette Tribune, Register-Herald, and Bluefield Daily Telegraph was filed.

Attachment 6

Appendix B

WVAWC PSC Case No. 23-0383-W-42T --- Revenue Requirement Comparisons				
	Per Commission Decision	Per Staff	Per Company Historical Test Year	Per Company Addendum Test Year
Rate Base	$873,261,126	$793,198,952	$806,561,190	$882,397,903
Rate of Return (%)	7.134%	6.89%	7.66%	7.66%
Allowance for Return (NOI)	$62,299,628	$54,651,408	$61,782,587	$67,591,679
Operating & Maintenance Expenses	$76,086,038	$75,516,604	$77,395,667	$77,395,667
Depreciation Expense	$37,645,200	$35,055,412	$34,514,318	$38,039,075
Taxes Other Than Income Taxes	$22,761,127	$22,761,127	$22,927,403	$22,927,403
Federal Income Tax	$6,396,625	$6,514,472	$9,616,217	$12,911,360
State Income Tax	$2,087,887	$1,897,524		
Revenue Requirement Before Additional B&O Tax, Uncollectibles and Delayed Payment Penalties	$207,276,505	$196,396,547	$206,236,192	$218,865,184
Going Level Revenue	$184,112,665	$184,341,393	$183,003,461	$183,003,461
Increase Required Before Additional B&O Tax, Uncollectibles and Delayed Payment Penalties	$23,163,840	$12,055,154	$23,232,731	$35,861,723
Additional Uncollectibles	$290,999	$153,907	$323,930	$500,014
Additional B&O	$1,066,326	$554,840	$1,069,289	$1,650,540
Total Increase Required	$24,521,165	$12,763,901	$24,625,950	$38,012,277
Increased Delayed Payment Penalty Revenue	-$387,890	-$205,152		
Net Increase Before Assignment of Sewer Revenue Requirement	$24,133,275	$12,558,749	$24,625,950	$38,012,277
Additional Sewer Related Revenue Requirement Assigned to Water Operations				
Total Increase In Water Operating Revenue Required				

Attachment 6

Appendix C

WVAWC PSC Case No. 23-0384-S-42T - - Revenue Requirement Comparisons				
	Staff	Company HTY	Company Addendum	Commission Decision
Rate Base	13,052,091	4,151,314	11,576,430	13,052,091
Rate of Return (%)	6.890%	7.660%	7.660%	7.134%
Return On Rate Base	899,289	317,991	886,755	931,136
O&M Expenses	1,255,671	1,239,337	1,242,453	1,268,819
Depreciation	422,016	284,838	503,386	422,016
Taxes Other Than Income Taxes	190,862	191,844	198,530	190,445
Federal Income Taxes *	194,086	82,690	210,634	148,730
State Income Taxes *	69,627			54,612
Total Before Additional B&O and Uncollectibles	3,031,551	2,116,700	3,041,758	3,015,758
Going Level Revenue	1,841,012	1,889,607	2,126,503	1,841,012
Increase Before Additional B&O and Uncollectibles	1,190,539	227,093	915,255	1,174,746
Additional Uncollectibles Due to Increase	7,932	3,116	12,559	7,826
Additional B&O Due to Increase	35,052	6,686	26,947	34,587
Total Increase	1,233,523	236,896	954,762	1,217,160
Delayed payment Penalties Due to Increase	(24,804)			(24,475)
Increase Required Before Reassignment of Expenses to Water	1,208,719	236,896	954,762	1,192,685
Reassignment to Water	[redacted]			
Net Wastewater Revenue Increase Approved				

Note: * The Commission synchronized interest to Rate Base at a weighted debt cost rate of .02222. This resulted in lower income taxes than the Staff calculation.

Attachment 7

ORIGINAL

Commissioner	Yes	No	Not Participating
Huston			√
Bennett	√		
Freeman	√		
Veleta	√		
Ziegner	√		

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN WATER COMPANY, INC. FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER AND WASTEWATER UTILITY SERVICE THROUGH A THREE-STEP RATE IMPLEMENTATION, (2) APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE TO WATER AND WASTEWATER UTILITY SERVICE, INCLUDING A NEW UNIVERSAL AFFORDABILITY RATE, (3) APPROVAL OF REVISED DEPRECIATION RATES APPLICABLE TO WATER AND WASTEWATER PLANT IN SERVICE, (4) APPROVAL OF NECESSARY AND APPROPRIATE ACCOUNTING RELIEF, (5) APPROVAL OF THE EXTENSION OF SERVICE TO AN INFRASTRUCTURE DEVELOPMENT ZONE IN MONTGOMERY COUNTY, INDIANA AND AUTHORITY TO IMPLEMENT A SURCHARGE UNDER IND. CODE § 8-1-2-46.2, AND (6) APPROVAL OF PETITIONER'S PLANS TO DEVELOP FUTURE WATER SOURCES OF SUPPLY UNDER IND. CODE § 8-1-2-23.5.	)	**CAUSE NO. 45870** **APPROVED: FEB 14 2024**

ORDER OF THE COMMISSION

Presiding Officers:
James F. Huston, Chairman
Sarah E. Freeman, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

Attachment 7

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Attachment 7

On March 31, 2023, Indiana-American Water Company, Inc. ("Petitioner," "Indiana American," or "INAWC") filed its Petition for General Rate Increase and Associated Relief under Ind. Code § 8-1-2-42.7, Surcharge Under Ind. Code § 8-1-2-46.2, and Approval of Plans to Develop Future Water Sources under Ind. Code § 8-1-2-23.5 and Notice of Provision of Information in Accordance with the Minimum Standard Filing Requirements with the Indiana Utility Regulatory Commission ("Commission"), seeking: (i) authority to increase its rates and charges for water and wastewater through a three-step rate implementation, (ii) approval of new schedules of rates and charges, (iii) approval of revised depreciation rates applicable to its water and wastewater plant in service, (iv) approval of the regulatory accounting treatment, (v) approval of Petitioner's extension of service to a Montgomery County Infrastructure Development Zone and authority to implement a surcharge under Ind. Code § 8-1-2-46.2, and (vi) approval of Petitioner's plans to develop future sources of water supply. That same day Indiana American also filed testimony and exhibits from the following witnesses[1]:

- Matthew Prine, President of Indiana American
- Gregory D. Shimansky, Director, Rates & Regulatory for American Water Works Service Company, Inc. ("Service Company")
- Matthew H. Hobbs, Director of Engineering at Indiana American
- Kari C. Britto, Vice President, Operations at Indiana American
- Charles B. Rea, Senior Director, Regulatory Pricing and Affordability for the Service Company
- Nicholas Furia, Assistant Treasurer for the Service Company
- Ann E. Bulkley, Principal at The Brattle Group
- Jennifer M.B. Grisham, Senior Manager of Regulatory Services for the Service Company
- Manuel Cifuentes, Jr., Senior Principal Regulatory Analyst for the Service Company
- Thomas G. O'Drain, Director of National Categories and Corporate Procurement for the Service Company
- Patrick Baryenbruch, President, Baryenbruch & Company LLC
- Larry E. Kennedy, Senior Vice President, Concentric Energy Advisors, Inc.

Petitions to Intervene were filed on April 5, 2023, by Citizens Action Coalition of Indiana, Inc. ("CAC"); on April 11, 2023, by the City of Crown Point ("Crown Point"); on April 17, 2023, by the Town of Schererville ("Schererville") and Sullivan-Vigo Rural Water Corporation ("Sullivan-Vigo"); on April 26, 2023 by a group of industrial customers of Indiana American[2] ("Industrial Group"); on May 4, 2023, by the Town of Whiteland ("Whiteland"); on May 19, 2023, by Borden Tri-County Regional Water District, Jackson County Water Utility, Inc., and the Town

[1] On April 28, 2023, Indiana American filed corrections to witnesses Shimansky and Rea testimony. On June 6, 2023, Indiana American filed its second submission of corrections to witnesses Shimansky, Britto, Bulkley, and Cifuentes and updates to certain of its financial exhibits. On August 29, 2023, Indiana American filed its third submission of corrections to witness Shimansky's direct testimony. All corrections were included in the evidence submitted at the hearing.

[2] The ad hoc group at time of intervention included, Cleveland Cliffs Steel LLC, Linda, General Motors, Haynes International, Inc., and United States Steel Corporation.

of Greenville, Indiana; and on July 13, 2023, by Hamilton County Regional Utility District ("District"), (collectively, the "Intervenors"). The Commission issued Docket Entries in which each of said petitions to intervene were granted; thus, all of the entities requesting intervention were made parties to this Cause. The Indiana Office of Utility Consumer Counselor ("OUCC") also participated.

A Stipulation as to Procedural Matters setting forth certain procedural matters that had been agreed upon with the OUCC, and Intervenors CAC, Crown Point, Schererville, Sullivan Vigo, and the Industrial Group was filed on April 21, 2023. By Docket Entry issued May 3, 2023, the Presiding Officers established certain procedural requirements, scheduling, and other matters. By Docket Entry dated June 23, 2023, the Presiding Officers modified the date by which the OUCC and all Intervenors were to file their respective cases.

Pursuant to Ind. Code § 8-1-2-61(b), a public field hearing was conducted on June 29, 2023, in Fishers, Indiana, which is the largest municipality in Petitioner's service area. Pursuant to the Commission's June 19, 2023 Docket Entry granting the OUCC's request for a second field hearing, a second field hearing was conducted on July 6, 2023, in the City of Gary. During the public field hearings, members of the public provided oral and/or written testimony in this Cause.

On July 21, 2023, the OUCC and Intervenors filed their respective cases-in-chief. The OUCC's case-in-chief included testimony and attachments from the following witnesses[3]:

- Scott Bell, Director of the Water/Wastewater Division
- Carla Sullivan, Utility Analyst in the Water/Wastewater Division
- Margaret Stull, Chief Technical Advisor in the Water/Wastewater Division
- Thomas Malan, Utility Analyst in the Water/Wastewater Division
- Jason Compton, Utility Analyst in the Water/Wastewater Division
- Shawn Dellinger, Senior Utility Analyst in the Water/Wastewater Division
- David Garrett, Resolve Utility Consulting, PLLC
- Jerome Mierzwa, Principal and Vice President, Exeter Associates, Inc.
- James Parks, Senior Utility Analyst in the Water/Wastewater Division
- Carl Seals, Assistant Director of the Water/Wastewater Division
- Kristen Willoughby, Utility Analyst in the Water/Wastewater Division

The OUCC also filed the written consumer comments pertaining to this docket and the relief requested as Public's Exhibit 12.

A group of sale-for-resale ("SFR") customers ("Wholesale Customers") filed the testimony of Eric Callocchia, Partner of NewGen Strategies & Solutions, LLC's Environmental Practice.[4]

[3] On August 2, 2023, the OUCC filed corrections to the testimony of Scott A. Bell, Carla F. Sullivan, and Thomas W. Malan and redlined schedules. On August 30, 2023, the OUCC filed additional corrections to Ms. Sullivan's testimony. All corrections were included in the evidence submitted at the hearing.

[4] The Wholesale Customers include the Towns of Schererville, Greenville, and Whiteland, the City of Crown Point, Borden Tri-County Regional Water District, Jackson County Water Utility, Inc., Hamilton County Regional Utility District, and the Sullivan-Vigo Water Corporation.

The District filed the testimony and attachments of Martin A. Wessler, CEO of Wessler Engineering.

The Industrial Group's case-in-chief included testimony and attachments from the following witnesses[5]:

- Michael Gorman, Managing Principal, Brubaker & Associates, Inc.
- Jessica York, Consultant, Public Utility Regulation, Brubaker & Associates, Inc.

Crown Point filed testimony from Gregory Guerrettaz, President, Financial Solutions Group, Inc.

Whiteland filed testimony and attachments of Carmen Young, Director of Administration for Whiteland.

CAC filed testimony and attachments from Benjamin Inskeep, CAC's Program Director.

On August 8, 2023, Indiana American filed rebuttal testimony, exhibits, and workpapers for witnesses Shimansky, Hobbs, Britto, Rea, Bulkley, Grisham, Cifuentes, and Kennedy.[6] Indiana American also filed rebuttal testimony for Melissa Ciullo, Vice President of Tax, and Michael Farrell, Senior Director with Willis Towers Watson. On the same day, the OUCC filed cross-answering testimony and exhibits of witnesses Stull and Mierzwa; the Industrial Group filed cross-answering testimony and exhibits of witness York; the Wholesale Customers filed the cross-answering testimony and exhibits of witness Callocchia; the District filed the cross-answering testimony of Wessler; and CAC filed cross-answering testimony of Benjamin Inskeep.

The Presiding Officers caused to be issued Docket Entries requesting additional information from Indiana American on June 12, 2023, August 4, 2023, August 17, 2023, August 25, 2023, August 30, 2023, and August 31, 2023, to which Indiana American filed its responses on June 13, 2023 (Pet. Ex. 25), August 8, 2023 (Pet. Ex. 26), August 21, 2023 (Pet. Ex. 27), August 30, 2023 (Pet. Ex. 28), August 31, 2023 (Pet. Ex. 29), and September 1, 2023 (Pet. Ex. 30).

The Commission held an evidentiary hearing in this Cause starting on August 31, 2023, at 9:30 a.m. and continuing on September 5, 2023, in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Indiana American, the OUCC, and Intervenors were present and participated through counsel. The testimony and exhibits of the parties were admitted into the record without objection.

Having considered the evidence presented and based on the applicable law, the Commission now finds:

1. <u>Notice and Jurisdiction</u>. Notice of the petition filed in this Cause was given and

[5] The Industrial Group filed corrections to its witnesses' testimony on July 24, 2023.

[6] On August 31, 2023, Petitioner filed a corrected Attachment CBR-7R to Mr. Rea's rebuttal testimony.

published by Petitioner as required by law, and Petitioner provided notice to its customers summarizing the nature and extent of the proposed changes in its rates and charges for water service. Pet. Ex. 1, Attachments MP-1 and MP-2.

Due, legal, and timely notices of the public hearings in this Cause were given and published as required by law. Petitioner is a "public utility" within the meaning of that term in Ind. Code § 8-1-2-1(a)(2) and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. Under Ind. Code §§ 8-1-2-42 and 42.7, the Commission has jurisdiction over Petitioner's rates and charges. The Commission also has jurisdiction over Petitioner's extensions of water and wastewater service to rural areas under Ind. Code § 8-1-2-46.2 and the development of future water sources under Ind. Code § 8-1-2-23.5. Accordingly, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. Petitioner's Organization and Business. Indiana American is a public utility with its principal place of business located at 153 North Emerson Ave., Greenwood, Indiana. Indiana American provides water utility service to approximately 328,000 customers located in and around numerous communities throughout the State of Indiana. Indiana American also provides sewer utility service to approximately 2,400 customers located in Clark, Delaware, Hamilton, Wabash, and Vigo Counties.

Indiana American renders such water and wastewater utility service by means of utility plant, property, equipment, and related facilities owned, leased, operated, managed, and controlled by it which are used and useful for the convenience of the public in the production, treatment, transmission, distribution, and sale of water for residential, commercial, industrial, public authority, and sale for resale purposes, for the provision of public and private fire service, and for the provision of wastewater service.

3. Existing Rates. Petitioner's existing basic rates and charges for water and wastewater utility service were established pursuant to the Commission's Order in *Indiana-American Water Co.*, Cause No. 45142 (IURC June 26, 2019) (the "2019 Rate Order") and adjusted downward through a Settlement in Cause No. 45032 S4 (Petitioner's subdocket for addressing certain impacts of the Tax Cuts and Jobs Act of 2017) and also to reflect the removal of Utility Receipts Tax ("URT"). Since the 2019 Rate Order, Petitioner has also implemented a Distribution System Improvement Charge ("DSIC") pursuant to the Commission's Orders in Cause Nos. 42351 DSIC 12, issued March 17, 2021, 42351 DSIC 13, issued March 21, 2022, and 42351 DSIC 14, issued March 22, 2023. A Service Enhancement Improvement ("SEI") charge was authorized by the Commission's Orders in Cause Nos. 45609 SEI 1, issued February 22, 2023, and 45609 SEI S1, issued March 8, 2023.

4. Test Year. As authorized by Ind. Code § 8-1-2-42.7(d)(1), Petitioner proposed a forward-looking test period using projected data. As provided in the Commission's May 3, 2023 Docket Entry, the test year to be used for determining Petitioner's projected operating revenues, expenses and operating income shall be the 12-month period ending April 30, 2025. The historical base period is the 12-month period ending September 30, 2022.

5. Indiana American's Requested Relief. In its Petition, Indiana American sought Commission approval of an overall increase in rates and charges for water and wastewater service that would produce additional revenues in three steps of approximately $86.7 million, which would reflect an overall revenue increase of 31.1%. This overall revenue increase comprises a Step 1 increase of 15.49%, a Step 2 increase of 5.63% from Step 1, and a Step 3 increase of 7.45% from Step 2. As a rate mitigation effort, Petitioner requested to recover 65% of its total wastewater revenue requirement ($4,658,471 at Step 3) through wastewater rates. After reallocating $1,630,465 of the wastewater revenue requirement to water, the projected wastewater revenue requirement is $3,028,006.[7] Increases to industrial and SFR classes were to be capped at 1.5 times the overall water revenue increase. No increase to public and private fire service was requested. The remainder of the increase was to be allocated to residential and commercial classes in proportion to present rate revenues. Rates for Areas 1, 2, and 3 will be fully consolidated, phased in over the three steps.

As detailed in Indiana American's case-in-chief, Petitioner also requested Commission approval of a new schedule of rates and charges applicable to water and wastewater utility service, as well as approval of a new Universal Affordability Tariff for water service. Indiana American also requested approval of revised depreciation rates applicable to its water and wastewater plant in service, approval of regulatory accounting treatment, approval of Petitioner's extension of service to an Infrastructure Development Zone in Montgomery County and authority to implement a surcharge under Ind. Code § 8-1-2-46.2, and approval of Petitioner's plans to develop future sources of water supply.

6. Overview of the Evidence.

A. INAWC Case-in-Chief. Mr. Prine addressed Indiana American's provision of water and wastewater services in Indiana. He discussed the major drivers of Petitioner's request for rate relief in this proceeding, primarily the significant capital investments and other expenditures that Petitioner has made and plans to make through April 2025. He explained how Petitioner's ratemaking proposals are intended to support the more efficient use of water, investment in Indiana American's system, and the long-term interests of customers. Finally, he discussed Petitioner's corporate citizenship and community outreach efforts.

Mr. Shimansky testified on the test period used in this case and Petitioner's overall revenue requirement, rate base, depreciation, amortization, pension costs, and other post-employment benefit ("OPEB") costs, including Petitioner's request for regulatory accounting treatment of pension/OPEB costs, production costs, and certain costs associated with the proposed new

[7] On June 6, 2023, Petitioner filed a Second Submission of Corrections to Direct Testimony and Exhibits updating several financial exhibits reflecting an overall revenue increase of 31.77% or approximately $88.6 million. Petitioner explained that a re-run of its model would be done at rebuttal but offered to provide an updated CD of the model upon request of the Commission. At the Commission's request, Petitioner filed its updated full financial model on June 13, 2023. Subsequent to this filing, Petitioner indicated in an August 31, 2023 Docket Entry response that it did not increase its rate request when it filed its June 6, 2023 update. However, Petitioner compared its rebuttal position to the full financial model filed on June 13, 2023, noting that although it was accepting certain positions of other parties, the changes did not fully offset the net increase in revenue requirement filed on June 13, 2023. Pet.'s Ex. 29. Therefore, the Commission's determination of the issues identified in this Order uses the full financial model filed on June 13, 2023.

Universal Affordability Tariff. He also presented Petitioner's proposals related to: (1) an over-collection associated with the repeal of the URT, and (2) a surcharge related to an Infrastructure Development Zone established in Montgomery County.

Mr. Hobbs testified on the used and useful nature of the utility plant in service ("UPIS"), explained Petitioner's overall approach to capital management, and described the significant capital investments Petitioner has made and plans to make. He also described Petitioner's plans for future source of supply investments.

Ms. Britto described Petitioner's water and wastewater operations, commitment to water quality and safety, ongoing efforts to improve water and wastewater efficiency, and employee staffing levels and compensation.

Mr. Rea sponsored Petitioner's cost of service analysis and rate design proposals, affordability analyses, and revenue projections including adjustments to Indiana American's historical billing determinants.

Mr. Furia testified on the projected capital structure to be used for computing the weighted average cost of capital ("WACC") for Indiana American. The WACC is used as the authorized overall rate of return on rate base in this Cause.

Ms. Bulkley testified on the reasonableness of Petitioner's requested cost of common equity, capital structure, and requested authorized net operating income as compared to a fair return on the fair value of Petitioner's assets.

Ms. Grisham discussed and supported the level of operations and maintenance ("O&M") expense as it relates to: (1) labor and labor-related costs, (2) pension/benefits, (3) support services, (4) contract services, and (5) taxes other than income, with the exception of property taxes which was covered by Mr. Cifuentes.

Mr. Cifuentes discussed and provided support for the level of O&M expense as it relates to: (1) production costs, (2) other operating expenses not covered by Ms. Grisham, and (3) property taxes.

Mr. O'Drain testified in support of current and projected chemical pricing.

Mr. Baryenbruch offered support for the necessity and reasonable cost of services provided by the Service Company as shown by Petitioner's Service Company Market Cost Comparison.

Mr. Kennedy testified on the comprehensive depreciation study for water and wastewater plant in service.

Petitioner also provided its Financial Exhibit in support of its requested relief in this proceeding in Excel and PDF formats.

B. OUCC and Intervenors' Cases-in-Chief. The OUCC and Intervenors proposed a number of adjustments to Petitioner's proposed revenue requirements and took issue with numerous other components of Indiana American's case-in-chief and proposed rate increase.

For instance, the OUCC proposed a return on equity ("ROE") of 9.0% versus Petitioner's proposed ROE of 10.6% and recommended certain operating revenue and expense adjustments. The OUCC recommended seven changes to Indiana American's proposed water operations rate base, including changes to UPIS, cost of removal, retirements, and accumulated depreciation, all summarized in Table 7 of OUCC Exhibit 3. Specifically, the OUCC recommended adjustments related to the following: (1) Sheridan – Land for future wellfield, (2) Sheridan Water Treatment Plant, (3) & (4) Sheridan Main Extensions, (5) Winchester Water Treatment Plant, (6) Lake Station Wells and Treatment Plant, and (7) BT SOP 98-01 Costs. OUCC witness Parks recommended denial of Petitioner's two major projects, as well as disallowance of the $9.3 million transmission main Indiana American proposed from its Sheridan treatment plant to serve the District. Further, OUCC witness Seals discussed Indiana American's levels of non-revenue water and made recommendations regarding non-revenue water and other Indiana American operational issues. OUCC witness Willoughby recommended adjustments to non-construction costs for one of Petitioner's lift station projects, denial of another lift station project, and denial of Petitioner's proposed acquisition of property in Sheridan for new wellfields.

Industrial Group witness Mr. Gorman recommended adjustments to Petitioner's overall rate of return, return on common equity and capital structure, and other revenue requirement adjustments reflecting a reduction to total company revenue requirement from approximately $92.1 million over three steps to approximately $60.6 million. His recommended return on equity is 9.10%, which produces an overall return of 6.00% for 2023, 5.97% for 2024, and 6.08% for 2025. Mr. Gorman also proposed a three-year amortization period to return Indiana excess accumulated deferred income tax ("EADIT"), an adjustment to Petitioner's offset to its revenue requirement based on URT over-collection to include carrying charges at an 8% interest rate, an adjustment to projected O&M expense based on his proposed inflationary factors, and adjustment to projected residential sales to reflect a slowing in reduced use per customer, a reduction to projected contractor expense, and an adjustment to salaries and wages expense to address employee attrition. He also objected to the inclusion of the prepaid pension asset and the OPEB asset in Petitioner's capital structure.

Industrial Group witness Ms. York recommended adjustments to Petitioner's class cost of service study ("COSS") and its proposed spread of the requested revenue change across rate classes. Specifically, Ms. York recommended that any rate increase approved by the Commission be implemented in the form of an across-the-board rate, system average increase. In addition, Ms. York recommended that the Commission direct Indiana American to make meaningful movement toward cost of service for its wastewater customers to reduce the non-cost-based subsidy that is currently being provided by water customers. She also recommended that Petitioner be required to move toward class-specific rates, beginning with developing and implementing a separate rate schedule for the industrial class at the conclusion of this case. Lastly, Ms. York recommended that the revenue requirements associated with the DSIC and the SEI charge that are being rolled into base rates continue to be recovered from customers on a per meter basis, rather than a combination of meter charges and volumetric charges.

The Wholesale Customers witness Callocchia recommended the Commission reject Petitioner's COSS and require any increase to be implemented across-the-board to each customer class, make changes to Petitioner's proposed rate design to recover DSIC and SEI costs via meter charges, and require Petitioner properly calculate a transmission rate for Wholesale Customers.

CAC witness Inskeep and Crown Point witness Guerrettaz argued for a lower ROE and Mr. Inskeep made recommendations with respect to URT over-collection and certain existing fees and charges that would affect the overall revenue requirement.

C. INAWC Rebuttal. Mr. Shimansky rebutted positions taken by the CAC, Crown Point, Industrial Group, and OUCC, with respect to overall revenue requirements, rate base forecasts, specific projects included in the case, the Hamilton County Bakers Corner transmission main, the Montgomery County surcharge, Indiana State EADIT, prepaid pension and OPEB assets, proposed new regulatory accounts, depreciation and amortization, amortization lives, acquisition related expenses, recovery of deferred expenses, URT repeal impacts to revenues, operating revenues and associated adjustments, future test year filings, long-term planning, fees and charges, and Petitioner's tariffs. Mr. Shimansky testified that Petitioner is accepting certain Intervenor positions, including their position on Montgomery County and customer-side lead line property tax issues, the removal of certain expenses from the revenue requirement, and the update to the current IURC Fee.

Mr. Hobbs responded to criticisms raised by OUCC witnesses Bell, Parks, and Willoughby regarding Petitioner's proposed capital investments. Mr. Hobbs rebutted positions taken by the OUCC on the Winchester and Sheridan Major Projects, as well as other capital projects, and explained why these projects are necessary for Indiana American to continue providing safe and reliable service. Ms. Britto responded to OUCC witness Parks' recommendation that the Lake Station Water Treatment Plant ("WTP") should be removed from Petitioner's rate base, as well as to OUCC witness Seals' positions on non-revenue water and other Indiana American operations. She also addressed issues raised by Industrial Group witness Gorman and OUCC witness Malan regarding Petitioner's proposed headcount and line locate expense. Finally, she responded to issues raised by CAC witness Inskeep regarding Petitioner's disconnect process.

Mr. Rea responded to OUCC witnesses Bell, Sullivan, Compton, Dellinger, and Mierzwa, CAC witness Inskeep, Crown Point witness Guerrettaz, Wholesale Customers witness Callocchia, Whiteland witness Young, Industrial Group witnesses Gorman and York regarding issues related to: (1) affordability, (2) Universal Affordability Tariff, (3) cost of service, (4) water rate design, (5) revenue allocations, (6) wastewater revenue requirement reallocation, (7) Indiana American residential water usage analysis, (8) bill comparisons, and (9) revenue calculations.

Ms. Bulkley responded to the issues raised in the testimonies of OUCC witness Dellinger, Industrial Group witness Gorman, CAC witness Inskeep, and Crown Point witness Guerrettaz regarding a just and reasonable ROE and the appropriate capital structure for Petitioner in this proceeding.

Ms. Grisham addressed issues raised by the OUCC and the Industrial Group regarding labor and labor-related contract services, support services, and uncollectible expenses. Mr. Cifuentes responded to recommendations made by the OUCC concerning the proposed updates to

the gross revenue conversion factor, proposed changes to the late payment fee percentage, removal of annualization adjustments as it pertains to Building Maintenance & Supplies, Telecommunications, Postage Printing & Stationery, Office Supplies & Services, Employee Related Expense Travel & Entertainment, Miscellaneous Expense, and Maintenance Supplies & Services. He also addressed the Industrial Group's proposed adjustment related to the application of certain inflationary adjustments. Mr. Kennedy responded to the changes recommended by OUCC witness Garrett to the average service life and Iowa curve estimates. Ms. Ciullo supported Petitioner's method of calculating and including income tax expense and accumulated deferred income taxes ("ADIT") and addressed the proposal by OUCC witness Stull to change the tax accounting regulatory treatment of the tax repairs deduction, its impact on income tax expense and ADIT and her adjusted calculation for the Average Rate Assumption Method ("ARAM") component of EADIT giveback. Mr. Farrell responded to Industrial Group witness Gorman's recommendation that the prepaid pension asset and OPEB asset be removed from Petitioner's capital structure for ratemaking purposes.

D. Cross-Answering Testimony. The OUCC and Intervenors filed cross-answering testimony on various topics. For example, OUCC witness Stull responded to rate design issues associated with Indiana American's DSIC and SEI capital trackers raised by Crown Point witness Guerrettaz, Wholesale Customers witness Callocchia, and Industrial Group witness York. OUCC witness Mierzwa responded to various witness testimony concerning their positions on the water COSS, revenue allocations, and rate design proposals presented by Indiana American. Industrial Group witness York responded to the positions taken by OUCC witness Mierzwa regarding COSS and revenue allocation and to Wholesale Customers witness Callocchia's COSS recommendations.

CAC witness Inskeep provided cross-answering testimony regarding other parties' positions regarding the Universal Affordability Tariff. Wholesale Customers witness Callocchia responded to testimonies submitted by the OUCC, Industrial Group, and CAC related to their positions regarding Petitioner's COSS, rate design, and affordability. District witness Wessler addressed certain concerns or questions raised by OUCC witness Parks regarding the anticipated water needs in Hamilton County, Indiana, by discussing the anticipated development plans and overall need for potable water and fire protection service in the District's service territory.

7. Petitioner's Rate Base.

A. Utility Plant Forecast.

1. Major Projects. Indiana American proposed to include two major projects in this Cause—the Winchester Major Project and the Sheridan Major Project. Both projects consist of replacing existing an WTP with a new, higher capacity WTP. The Winchester Major Project's projected in-service date is April 30, 2025, with an estimated cost of approximately $25 million. The Sheridan Major Project's projected in-service date is August 31, 2024, with an estimated cost of approximately $29.82 million.[8]

[8] Based on Petitioner's December 27, 2023 Submission of Monthly Update, the estimated cost of the Sheridan WTP is $30,584,508 and the Winchester WTP is $24,191,828.

a. Winchester Major Project.

i. INAWC Case-in-Chief. Mr. Hobbs testified Petitioner is proposing to replace the Winchester WTP because the existing plant has capacity issues, structural issues, as well as safety and water quality/quantity concerns. With respect to capacity, Mr. Hobbs testified the existing aeralator/filtration system at Winchester was constructed in 2001 and does not provide adequate filtration capacity to reliably treat the maximum daily demands for the system. He further testified a December 2020 TIC Aeralator Evaluation report indicated the Aeralator system is in poor condition and the Winchester system is not able to deliver 3,500 gallons per minute ("gpm") for three-hour durations to meet fire flow recommendations. Based on the Structural Assessment Summary, there are also structural concerns with the existing chemical building. Additionally, Mr. Hobbs testified that there are safety concerns present with the existing chemical transport process, as well as chemical system deficiencies identified at the existing chemical feed building. He further testified no clearwell storage exists at the existing facility and the Winchester WTP does not provide chlorine contact time to meet 4-Log inactivation of viruses.

Mr. Hobbs sponsored relevant portions of the Winchester Comprehensive Planning Study ("CPS"), which discusses the recommended solution for each project as well as alternatives Petitioner identified for each portion of the project. While the TIC Aeralator Evaluation report identifies rehabilitation of the Aeralator unit as a potential alternative, Mr. Hobbs testified that attempting to improve the existing facilities is not recommended for several reasons, including the condition of the existing facilities and inadequate capacity of the existing facilities. He testified replacement of the facility is therefore recommended. Mr. Hobbs sponsored Attachments MHH-7 through MHH-13 of Petitioner's Exhibits 3 and 3-C providing additional support for the Winchester Major Project.

ii. OUCC. Mr. Parks recommended the Commission disallow including the Winchester Major Project in rate base because Indiana American failed to support the need for the project at the $25 million cost. Mr. Parks testified the proposed replacement plant is oversized, there is no Life Cycle Cost-Benefit Analysis ("LCCBA") of alternatives as required by Ind. Code § 13-18-26-3, and it is too expensive at $25 million or $12.68 million per MG of rated capacity, which exceeds costs paid by other utilities for groundwater treatment plants. In addition, Mr. Parks testified Indiana American has not supported the total replacement of the existing plant with a much larger plant, and that its requested project costs are prudent and in the best interest of customers. Mr. Parks further testified there are substantial cost discrepancies in Indiana American's cost estimates that Petitioner has not mentioned or explained.

Mr. Parks testified Indiana American did not evaluate any alternatives for the Winchester Major Project and did not perform a LCCBA. Mr. Parks testified a LCCBA analysis is required under Indiana law to receive an Indiana Department of Environmental Management ("IDEM") construction permit for water treatment plant modifications or expansions. Indiana American must prepare and certify with its permit application that it has completed a LCCBA in accordance with Ind. Code § 13-18-26-3. Mr. Parks recommended that Indiana American be required to identify alternatives as part of its standard capital planning efforts and comply with Ind. Code § 13-18-26-3.

With respect to his contention that Indiana American did not support the total replacement of the existing plant, Mr. Parks testified Indiana American should have evaluated other alternatives, including the rehabilitation and repainting of the Unilator as an alternative to replacement. Mr. Parks cited to the Winchester CPS portions, which indicates the life expectancy of the existing Unilator can range from 25 to 35 years. Mr. Parks testified Indiana American has not provided evidence that the Unilator cannot be rehabilitated and repainted. Mr. Parks further testified that despite Petitioner's claims that it cannot meet maximum day demand (0.85 MGD in 2023) when only two of the four filter cells are in service providing a 0.72 MGD firm capacity based on 3.0 gpm/ft, Indiana American can currently meet peak demand in its Winchester system. Additionally, Mr. Parks testified Petitioner does not need to increase the Winchester WTP's firm and rated capacities because the Winchester CPS indicates decreasing maximum day demand through 2035. Further, with respect to Petitioner's decision to construct a new clearwell as part of the Winchester Major Project, Mr. Parks testified Petitioner has not demonstrated that it is required by IDEM under the Groundwater Rule to meet a 4-Log virus inactivation.

As to the proposed $25 million cost of the Winchester Major Project, Mr. Parks calculated a capital cost of $12.68 million per MG of capacity and testified this capital cost is significantly above two other similar WTP projects. He compared the Winchester Major Project to the Eastern Bartholomew Water Corporation WTP[9] and the Batesville Water & Gas Utility WTP.[10] Mr. Parks updated the costs to 2023 and estimated total project costs of $11.12 million and $9.1 million for the Eastern Bartholomew plant and the Batesville plant, respectively. Mr. Parks estimated the new Winchester plant without the maintenance garage should cost $6.65 million. Mr. Parks also testified Indiana American's estimated costs for the new Winchester facilities have varied and increased substantially since 2021. Mr. Parks also testified the proposed design and site layout of the water treatment plant are oversized, overly lavish, expensive, and unwarranted.

iii. <u>INAWC Rebuttal</u>. Mr. Hobbs disagreed with Mr. Parks' recommendation to disallow the Winchester Major Project because it fails to recognize the age, capacity, condition, or process challenges associated with the current facility. Mr. Hobbs explained that while the age and condition of the Aeralator unit is one of the primary reasons Indiana American determined to replace the Winchester treatment plant, there are a number of other critical areas of treatment and resiliency that need to be addressed as part of the overall project. He explained these challenges include capacity concerns, structural concerns, and process challenges, in addition to the Aeralator unit, that need to be addressed at the plant.

Regarding Mr. Parks' contention that Indiana American did not consider rehabilitating the Aeralator unit and other alternatives for the plant, Mr. Hobbs testified Petitioner considered three alternatives for the Aeralator unit, including rehabilitation, as identified and discussed in the Winchester CPS. As to Mr. Parks' claim that Indiana American did not perform a LCCBA, Mr. Hobbs walked through the relevant provisions of Ind. Code ch. 13-18-26 and explained why he believes the statute is unclear about what is required. Mr. Hobbs further noted the statute is

[9] A 3.5 MGD rated capacity (all filters in service) groundwater treatment plant, office, lab, and clearwell placed in service on August 15, 2019 for a total project cost of $7.412 million, or $2.12 million per MG. Pub. Ex. 9 at 7-8.

[10] A 3.0 MGD rated capacity ion exchange groundwater softening plant that was placed in service in 2021. The total loan amount for the softening plant in 2019 was $6,053,911, or $2.02 million per MG as calculated by Mr. Parks. Pub. Ex. 9 at 8.

enforced by IDEM, and IDEM has not promulgated any regulations regarding what a life-cycle cost benefit analysis should include. He also testified that while IDEM has issued one guidance document, the document does not provide much additional insight into what is specifically required. Mr. Hobbs testified Indiana American followed the statutory language and compared the costs and benefits (not limited to monetized costs and benefits) of the proposed improvements to one or more alternatives.

Mr. Hobbs explained why Indiana American determined to replace the Aeralator unit instead of rehabilitating the unit as Mr. Parks suggests. He testified Winchester is the only district in Indiana American's system that is solely dependent on a single combination style unit or Aeralator for source of treatment, which adds operational complexity and maintenance challenges. He stated Petitioner's proposed separated process layout will allow the system's individual components (such as an individual filter) to be taken offline for maintenance and repair while maintaining treatment. Whereas, in contrast, Aeralators do not have the flexibility to take individual units offline for maintenance or repairs, and instead the entire unit must be taken out of service. Mr. Hobbs testified that the current Aeralator unit can only be taken out of service for approximately one-half day and rehabilitating the Aeralator unit is anticipated to take 4-5 months, which would require full temporary treatment during that time.

Further, Mr. Hobbs testified rehabilitation of the Aeralator does not consider the age and deteriorated condition of the existing Aeralator unit. He testified that at 22 years of service, the Aeralator is nearing its anticipated end of life. Mr. Hobbs explained that rehabilitating the existing Aeralator would also not address the issues of the existing Aeralator not being able to meet the maximum day demand of the system when two filters are out of service. Mr. Hobbs also disagreed that Indiana American does not need to increase the firm and rated capacity of the plant. He testified Mr. Parks' claim is based on his belief that it is acceptable for system demand to exceed firm capacity, which is not in alignment with water industry standards, Indiana Code, or the Ten State Standards. Mr. Hobbs reiterated that the existing Winchester plant does not have sufficient capacity to meet the current or projected maximum day demands of the system. Citing to the Winchester CPS, Mr. Hobbs testified Winchester had annual average day demands ranging from 0.508 MGD to 0.636 MGD and annual maximum day demands ranging from 0.724 MGD to 0.970, and these demands are projected to be 0.877 MGD, 0.859 MGD and 0.847 MGD for years 2025, 2030, and 2023.

Mr. Hobbs reiterated that addressing the Aeralator unit issues will not address the other challenges at the plant, including the lack of onsite clearwell storage, structural failures associated with the chemical building and the backwash holding tank, and the other challenges outlined in the Winchester CPS. Mr. Hobbs discussed each of these challenges and explained they need to be addressed in addition to the Aeralator unit. Mr. Hobbs testified that the new clearwell is needed to provide adequate fire flow protection in the system. He explained that the capacity from the current WTP is only adequate for meeting a fire flow demand of up to 2,500 gpm for the recommended 2-hour duration, and higher fire flows of 3,000 gpm to 3,500 gpm could not be sustained for the recommended 3-hour duration as needed for a significant number of commercial and industrial sites around the system. Mr. Hobbs also testified that one of the ancillary benefits of the added clearwell capacity is the achievement of 4-Log virus inactivation, which is an added benefit to Indiana American's customers and adds to system resiliency.

Regarding the cost of the Winchester Major Project and the cost estimates, Mr. Hobbs explained why Mr. Parks' comparisons to the Eastern Bartholomew Water Corporation and Batesville Water & Gas Utility water treatment plants are not appropriate. He testified that a more appropriate cost comparison would be to the Mooresville WTP that was completed more recently for a total cost of $21,708,452. Further, with respect to Mr. Parks' criticisms of Petitioner for providing varying cost estimates, Mr. Hobbs identified the various sources of the costs estimates Indiana American included in this Cause. He testified it is very rare that a cost estimate will remain the same from the preliminary identification and planning phase of a project to final design and construction of a project. Mr. Hobbs disagreed with Mr. Parks' contention the Winchester treatment plant is oversized and overly lavish, explaining recent water treatment plants constructed by Indiana American included similar amenities.

Mr. Hobbs reiterated that the Winchester Major Project is being competitively procured through a design-build proposal process and subsequent competitive sub-package bidding. He testified that Indiana American's estimated cost is therefore based on actual pricing. Further, Mr. Hobbs testified that only final, actual costs of the projects will be reflected in rate base.

iv. Discussion and Findings. With respect to the Winchester Major Project, the crux of the issue between Petitioner and the OUCC is whether Indiana American considered alternatives, such as rehabilitation of the existing plant, before making the decision to build a new water treatment plant. The OUCC contends Indiana American did not identify and consider alternatives for the plant and did not perform a LCCBA of these alternatives as required by Ind. Code § 13-18-26-3. Further, the OUCC contends Indiana American has not supported that total replacement of the plant is warranted and the plant is too expensive at $25 million.

As noted by Petitioner's witness Hobbs, Ind. Code § 13-18-26-3 is a statute enforced by IDEM. Ind. Code ch. 13-18-26 establishes conditions for receipt of an IDEM permit for water and wastewater treatment plants, one of which is for the applicant to certify that it has prepared and completed a LCCBA. *See* Ind. Code § 13-18-26-2. Whether Indiana American has complied with Ind. Code §§ 13-18-26-2 and -3 to prepare and complete a LCCBA for purposes of obtaining an IDEM permit is a decision to be made by IDEM, and not the Commission.[11] However, we agree with the OUCC that performing a life cycle cost analysis when determining whether to undertake a project, like construction of a new WTP, is generally a reasonable and appropriate first step because it can readily provide the necessary evidentiary support that the chosen project is reasonable, and that cost recovery should be authorized.

Although Indiana American argued that Ind. Code § 13-18-26-3 is unclear and that IDEM has not issued any specific guidance regarding a LCCBA, a life cycle cost analysis, which is a generally understood term in the engineering world, considers the total cost of building, as well as owning and operating, a particular asset and then compares that estimate to other alternative

[11] In the future, the Commission will request copies of the LCCBA for which a utility has certified to IDEM that it has performed.

assets.[12] This type of analysis, which considers the estimated costs of owning and operating an asset along with the cost of construction, is generally favored because it will identify and favor solutions that may have slightly higher, one-time construction costs but provide greater value through reduced day-to-day operating costs over years.

Although Indiana American did not provide such a full life cycle cost analysis, Mr. Hobbs provided Attachment MHH-7 of Petitioner's Exhibit 3C (the relevant portions of the Winchester CPS), which identifies and discusses the alternatives Petitioner considered for the Aeralator unit and other portions of the project. Mr. Hobbs explained that while Indiana American did consider rehabilitating the existing Aeralator unit, horizontal or vertical pressure filters for treatment as Petitioner is proposing with the Winchester Major Project will provide much greater flexibility for future operations. He also explained that the downtime associated with the rehabilitation work is anticipated to take four to five months and, during that time, full temporary treatment would be required. Mr. Hobbs also addressed the issues with rehabilitating the existing Aeralator and explained why the current unit, if rehabilitated, would still not be capable of meeting maximum day demands or address the other operational and structural challenges at the plant.

Ultimately, the record shows that the current Winchester WTP is not capable of meeting current or projected maximum day demands for the Winchester system and is not capable of meeting the recommended fire flows. The record further shows that the Aeralator treatment unit is the only source of treatment in the Winchester district, and Winchester is Indiana American's only system that is solely dependent on a single combination style unit or Aeralator for source of treatment. No evidence was offered to show that replacing or rehabilitating the Aeralator unit would produce any savings in the overall project cost, or that replacing the Aeralator unit would address any of the other challenges currently present at the plant.

As for the estimated cost of the Winchester Major Project, the OUCC took issue with the estimated $25 million cost, comparing it to two other treatment plants—Eastern Bartholomew Water Corporation and Batesville Water & Gas Utility. However, Mr. Hobbs explained why those plants were not good comparisons and presented evidence of the cost of the Mooresville WTP, which was completed more recently, of a similar scope, and reflects the price escalation for capital projects seen in recent years due to the COVID pandemic. The evidence further reflects that the project was procured through a design-build proposal process and subsequent competitive sub-package bidding. Thus, Indiana American's estimated cost is based on actual pricing.

Based on the evidence presented, we find that the Winchester Major Project is reasonable and necessary to address the challenges identified at the existing Winchester WTP and provide safe and reliable service to Petitioner's customers. We also find that the $25 million estimated cost of the project reflects the market price for this project. Once the project is complete and placed in service, Indiana American is authorized to true-up this cost to the actual cost of the project, subject to the compliance filing process discussed below.

Finally, regardless of any IDEM requirement concerning the performance of an LCCBA,

[12] *See e.g.,* American Water Works Association ("AWWA") Asset Management Definitions Guidebook at 18-19, and the Life-Cycle Costs Analysis by the National Institute of Standards and Technology (https://www.wbdg.org/resources/life-cycle-cost-analysis-lcca).

we encourage Indiana American to undertake a life cycle cost analysis that estimates the overall costs (planning, design, construction, commissioning, operations, maintenance, and retirement) of project alternatives when considering and evaluating future projects to demonstrate more easily that its chosen project is reasonable.

b. Sheridan Major Project.

i. INAWC Case-in-Chief. Mr. Hobbs explained Petitioner is proposing to build the new Sheridan Water Treatment Plant to help address challenges meeting maximum day demands, to help serve growth in the service area, and to address other operational challenges. With respect to the plant's capacity challenges, Mr. Hobbs testified the existing Sheridan WTP has a firm capacity of 0.4 MGD, has experienced maximum day demands that have exceeded the plant firm capacity, and is not designed for expansion. Mr. Hobbs further testified that much of the existing facility and equipment dates back to the 1960s and has limited remaining life. He also testified the existing facility uses chlorine gas, which can pose a safety hazard to both employees and customers, and does not have an ammonia feed system, which can present challenges for maintaining a stable chloramine level.

Mr. Hobbs sponsored relevant portions of the Sheridan CPS, which identified the alternative of rehabilitation and expansion of the existing plant to the Sheridan Major Project. Mr. Hobbs testified that while Petitioner considered continuing to use the existing facility, doing so was not the recommended solution for several reasons. He testified continuing to use the existing plant would require major facility upgrades and replacements, or essentially a rebuild of the existing facilities, along with requiring construction of new plant facilities for adequate capacity expansion, for conversion from gaseous chlorine to liquid sodium hypochlorite, and for addition of liquid ammonium sulfate. Mr. Hobbs testified that maintaining the existing facility would also require additional cost for providing treatment while it is rebuilt. Mr. Hobbs further testified that by constructing one new expandable facility, Petitioner can maintain safe and reliable service while the new facility is being completed. Mr. Hobbs sponsored Attachments MHH-14 through MHH-23 providing additional support for the Sheridan Major Project.

ii. OUCC. Mr. Parks recommended the Commission disallow the Sheridan Major Project because Indiana American failed to support the need for the project at the $29.82 million cost and did not support that a total replacement of the existing plant with a much larger plant, is prudent, reasonable, or in the best interest of customers. Like the Winchester Major Project, Mr. Parks testified the proposed replacement plant is oversized, has no LCCBA of alternatives as required by Ind. Code § 13-18-26-3, and is too expensive at $29.82 million or $15.38 per MG of rated capacity.

Mr. Parks testified Indiana American did not evaluate any alternatives besides replacement of the water treatment plant and did not conduct a LCCBA. Mr. Parks testified that Indiana American provided no testimony that a condition assessment was conducted to evaluate the equipment and treatment building to determine whether the existing facility could be expanded as an alternative to replacement. He testified there is no evidence that Petitioner considered the rebuild/expansion/upgrade alternative in any way other than in a perfunctory manner. Mr. Parks further testified that Petitioner does not need to increase Sheridan's firm and rated capacities and claimed that expansion in the near term (five years) does not appear to be needed and could be

delayed further if a fourth vertical pressure filter is added. Mr. Parks also testified that Indiana American should perform a regionalization study as identified in the Sheridan CPS and pause its plan to replace the Sheridan WTP until the study has been completed. He also took issue with the fact that Sheridan's new plant capacity does not include water demand for the new wholesale customer, the District.

Like the Winchester Major Project, Mr. Parks compared the Sheridan Major Project to the Eastern Bartholomew Water Corp. and Batesville plants and testified Sheridan's capital cost is significantly more expensive than these plants. Mr. Parks estimated the new Sheridan Water Treatment Plant to cost $7.0 million instead of the $29.82 million requested by Petitioner.

iii. INAWC Rebuttal. Mr. Hobbs disagreed with Mr. Parks' opinion and recommendation, testifying that Mr. Parks fails to recognize the age, capacity concerns, condition, operation, and process challenges of the Sheridan facility. Mr. Hobbs explained that Indiana American needs to replace the existing Sheridan treatment plant due to capacity concerns, the age of the facility, operational challenges, the need to switch from chlorine gas to liquid sodium hypochlorite, and to add an ammonia feed, among other issues.

Regarding the capacity challenges, Mr. Hobbs testified Petitioner already has challenges meeting maximum day demands and the near future potential growth in the service area will only exacerbate these concerns. He explained that between 2018 and 2021, the Sheridan system had annual average day demands ranging from 0.18 MGD to 0.22 MGD and annual maximum day demands ranging from 0.38 MGD to 0.41 MGD. Mr. Hobbs testified that maximum day demand of the low, base, and high scenarios is projected to increase to 0.53 MGD, 1.07 MGD, and 1.48 MGD respectively, by 2035. He explained that the existing Sheridan WTP has a total filtration capacity of 0.65 MGD and a firm filtration capacity of 0.43 MGD with one of the three filters out of service. Thus, the current firm filtration capacity is inadequate to meet the projected maximum day demands for all three scenarios. Mr. Hobbs testified the proposed water treatment plant is sized with a firm treatment capacity to meet the projected maximum day demands and can expand as additional capacity is needed. He also noted the Sheridan system is located in Hamilton County, which is one of the state's fastest growing counties, and therefore he anticipates the system demand to grow beyond the 15-year projected demand.

Mr. Hobbs responded to Mr. Parks' recommendation that Indiana American wait to construct the new Sheridan WTP until it completes a regionalization study and the relationship of the study to the District. He explained the purpose of the regionalization study is to determine the optimal means of providing water service to the District and all other regionalization areas between Sheridan and Noblesville, as well as to evaluate the impact and benefits of connecting Sheridan to Noblesville and the possibility of supplying water to Sheridan from Noblesville. He explained that Indiana American has not sized the new Sheridan WTP to serve a fully developed Bakers Corner, and the design of the plant at initial completion is intended to serve growth in Sheridan (the area proposed to be served by the District). Mr. Hobbs testified that the plant is being built so it can readily be expanded in the future and explained that if Indiana American determines to ultimately serve Hamilton County from the Sheridan WTP, Petitioner would expand the plant and add additional source of supply to do so.

Mr. Hobbs disagreed with Mr. Parks' recommendation that Indiana American should wait to construct the plant until completion of the regionalization study. He testified the Sheridan Major Project is to help address the current and projected water challenges in the system and the design of the plant at initial completion is intended to serve the growth in Sheridan. Mr. Hobbs testified that while the regionalization study will be helpful for determining how to serve the undeveloped areas in Northern Hamilton County in the long-term, as well as future growth in the service area, this study does not change that Indiana American cannot reliably meet Sheridan's maximum day demands today.

As to Indiana American's evaluation of alternatives for the Sheridan WTP, Mr. Hobbs testified the Sheridan CPS identified the following two alternatives: (1) constructing a new water treatment facility; and (2) conducting a facility assessment for complete rehabilitation/expansion of the current facility. Mr. Hobbs testified Petitioner determined Option 2 (rehabilitation/expansion of the existing plant) was not feasible because much of the existing facility and equipment dates back to the 1960s and has limited remaining service life. He explained Petitioner does not believe it would be a prudent investment to make costly repairs and updates to a 60-plus year-old facility that is already approaching the end of its useful life. He also identified the challenges associated with attempting to expand the plant, and questioned whether the current plant could be expanded. With respect to the LCCBA, Mr. Hobbs again explained that Indiana American followed the statutory language and compared the costs and benefits of the proposed improvements to one or more alternatives.

As for the cost of the Sheridan Major Project, Mr. Hobbs reiterated why Mr. Parks' comparisons to the Eastern Bartholomew Water Corporation and Batesville Water & Gas Utility water treatment plants are not appropriate comparisons. He testified the Sheridan Major Project was competitively procured through a design-build proposal process and subsequent competitive sub-package bidding, and therefore, Indiana American's cost is based on actual pricing. He again testified that a more appropriate cost comparison would be to the Mooresville WTP, which was completed more recently for a total cost of $21,708,452.

iv. Discussion and Findings. Like the Winchester Project, the major dispute between the parties with respect to the Sheridan Major Project is whether Indiana American considered alternatives to total replacement of the WTP and whether Indiana American evaluated these alternatives as part of a LCCBA. Here, the OUCC argued that Indiana American did not perform a condition assessment to evaluate the equipment and treatment building to determine whether the existing facility could be expanded as an alternative to replacement. Further, the OUCC argued Indiana American should pause its plan to replace the Sheridan WTP until a regionalization study is completed.

We again concur with the OUCC about the benefits of performing a life cycle cost analysis that compares the costs of construction and operation of an asset over its useful life with the costs of various alternative assets before embarking on a significant project. While Indiana American did not undertake such an analysis here, we find, in this instance, that Petitioner has sufficiently demonstrated the reasonableness and necessity for the Sheridan Major Project. Mr. Hobbs explained that Indiana American did consider rehabilitating and expanding the plant, but such option is not feasible or recommended because much of the existing facility and equipment dates back to the 1960s and is at the end of its useful life. Petitioner expanded on this issue in its response

to the Commission's August 25, 2023 Docket Entry, where it included pictures of the existing Sheridan WTP showing existing building deterioration, building footprint limitations for expansion, current use of gas chlorination, and the space for a fourth filter installation being occupied by laboratory and chemical use.

The evidence also demonstrates that Petitioner currently has challenges meeting maximum day demands and that potential growth in the service area in the near future will only exacerbate these concerns. Mr. Hobbs explained that even if the current plant could be rehabilitated, it would still need to be expanded to address these capacity challenges. He also explained why it is questionable whether the current plant could even be expanded, including the closeness of the wells and filter capacity limitations. Mr. Hobbs identified multiple challenges that would need to be addressed to expand the existing facility, and identified a number of other operational and structural issues that need to be addressed as part of the project.

With respect to the need for the new Sheridan WTP, Mr. Hobbs testified that the Sheridan system is located in Hamilton County, which is one of the fastest growing areas in the State. The record shows that Indiana American already has challenges meeting maximum day demands in the service area as the recent historical maximum day demand of 0.41 MGD is already nearly equal to the firm capacity (0.43 MGD) of the current 60-year old plant, without any consideration for growth. Given the likelihood for significant future growth in this area, these capacity challenges are likely to only get worse in the near future.

The OUCC argues that Indiana American should put a pause on the project until it has had the opportunity to conduct a regionalization study to determine how service should be provided in the service territory. However, as Mr. Hobbs explained in his rebuttal testimony, the design of the Sheridan Major Project at initial completion is intended to serve growth in Sheridan, and Indiana American cannot reliably meet Sheridan's maximum day demands today. Further, the record shows that the sizing of the WTP excludes the District's demand, so if it is determined through the regionalization study or other means that the Sheridan WTP will be used to serve this new customer, this will only exacerbate the capacity challenges Indiana American is experiencing in the Sheridan service area. We agree that while the regionalization study will be useful for helping Petitioner determine how to serve northern Hamilton County in the long-term, it will not address the current system capacity challenges or the other operational and structural concerns at the plant.

Like the Winchester WTP, the OUCC also took issue with Petitioner's estimated cost for the Sheridan Major Project of $29,817,795. Mr. Parks compared the Sheridan Major Project cost to the Eastern Bartholomew and Batesville plants and used this comparison to argue the cost of the project is too high. Mr. Hobbs disagreed with Mr. Parks that the Eastern Bartholomew and Batesville plants provided an appropriate comparison, and again pointed to the Mooresville plant as a more appropriate comparison.

For the reasons discussed previously for the Winchester Major Project, we do not need to address the issue of which cost comparison is more appropriate. The record shows that the Sheridan Major Project was bid and the estimate included in Indiana American's case-in-chief reflects the actual pricing received. We therefore find that the $29,817,795 estimated cost of the project reflects the market price for this project. Once the project is complete and placed in service, Indiana

American is authorized to true-up this cost to the actual cost of the project, subject to the compliance filing process discussed below.

2. Other Disputed Rate Base Items.

a. Main Extension to Hamilton County Regional Utility District.

i. INAWC Case-in-Chief. As part of its capital additions in this Cause, Indiana American proposed to extend 11,400 feet of 20-inch transmission main for Phase 1, and 7,700 feet of 16-inch transmission main for Phase 2, east from Sheridan to connect to the future District's water system at Springmill Road & 236th Street, more commonly known as Bakers Corner.[13] Indiana American proposed the project for inclusion because it entered into a SFR agreement to provide drinking water for the District located between Sheridan and Noblesville, and interconnection with an existing Indiana American Water system was required to serve District.

ii. OUCC. Mr. Parks took issue with the project and argued that the project is a main extension subject to the Commission's main extension rules under 170 IAC 6-1.5. Mr. Parks testified Petitioner should have developed a main extension agreement and developed the estimated costs to design and construct the main extension. He further testified that all costs, except a three-year revenue allowance, are the responsibility of the District and should be paid to Indiana American. Mr. Parks testified that the project costs should not be added to rates without a main extension payment by the District reflecting its contribution in aid of construction. Mr. Parks further testified that because it appears Petitioner has not properly characterized the project as a main extension, he recommended disallowing recovery of the capital costs in rate base.

iii. INAWC Rebuttal. Mr. Hobbs disagreed with Mr. Parks' contention that the new transmission main to connect Indiana American's system with the newly formed District is a main extension subject to the Commission's rules under 170 IAC 6-1.5. Mr. Hobbs testified the Indiana General Assembly enacted Ind. Code § 8-1-2-46.2(b) which provides:

> (b) Notwithstanding any law or rule governing extension of service, a water or wastewater utility may, on a nondiscriminatory basis, extend service:
>
> (1) for economic development purposes;
>
> (2) to rural areas; or
>
> (3) to developed but underserved areas;
>
> without a deposit or other adequate assurance of performance from the customer, to the extent that the extension of service results in a positive contribution to the utility's overall cost of service over a twenty (20) year period. For the purposes of this subsection, a water or wastewater utility's extension of service to a developed but underserved area will be considered as resulting in a positive contribution to the utility's overall cost of service over a twenty (20) year period to the extent that

[13] *See* Petitioner's Exhibit 3, Attachment MHH-4 at 1-2.

> rates to be paid by fifty percent (50%) or more of the customers who could be served by the extension of service would enable the utility to fully recover the weighted cost of debt and depreciation expense attributable to the cost of the main extension for the extension of service.

Mr. Hobbs testified that this is a unique main extension in one of the (if not the) fastest growing areas in the State.

Indiana American witness Shimansky sponsored the calculation showing Indiana American satisfied the 20-year test set forth in Ind. Code § 8-1-2-46.2(b). Mr. Shimansky explained how the test would be applied and sponsored Attachment GDS-2R, which showed the extension will result in a positive contribution of service in year 13. Mr. Hobbs testified that because the extension of service will result in a positive contribution to Indiana American's overall cost of service over a 20-year period, no deposit from the District was required and the Commission's main extension rules did not apply. Mr. Hobbs testified that Mr. Parks' testimony about a three-year revenue allowance and a requirement that Hamilton County fund a portion of the cost is therefore incorrect.

Mr. Hobbs reiterated why the new transmission main to the District is a unique main extension. He said it is well understood that Hamilton County has long been one of the fastest growing areas in the State. He testified that in a matter of a few years, much of the County has grown from towns and small cities surrounded by farmland into a densely populated and largely urban area. He further testified that growth has continued north in the County and has reached the point that only the northern portion of the County remains undeveloped.

Mr. Hobbs expanded on the purpose of the regionalization study, the relationship of the study to serving the District, and Indiana American's overall regionalization strategy for serving the new growth in northern Hamilton County. Mr. Hobbs explained that Indiana American has not sized the new Sheridan WTP to serve a fully developed Bakers Corner, but the plant is being built so that it can be readily expanded in the future if needed. Mr. Hobbs explained that a regional approach will be needed to meet this need so that development in Hamilton County is not hindered due to lack of capacity to serve new growth. Mr. Hobbs testified that Petitioner is in the process of conducting a regionalization study, and once the study is completed and Petitioner has a more complete understanding of the best way to bring water to the entirety of the undeveloped area in northern Hamilton County, Indiana American will be in a position to know whether the full buildout of Bakers Corner should be served by a further expansion of the Sheridan Plant, interconnection to a future expansion of the Noblesville Plant, a combination of the two, or some other option that has not yet been identified.

iv. Discussion and Findings. The crux of the issue between the parties with respect to this project is who should be responsible to pay for the transmission main to interconnect and serve the District. The OUCC argues this is a main extension that should be subject to the Commission's main extension rules at 170 IAC 6-1.5, and thus should be primarily funded by the District. In contrast, Indiana American argues this is a unique main extension that falls under Ind. Code § 8-1-2-46.2(b), which allows a water utility to, among other things, extend service for economic development purposes or to rural areas, without a deposit from

the customer if the extension of service results in a positive contribution to the utility's overall cost of service over a 20-year period.

Ind. Code § 8-1-2-46.2(b) authorizes a utility to extend service: (1) for economic development purposes; (2) to rural areas; *or* (3) to developed but underserved areas. (emphasis added). While Indiana American argues that the main extension is for economic development purposes, this does not appear to be supported in the record. Mr. Hobbs testified as to the expected growth in the area but did not specify the type of growth expected. Our review of the area reveals, except with some minor exceptions along U.S. 31, the main extension will likely be dominated by residential growth. However, the statute also authorizes the extension of service to rural areas and no party disputed that this main extension would extend service to a rural area of the State.[14]

Mr. Shimansky sponsored Attachment GDS-2R to Petitioner's Exhibit 15 showing the extension will result in a positive contribution of service in year 13. Mr. Shimansky assumes that the District's water use will increase to its projected usage of 2.45 MGD over a 20-year period by adding approximately 900 customers a year. However, this assumption has no foundation in the record and contradicts the District's own projections. In response to an OUCC discovery request, the District states there is no study that supports adding approximately 900 customers a year. Pub. Ex. CS-7, Part 1 at 2 of 335. The District goes on to note that for cash flow purposes, it has assumed growth of only 150 customers per year. *Id.* Further, the District projections show growth of approximately 150 customers per year for years one through ten and only 75 customers per year for years 11 through 20. Pub. Ex. CX-7, Part 2 at 151 and 154 of 252. Using the District's projections, the proposed extension will not result in a positive contribution of service until approximately year 33.

Based on the evidence presented, we find Indiana American has not satisfied the requirements of Ind. Code § 8-1-2-46.2(b) to demonstrate that the main extension will result in a positive contribution to the utility's overall cost of service over a 20-year period. As such, the Commission's main extension rules apply. Therefore, the estimated $9,238,302 project costs should not be added to rate base without a main extension payment by the District reflecting its contribution in aid of construction. If Indiana American proceeds with the project under the Commission's main extension rules, it is authorized to reflect its portion of the main extension cost in rate base, which is generally the revenue allowances provided by the main extension rules.

We further agree that a regional approach is needed to ensure the provision of water service keeps pace with development in Hamilton County. We believe the regionalization study Indiana American is in the process of conducting is a critical tool in determining how to serve these rural, undeveloped areas in northern Hamilton County in the long-term, as well as future growth in the service area. As such, we encourage Indiana American to complete the regionalization study to determine how best to regionalize service in Hamilton County in the future.

[14] Ind. Code § 8-1-2-46.2 does not define "rural area." The Mirriam-Webster Online dictionary defines "rural" as "relating to the country," which is consistent with the definition of "rural area" in other sections of Title 8 (i.e., Ind. Code §§ 8-1-2-87 and 89) as areas in Indiana but outside municipal corporate limits.

b. Future Source of Supply.

i. INAWC Case-in-Chief. Petitioner included four future sources of supply projects in this Cause: (1) Project I10-100020 – KOK Sheridan Property Acquisition for New Well or Wells ("Sheridan Property"); (2) Project I10-500003 – CRW SOS Test and Property Acquisition; (3) I10-600024 – NOB Hamilton Co SOS Property Purchase; and (4) Project I10-600010-03 – NOB WRCC SOS Property. Mr. Hobbs testified Petitioner prepared plans to develop each of these future sources of supply and is seeking approval of those plans and to add the actual costs of these sources of supply to the value of Petitioner's property pursuant to Ind. Code § 8-1-2-23.5.

Mr. Hobbs sponsored Petitioner's plans to develop each of these future sources of supply as Attachment MHH-24 to Petitioner's Exhibit 3, and testified the information required by Section 23.5 is included in Petitioner's plans for each of the future sources of supply. Mr. Hobbs testified that Indiana American's future source of supply plans are reasonable and prudent for the provision of safe and reliable service.

ii. OUCC. Ms. Willoughby challenged the Sheridan Property project. She recommended the Commission reject the $779,566 Indiana American requested to include in rate base for the proposed acquisition of property for the new well(s) in Sheridan because it is not currently necessary and prudent for Petitioner to acquire property for a future wellfield in Sheridan. She testified that the rates set in this case are intended for projects through April 2025, and population growth estimates through 2040 show that Sheridan will not be utilizing even half of its current wellfield capacity before the addition of proposed new Well No. 7. Therefore, she recommended the Commission deny the $779,566 requested for the acquisition of land for new well(s) in Sheridan.

iii. INAWC Rebuttal. Mr. Hobbs testified that he believes Ms. Willoughby's objection is actually to Ind. Code § 8-1-2-23.5, which allows a water utility to acquire vacant ground for a future well field before that land has been developed and becomes unavailable. Mr. Hobbs explained that the rate of growth and development in Sheridan creates the present need to obtain property rights for future sources of supply, and Indiana American is competing for property rights with development firms that intend to develop property for other purposes. Mr. Hobbs testified that if Indiana American's future source of supply plan is approved and the additional source of supply is captured in rate base, but not placed in service by the date identified in the timetable, then the statute sets forth a refund procedure to restore customers.

iv. Discussion and Findings. Ind. Code § 8-1-2-23.5 allows a public utility to seek Commission approval of a plan to develop a future source of water supply. Section 23.5(a) requires the utility's plan to include: (1) the timetable for placement in service of the future source of supply; (2) the cost of the source of supply; (3) the need for a new source of supply within the public utility's timetable; (4) the availability of alternatives to the proposed source of supply; and (5) the need to secure property rights to preserve and protect the planned future source of supply.

The only future source of supply project challenged was the Sheridan Property project. The

OUCC argues that this project should not be allowed in rate base because additional wellfield capacity is not currently needed in Sheridan and will not be needed by April 2025, the period rates are to be set for this Cause.

We agree with Indiana American that Ind. Code § 8-1-2-23.5 allows a water utility to acquire vacant ground for a future well field before that land has been developed and becomes unavailable, even if the completion date extends beyond the test year. However, we find Petitioner has failed to satisfy Ind. Code § 8-1-2-23.5(a)(4) with respect to the Sheridan Property project. Petitioner's Exhibit 3, Attachment MHH-24, which contains Petitioner's plan for each of the source of supply projects, provides the following for the Sheridan Project:

> Indiana American Water has initiated a preliminary hydrogeologic study to evaluate potential locations for development of ground water source of supply in the area. Ground water source of supply is preferred and anticipated to be available for the projected demands. *Alternatively, development of a surface water source of supply could be evaluated.* The development of surface water requires additional challenges and time that may not be available depending on rate of drinking water demand growth.

Id. at 67, emphasis added. No specific surface water source was identified, no analysis was provided, and no conclusions were rendered concerning possible alternatives to the proposed project.[15] Instead, Petitioner's plan simply indicates that development of a surface source of supply *could be* evaluated. Accordingly, because Petitioner failed to sufficiently address the availability of alternatives to the proposed Sheridan Property project, we cannot find Petitioner's plan for that project is reasonable and prudent for the provision of safe and reliable service at this time.

As for the other three source of supply projects, we find Indiana American has included the information required under Ind. Code § 8-1-2-23.5(a) and the plans for those three projects are reasonable and prudent for the provision of safe and reliable service for the reasons set forth in Mr. Hobbs' direct testimony and Attachment MHH-24. Accordingly, we find Petitioner may reflect the costs of developing the following in rate base as set forth in Ind. Code § 8-1-2-23.5(b): (1) Project I10-500003 – CRW SOS Test and Property Acquisition; (2) I10-600024 – NOB Hamilton Co SOS Property Purchase; and (3) Project I10-600010-03 – NOB WRCC SOS Property.

c. Lake Station Water Treatment Plant.

i. INAWC Case-in-Chief. Indiana American did not discuss the Lake Station WTP and wells in its case-in-chief testimony.

ii. OUCC. Mr. Parks recommended the Lake Station WTP and wells be removed from Indiana American's rate base because they are not needed from a technical, operational, or economic standpoint. Mr. Parks testified that the WTP and wells have been continually out of service since February 5, 2019, and have not produced any finished water for over four years. Mr. Parks explained that while Indiana American provided testimony in Cause No. 45041 that it would maintain and regularly place the plant into operation to ensure rapid

[15] Petitioner's response to our August 17, 2023 Docket Entry provided no additional information. Pet. Ex. 27.

reliability to use during peak demand days, or as emergency supply, Indiana American has not restarted the wells and treatment plant nor produced any water since closing on the acquisition. Mr. Parks further testified that Indiana American was not able to show it is incurring O&M costs to keep the Lake Station WTP in a state of ready availability if needed during peak day demands or emergencies.

Mr. Parks testified that the Lake Station WTP is not needed during peak demand days or emergencies. He explained that Indiana American meets peak demand in its Northwest Indiana District without operating the Lake Station treatment plant and has also met demand in Northwest Indiana during voluntary shutdowns of the Ogden Dunes WTP without the Lake Station WTP on-line. Mr. Parks also testified that reopening the existing East Chicago interconnection and purchasing water would serve as a lower marginal cost alternative than restarting the Lake Station wells and WTP in response to an emergency. Finally, Mr. Parks testified that Indiana American did not propose any "ratemaking options that might mitigate the impact of the purchase price" of the wells and WTP as suggested by the Commission in its Order in Cause No. 45041.

OUCC witness Stull sponsored Petitioner's adjustment to remove $6,539,385 from rate base for the Lake Station wells and WTP. *See* Pub. Ex. 3, Attachment MAS-1 at 3.

iii. <u>INAWC Rebuttal</u>. Indiana American witness Britto testified that contrary to Mr. Parks' testimony, the Lake Station WTP is fully operational and is maintained day-to-day in standby status. Ms. Britto testified that the WTP maintains an active WT3 Operator License through IDEM and has all of the necessary equipment (including chemicals and chemical feed equipment) to produce potable, finished water. Ms. Britto further testified that maintenance is regularly performed, and Indiana American personnel operate the wells and pumps on a monthly basis to ensure the plant remains fully operational. She also testified that at least one employee is on-site at the WTP each day to do visual inspections and confirm there are no issues at the plant. The WTP also maintains its own chemicals inventory and disinfection chemicals are kept on-site in the event treatment is needed.

Ms. Britto further explained the WTP is maintained in standby status to minimize the day-to-day operations and maintenance expense associated with operating the plant. She testified the WTP can be transitioned out of standby status to produce potable finished water within 24 hours. Ms. Britto testified that this is how Indiana American intended to operate the Lake Station WTP when it acquired the system in Cause No. 45041.

Ms. Britto disagreed with Mr. Parks' contention that the Lake Station WTP is not needed during peak day demands or emergencies and explained why the Lake Station WTP is needed in an emergency situation to serve the Northwest District.

Finally, Ms. Britto disagreed that reopening the East Chicago interconnection would serve as a lower cost alternative compared to operating the Lake Station WTP in standby status as Indiana American currently does. Ms. Britto testified that Indiana American cannot simply open a valve and obtain water from the interconnection, and that in order to take East Chicago water into the Northwest Operations Distribution system, Petitioner would need to overcome the East Chicago Free Chlorine water with high quantities of chlorine injected at the connection site of the two systems. Ms. Britto explained that Indiana American does not currently have this equipment

installed and the system is not equipped to do this. She said treating the water at the point of entry would require the construction of a structure to house the chlorine, chlorine inventory onsite, flow control equipment, chemical feed equipment and monitoring equipment. In addition to these capital investments, Ms. Britto testified there would be additional O&M costs associated with operating this equipment, including maintenance costs, security costs, and labor costs to maintain the site. She testified that this is just one example of why providing water via the East Chicago interconnect would not provide a lower cost marginal alternative in an emergency situation.

Indiana American witness Shimansky responded to Mr. Parks' contention that Indiana American did not propose "ratemaking options that might mitigate the impact of the purchase price" of the wells and treatment plant. Mr. Shimansky testified Petitioner has greatly reduced the level of O&M expense at the plant to minimize the impact of purchasing the plant. He provided Petitioner's Exhibit 15, Attachment GDS-1R, which showed the customer bill impact from having the Lake Station plant ready to activate in an emergency is 12 cents per month.

iv. Discussion and Findings. Before addressing the parties' dispute over whether the Lake Station WTP should continue to be maintained as an emergency backup source of water supply, we must address an error in the OUCC's proposed accounting for its recommendation. In Cause No. 45041, the Commission found the Lake Station WTP to be used and useful.[16] The Commission's Order was affirmed on appeal on this specific question. *Ind. Off. of Util. Consumer Counselor v. Indiana-American Water Co., Inc.*, 129 N.E.3d 833 (table), 2019 WL 2608488 (Ind. Ct. App. 2019) (unpublished opinion).[17] We also approved in that same Order, the journal entry to record the acquisition of the Lake Station WTP as used and useful utility plant. The OUCC's position is that used and useful plant is no longer needed and is therefore no longer used and useful, which is essentially an argument that the plant should be retired. As Mr. Shimansky testified on rebuttal, the retirement of depreciable utility plant is recorded by debiting Account 108 (Accumulated Depreciation) and crediting UPIS for the original cost of the asset reflected on the utility's books. 170 IAC 6-2-2(a) and 1996 Uniform System of Accounts, Instruction 27(B)(2). The effect of these entries is offsetting—there is zero impact on net original cost rate base. *See*, e.g., *Ind. Mich. Power Co.*, Cause No. 44182 at 59 (IURC July 17, 2013). As such, even if we were to accept the OUCC's position, the effect of doing so would not produce the result that the OUCC seeks. There would be no reduction to net original cost rate base.

With the understanding that we are not addressing an issue that affects net original cost rate base, we now address the main dispute between the parties—whether the Lake Station WTP and wells are currently in operation and used and useful to Indiana American. This same issue was raised in the Lake Station acquisition case, where the parties disputed whether the Lake Station WTP assets would be used and useful following the acquisition.

While the OUCC asserted that the Lake Station WTP has remained out of service since February 5, 2019, and is not currently in operation, Indiana American provided evidence that it is

[16] Jt. Pet. of Indiana-American Water Co., Inc. and the City of Lake Station, Indiana, Cause No. 45041 at 32 (IURC Aug. 15, 2018).

[17] Ind. Off. of Util. Consumer Counselor, Town of Schererville v. Indiana-American Water Co., Inc., 137 N.E.3d 922 (Ind. 2019), transf. denied.

in operation and being maintained in standby status in the event of an emergency. Ms. Britto testified that the plant maintains an active WT3 Operator License through IDEM, it has all of the necessary equipment to produce potable, finished water, maintenance is performed regularly at the plant, and Indiana American personnel operate the wells and pumps on a monthly basis to ensure the plant remains fully operational. The evidence further demonstrates that the WTP can be transitioned out of standby status to produce potable finished water within 24 hours in the event of a chemical spill in Lake Michigan or another emergency requiring the plant to provide emergency capacity to the Northwest Indiana District.

The OUCC also questioned whether Indiana American needs the plant to serve the Northwest District in emergency situations, noting that Indiana American has met demand in Northwest Indiana during shutdowns of the Ogden Dunes WTP without the Lake Station plant online. On rebuttal, Indiana American explained why, and under what circumstances, Indiana American would need the Lake Station plant to serve the Northwest District in the event of an emergency. Pet. Ex. 17-C at 12. While Indiana American has not yet been required to activate the Lake Station WTP in an emergency situation, Ms. Britto's testimony demonstrates probable scenarios where this situation could become a reality.

The OUCC also argued that reopening the East Chicago interconnect would provide the lowest marginal cost alternative compared to the Lake Station WTP to provide service in response to an emergency. However, Ms. Britto explained why reopening the East Chicago interconnect is not feasible and would not provide a lower cost alternative to maintaining the plant in standby status. The evidence demonstrates that Indiana American cannot simply open a valve from the interconnect and the two water systems are incompatible because East Chicago is a free chlorine system whereas the Northwest District is a total chlorine system.

Finally, the OUCC argued that Indiana American has not proposed ratemaking options to mitigate the cost of the Lake Station WTP and wells. The language from our Order in Cause No. 45041 (at 32) encouraged Indiana American to propose ratemaking options that might mitigate the impact of the purchase price in future cases "*if it does in fact turn out the WTP and wells are not used and useful to Indiana American following the acquisition*." The evidence demonstrates that Indiana American has reduced O&M expenses at the plant to only those required to maintain the plant in standby status. Mr. Shimansky calculated a customer bill impact of 12 cents per month from having the Lake Station plant ready to be activated in an emergency.

Accordingly, based on the evidence presented, we find that the Lake Station WTP and wells are currently used and useful to Indiana American to provide service in the event of an emergency in the Northwest District. Indiana American has also taken steps to minimize the plant's O&M expense to mitigate costs to customers while still ensuring the plant's availability in the event of an emergency. As such, we find that the assets are appropriately included in rate base in this Cause.

d. Lift Station Replacement Projects.

i. INAWC Case-in-Chief. Indiana American proposed Project I10-110002 – Kokomo Wastewater Sheridan 6th Street Lift Station Replacement

("6th Street Project").[18] The project would replace the existing lift station that is past its useful life and currently cannot handle peak flows associated with the sanitary basin. While significant customer growth is not anticipated in the basins, increased inflow and infiltration ("I&I") present capacity concerns in these areas. Petitioner noted overflows downstream of the lift station as well as flooding of the wet well during wet weather conditions. The current lift station mechanical and electrical components are in poor condition and at the end of their useful life. Additionally, the lift station is located within the State Road 38 right-of-way and the location and lack of safe access poses a safety risk to personnel during regular maintenance and operation.

Petitioner also proposed Project I10-110003 – Kokomo Wastewater Sheridan Maple Run Lift Station ("Maple Run Project").[19] The project includes improvements to the existing Maple Run Lift Station pumping and electrical, as well as the addition of a metering vault structure. Improvements are needed to provide necessary pumping capacity for the South drainage sub-basin. The Maple Run lift station capacity is limited by a number of factors such as wet well size, pump capacity, force main size, and downstream discharge location capacity.

ii. OUCC. With respect to the 6th Street Project, Ms. Willoughby recommended the Commission disallow the inclusion in rate base of $1,791,005 because Indiana American did not provide sufficient evidence to support replacing the lift station or the cost estimate. She testified it is an imprudent use of ratepayer funds to install larger equipment to handle I&I without addressing the underlying cause for the I&I. Further, Ms. Willoughby testified Petitioner has not provided documentation to support replacement of the lift station based on its condition, or to support the cited safety concerns for relocating the lift station. She testified that having a lift station in the right of way is not unusual and does not necessarily make the location unsafe. Ms. Willoughby also took issue with Indiana American's cost estimates and testified that Petitioner needed to provide documentation and calculations to support how the cost estimate was assembled.

With respect to the Maple Run Project, Ms. Willoughby recommended the Commission deny a portion (the final amount is confidential) of the proposed costs for overestimation of labor, contingency, and indirect overhead costs. She testified that Indiana American provided conflicting cost estimates for the project, and Petitioner's cost estimates include errors.

iii. INAWC Rebuttal. Regarding the OUCC's recommendation to disallow the 6th Street Project, Mr. Hobbs explained that addressing I&I in the basin as Ms. Willoughby suggests will help the entire system with a reduction in eventual treatment but will not address the issue that the station is undersized for the number of customers it serves, or address the other significant project drivers, such as the condition of the lift station, lack of current pumping capacity, site access, safety, and security. Mr. Hobbs testified Indiana American has attempted to address the I&I issues in the basins but addressing I&I will not obviate the need for replacement of the lift station. With respect to the current capacity concerns at the lift station, Mr. Hobbs testified that equivalent dwelling unit estimates coupled with a peaking factor of four indicate that the station needs to be sized at a minimum for a peak flow of approximately 370 gpm.

[18] Petitioner's Exhibit 3, Attachment MHH-4 at p. 3.

[19] *Id.* at p. 5.

Mr. Hobbs testified that during a 2019 draw down test, the current pumps were not able to achieve the estimated 370 gpm flow rate needed, where pump 1 at 196-gpm and pump 2 at 122-gpm pumped a combined 270-gpm.

With respect to the condition issues, Mr. Hobbs sponsored photos of the lift station at Attachment MHH-10R of Petitioner's Exhibit 16 to show the heavily corroded discharge piping without protective coating, control panel structural supports with excessive corrosion, surface deteriorating of concrete, access hatches without secondary safety protection, wetwell exhaust vent located between the sidewalk and road, and a 230-volt control panel in poor condition. With respect to the safety issues, Mr. Hobbs testified there is currently no dedicated access for employees to safely park and maintain the station, and they are currently using an undeveloped lot at the corner of State Road 38/6th and Main Street for wetwell maintenance. Mr. Hobbs explained that if the lot becomes inaccessible in the future, it will require employees to park vehicles and equipment along State Road 38, and this could result in safety issues for employees and traffic flow disruptions for the public.

Regarding Petitioner's cost estimates for the Maple Run Project, Mr. Hobbs testified that Petitioner provided two cost estimates for the lift station project that were prepared at different times, which is why the cost estimates Petitioner provided for the project differ. As to the errors Ms. Willoughby identified, Mr. Hobbs stated that the cost estimates Indiana American provided are just that, estimates. He explained that as costs mature through the implementation process, the estimates will be updated through monthly reforecasting where any potential overestimating of labor in the estimate will be corrected when the actual costs of the project go into rate base. Mr. Hobbs testified the cost estimate issues raised by the OUCC are generally not relevant, because it is the actual costs of the project that will be reflected in rate base.

iv. Discussion and Findings. With respect to the 6th Street Project, the OUCC argues the capacity issues at the lift station are the result of I&I in the system, which should be addressed before installing larger equipment. While we agree larger equipment should not be the first solution to I&I, the evidence demonstrates that Indiana American conducted a system wide collection system evaluation that included an assessment of I&I issues. Pet. Ex. 16, Attachment MHH-1R. It shows Indiana American has attempted to address specific I&I issues associated with infrastructure upstream of the 6th Street lift station, but the station is still undersized.

The record also shows that capacity issues are not the only driver of the project, as components of the lift station are in poor condition and the location of the lift station in the public right-of-way poses security and safety concerns to Indiana American's employees and the public. Pet. Ex. 16, Attachment MHH-10R. Petitioner identified several issues related to age and system deterioration that need to be addressed, including piping restrictions and electrical issues. These issues indicate that replacement of the lift station is needed to maintain operation. In addition, while site safety does not appear to be a concern today, the evidence demonstrates that future planned road improvements are likely to create safety and security concerns.

Accordingly, we find that replacement of the 6th Street lift station is necessary to address the capacity, condition, safety, and security concerns identified by Petitioner, and is required for

Indiana American to provide safe, adequate, and reliable service to its customers. For those reasons, we find the 6th Street Project should be approved.

With respect to the Maple Run Project, the OUCC did not take issue with the project itself, but rather raised concerns about the cost estimates Indiana American provided to support the project. While Petitioner's cost estimate is a planning-level estimate, we find such estimate to be sufficient at this time. As Mr. Hobbs explained on rebuttal, it is the actual cost of the project and not the estimates that will be reflected in rate base. For this reason, we find the Maple Run Project should be approved and the amount that should be reflected in rate base for the project is the actual cost of the project upon completion.

e. BT SOP 98-01.

i. INAWC Case-in-Chief. Indiana American sought to include its Business Transformation costs (referred to as "BT SOP 98-01") in rate base in this Cause. As part of its total company rate base, Indiana American proposed to include $7,170,944 of BT SOP 98-01 costs as UPIS, as well as $6,619,332 of accumulated depreciation associated with the BT SOP 98-01 project.

ii. OUCC. Ms. Stull recommended Indiana American's request to include these costs in rate base be denied. She explained that the BT SOP 98-01 costs refers to expenditures associated with implementation of American Water's customized SAP software system. She said SOP 98-01 provides guidance on accounting for the costs of computer software developed or obtained for internal use and requires training and data conversion costs be expensed as incurred.[20] Ms. Stull noted that, in Cause Nos. 44450 and 45142, Indiana American sought to capitalize these costs for ratemaking purposes, which the OUCC opposed but did not object to the recovery of the costs over time through amortization. She noted that in settlements, these costs were excluded from rate base but amortized over 13 years, which has effectively allowed Indiana American a "return of" but not a "return on" the expenditures.

Ms. Stull clarified that the OUCC does not oppose Indiana American's continued ability to earn a return of the expenditures. However, she said Indiana American should not be authorized to earn a return on the expenditures because they are not construction costs used to produce plant that is used and useful in the provision of utility service under Ind. Code § 8-1-2-6. She further testified that Petitioner neither supported why these costs should be included in rate base nor why the treatment of these costs should deviate from prior Commission rate orders for Indiana American.

iii. INAWC Rebuttal. Mr. Shimansky disagreed with Ms. Stull's recommendation that the BT SOP 98-01 costs be disallowed. With respect to Ms. Stull's contention that these costs do not qualify for inclusion in rate base because they are not construction costs under Ind. Code § 8-1-2-6, Mr. Shimansky testified that capital dollars spent do not have to be related to "construction" to be recovered in rate base. He testified that capital dollars, or any asset, represents money spent today that creates a benefit for future periods. He further

[20] SOP is a Statement of Position issued by the American Institute of Certified Public Accountants, which is considered to be a source of generally accepted accounting principles.

testified that Ind. Code § 8-1-2-6 also provides that rate base includes "the cost of bringing property to its then state of efficiency," which is precisely what the BT SOP 98-01 asset represents. Mr. Shimansky explained that the planning, data conversion, training deployment, and stabilization costs invested in the Business Transformation program and recorded as SOP 98-01 assets were critical to bringing the Business Transformation investment to its current state of efficiency. He testified that the OUCC is not opposed to the collection of the BT SOP 98-01 asset, and if the asset is eligible to be collected in rates, it should also be included in rate base.

As for the costs not being included in rate base in prior rate cases, Mr. Shimansky testified the treatment of the BT SOP 98-01 costs in Indiana American's prior rate case was pursuant to a settlement and for the purpose of reaching a resolution in that case. Mr. Shimansky explained Petitioner did not agree to remove it permanently from rate base nor did it agree not to include it in the rate calculations in its next rate case.

iv. Discussion and Findings. In Cause No. 44059, Indiana American sought approval of expenditures for the design, development, and implementation of its Business Transformation program, which was to replace and upgrade its information technology systems. In that Cause, the Commission approved an agreement by the parties that Indiana American could defer for future recovery the estimated $6,800,000 of associated costs and that the deferred costs should be amortized over ten years. In a settlement approved by the Commission in Cause No. 44450, the parties agreed that all BT SOP 98-01-related assets should be depreciated, or amortized, over 13 years rather than the ten years approved in Cause No. 44059.

As an initial matter, we agree with the OUCC that given Petitioner's decision to request authorization to include the BT SOP 98-01 costs in its base rates after such costs were previously excluded, Indiana American should have included a discussion to support the reasonableness of its request in its case-in-chief. Nonetheless, we find the evidence supports including these costs in rate base.

We recently addressed the inclusion of these types of software costs in rate base in *Aqua Indiana, Inc.*, Cause No. 45675 (IURC Jan. 18, 2023). There, the utility sought preapproval of design, implementation, and development costs associated with improvements to its information technology systems and software under Ind. Code § 8-1-2-23. The OUCC argued that the software costs were not appropriate for pre-approval under Ind. Code § 8-1-2-23 because they did not qualify as an extension, construction, addition or improvement to plant and equipment. *Id.* at 9. The OUCC also argued that these costs, which generally accepted accounting principles ("GAAP") require to be expensed, should not be capitalized in rate base because they did not result in utility assets. *Id.* at 5-6. We disagreed and found that the software qualified for pre-approval and authorized the costs to be included in rate base.

We are dealing with the same type of costs here. These deferred expenses are linked to software and associated with an asset includable in utility plant. Therefore, the unamortized balance of the deferred costs can be included in rate base. Whether the costs received preapproval under Ind. Code § 8-1-2-23 does not affect, or alter, the manner in which such costs are treated for ratemaking purposes. We also disagree with the OUCC's argument that the treatment of these costs in the 2019 Rate Order should dictate how these costs are treated in this Cause. As Mr.

Shimansky explained on rebuttal, the agreement to exclude these costs from rate base in Cause No. 45142 was done for purposes of reaching a settlement. Nothing in the settlement reflects Petitioner's agreement that these costs should be excluded from rate base.

Accordingly, we find that the BT SOP 98-01 cost Petitioner proposes to include in rate base in this Cause is eligible to earn a return on as part of its rate base. As such, we find these costs were appropriately included in rate base in this Cause and should be approved.

f. Acquisition Related Costs.

i. OUCC. Ms. Stull noted that INAWC has been authorized to include in its rate base legal fees incurred by the utility related to its acquisition of water and wastewater utilities. She expressed concern with Indiana American's practice of embedding into rate base legal expenses based on fixed fee agreements. Ms. Stull explained in Cause No. 45461, the Commission found that such fees could properly be included in rate base pursuant to Ind. Code ch. 8-1-30.3, but that such expenses must be reasonable and the appropriate time to challenge the reasonableness of such costs was in the utility's next rate case. She noted the Commission also expressed an expectation that, in the future, Indiana American should provide a more accurate and detailed estimate of incidental expenses and other costs of acquisition. Ms. Stull noted the Commission made similar findings in Cause No. 45550 involving Petitioner's acquisition of the Town of Lowell's system.

Ms. Stull raised concern that Indiana American is not adequately incented to control its acquisition costs because it is permitted to include its legal expense in rate base, where it will earn a return as if it is an investment. She noted that acquisition cases have become less controversial and involved and argued that Indiana American's fixed fee arrangements present a significantly large expense for a simple case (*e.g.*, $120,000 for the Claypool case) but does not afford protection for the ratepayer in the case of protracted acquisition cases.

Ms. Stull suggested Indiana American is not monitoring these fixed fee arrangements to determine if they are a good deal for customers. She recommended that Indiana American be required to present support for the reasonableness of legal costs with the case-in-chief testimony in its rate case and keep track of the hours spent by outside counsel for evaluation. She did not, however, propose any adjustment in this case to Petitioner's rate base.

ii. INAWC Rebuttal. Mr. Shimansky responded to Ms. Stull's concerns by stating that "hours" are not the only factor in considering the value of legal representation. He testified that Indiana American's lawyers have actively negotiated and revised the "fixed" fees to match the reasonable reality of a case. He gave the example of the fixed fee for the Claypool acquisition which, as Petitioner told the OUCC in discovery, was reduced at the request of general counsel for Indiana American after it became apparent that the OUCC was not going to engage in the more litigious approach it has taken in other acquisition cases. He testified this disproves Ms. Stull's theory that Indiana American has no incentive to monitor the fees in relation to the level of work required.

iii. Discussion and Findings. Through our prior acquisition orders, we have made it clear that the reasonableness of legal expense incurred by

Petitioner in acquisition cases under Ind. Code ch. 8-1-30.3 is an issue to be addressed in Petitioner's next rate case. *See e.g., Indiana-American Water Co., Inc. and Wastewater One, LLC*, Cause No. 45461, at 13, (IURC June 2, 2021). As the party seeking cost recovery of such expenses, Indiana American bears the burden of demonstrating the reasonableness of such costs.

While the OUCC expressed concern with Petitioner's use of fixed fee arrangements for legal fees and the lack of information provided by Petitioner that would allow it to easily determine whether such arrangements would produce lower outside counsel fees, the OUCC did not offer any evidence disputing the reasonableness of the legal expenses requested by Petitioner or request that we disallow any expense. Rather, the evidence of record reflects that INAWC takes steps, even after executing fixed fee arrangements with outside counsel, to monitor and mitigate legal fees incurred in connection with INAWC's acquisitions. Pet. Ex. 15 at 37-38.

We do, however, agree that Indiana American could have provided testimony or other evidence in its case-in-chief to support the reasonableness of its legal expenses. While the OUCC urges us to order Petitioner to require its outside counsel to documents its hours when using a fixed fee arrangement, we decline to do so. As we have encouraged Indiana American to provide more detailed estimates of its expenses and costs of acquisition in its case-in-chief filings under Ind. Code ch. 8-1-30.3, we encourage Indiana American to provide additional detail in its base rate case-in-chief filings concerning the reasonableness of its acquisition legal expenses for which it seeks recovery, including an explanation for why its chosen legal fee arrangement was appropriate and resulted in reasonable costs and the reason(s) any expenses were not within the range of estimated costs identified in the acquisition case.

Accordingly, we accept the amount of legal expense Petitioner has proposed for each of its acquisitions that are to be included in rate base in this case.

B. <u>Quantification of Original Cost Rate Base</u>. Based upon our findings above, we find that Petitioner's net original cost rate base projected as of Step 1 is as follows:

Attachment 7

Utility Plant:	Total Company	Water	Wastewater
Plant in service	$2,491,462,490	$ 2,470,774,861	$ 20,687,629
BT SOP 98-01	7,170,944	7,119,313	51,631
Deferred depreciation	8,311,140	8,277,794	33,346
Post-in-service AFUDC	7,137,440	7,123,318	14,122
Total Utility Plant	2,514,082,014	2,493,295,286	20,786,728
Accumulated Depreciation:			
Plant in service	618,690,066	616,302,719	2,387,347
BT SOP 98-01	5,364,418	5,325,794	38,624
Deferred depreciation	4,791,904	4,770,447	21,457
Post-in-service AFUDC	4,206,403	4,197,650	8,754
Total Accum. Depreciation	633,052,791	630,596,610	2,456,182
Net Utility Plant	1,881,029,223	1,862,698,676	18,330,546
Deductions:			
Contributions in aid of construction	210,713,116	210,528,039	185,076
Customer advances for construction	62,267,845	61,809,736	458,109
Capacity Adjustment - Somerset	309,000	182,091	126,909
Total Deductions:	273,289,961	272,519,866	770,094
Additions:			
Acquisition Adjustment (net)	8,524	-	8,524
SEI Deferred Depr, Property Taxes & PISCC	4,364,489	4,364,489	-
	2,241,938	2,227,653	14,285
Total Additions:	6,614,951	6,592,142	22,809
Total Rate Base	$ 1,614,354,213	$ 1,596,770,952	$ 17,583,261

We further find, for purposes of Step 2 rates, that Petitioner's net original cost rate base forecasted as of April 30, 2024 (the beginning of the test year) to be $1,679,732,875 as follows:

Attachment 7

Utility Plant:	Total Company	Water	Wastewater
Plant in service	$2,602,876,784	$ 2,579,745,204	$ 23,131,580
BT SOP 98-01	7,170,944	7,119,313	51,631
Deferred depreciation	8,311,140	8,277,794	33,346
Post-in-service AFUDC	7,137,440	7,123,318	14,122
Total Utility Plant:	2,625,496,308	2,602,265,629	23,230,679
Accumulated Depreciation:			
Plant in service	655,519,019	652,533,660	2,985,359
BT SOP 98-01	5,902,238	5,859,742	42,496
Deferred depreciation	5,103,400	5,080,176	23,224
Post-in-service AFUDC	4,378,467	4,369,116	9,351
Total Accum. Depreciation	670,903,124	667,842,694	3,060,430
Net Utility Plant:	1,954,593,184	1,934,422,935	20,170,249
Deductions:			
Contributions in aid of construction	211,940,701	211,759,216	181,485
Customer advances for construction	69,151,383	68,693,274	458,109
Capacity Adjustment - Somerset	305,305	181,380	123,925
Total Deductions:	281,397,389	280,633,870	763,519
Additions:			
Acquisition Adjustment (net)	7,757	-	7,757
SEI Deferred Depr, Property Taxes & PISCC	4,287,385	4,287,385	-
	2,241,938	2,227,653	14,285
Total Additions:	6,537,080	6,515,038	22,042
Total Rate Base	$ 1,679,732,875	$ 1,660,304,103	$ 19,428,772

As explained herein, Step 3 rates will be based upon the actual utility plant in service as of that date, provided that the April 30, 2025 net original cost rate base we have found as shown below shall serve as a cap on the total net original cost rate base throughout all steps.

Utility Plant:	Total Company	Water	Wastewater
Plant in service	$ 2,827,527,524	$ 2,802,385,362	$ 25,142,162
BT SOP 98-01	7,170,944	7,119,313	51,631
Deferred depreciation	8,311,140	8,277,794	33,346
Post-in-service AFUDC	7,137,440	7,123,318	14,122
Total Utility Plant:	2,850,147,048	2,824,905,787	25,241,261
Accumulated Depreciation:			
Plant in service	711,792,718	707,859,896	3,932,822
BT SOP 98-01	6,619,332	6,571,673	47,659
Deferred depreciation	5,515,957	5,490,377	25,580
Post-in-service AFUDC	4,600,670	4,590,524	10,147
Total Accum. Depreciation	728,528,677	724,512,470	4,016,208
Net Utility Plant:	2,121,618,371	2,100,393,317	21,225,053
Deductions:			
Contributions in aid of construction	213,576,985	213,400,179	176,805
Customer advances for construction	78,573,679	78,115,570	458,109
Capacity Adjustment - Somerset	313,011	194,631	118,380
Total Deductions:	292,463,675	291,710,380	753,294
Additions:			
Acquisition Adjustment (net)	6,734	-	6,734
SEI Deferred Depr, Property Taxes & PISCC	4,150,345	4,150,346	-
	2,241,938	2,227,653	14,285
Total Additions:	6,399,017	6,377,999	21,019
Total Rate Base	$ 1,835,553,713	$ 1,815,060,936	$ 20,492,778

C. Fair Value of INAWC's Rate Base.

1. INAWC Case-in-Chief. Ms. Bulkley performed an analysis to estimate the fair value of INAWC's rate base. She testified that the methodology that she relied on is generally consistent with the methodology that has been used by the Commission to establish the fair value of INAWC's assets in prior rate proceedings. This methodology begins with the fair value rate base that was established in the last rate proceeding. The historical fair value rate base is trended to current dollars using an inflation index, CPI-U, to establish the current value of the fair value rate base from the prior case. She stated that because INAWC's last general rate case resulted in a settlement that did not specify a fair value rate base, she relied on the fair value rate base that was estimated as of the conclusion of the test year in Cause No. 44450 of $1,222,819,707. She then escalated the fair value rate base from January 28, 2015 (the end of the test year in Cause No. 44450) to the end of each of the projected periods in this case, using the average inflation factor for the period from January 2015 through the end of each of the periods proposed by Petitioner to be utilized as rate base cutoffs for the three-step implementation of rates in this Cause. Ms. Bulkley noted that this methodology is consistent with the methodology that was relied upon in Cause No. 44022, the most recent fair value determination made by the Commission for

Petitioner.

The net investor supplied additions used in Ms. Bulkley's fair value analysis are the difference between the original cost rate base in Cause No. 44450 and the pro forma net investor supplied additions through the periods ending July 31, 2023, April 30, 2024, and April 30, 2025. Her resulting fair value rate base was $2,372,363,444 at July 31, 2023, $2,474,101,830 at April 30, 2024, and $2,667,265,966 at April 30, 2025. Ms. Bulkley compared the fair value rate base for each of the periods to a reproduction cost new less depreciation study that was prepared by Petitioner using the Handy-Whitman Index and included in her workpapers. After comparison, Ms. Bulkley concluded the methodology previously used continues to be a reasonable method for determining fair value.

Ms. Bulkley then calculated the return on the fair value rate base using the same approaches that were applied in Cause No. 44022. Each of these approaches makes an adjustment to the WACC to remove inflation from the fair value rate base where inflation has been applied. She walked through the methodologies and results of each. She clarified that the first component of the fair value rate base is the value as estimated in Cause No. 44450, which is escalated by inflation. The second component is net investor supplied capital since the last rate proceeding, which does not include inflation. The fair value increment is determined by comparing the operating income from the fair value rate base to the operating income derived by applying the original cost return to the original cost rate base for each period, ending July 31, 2023, April 30, 2024 and April 30, 2025. This resulted in a fair value increment of $33,861,953 at July 31, 2023, $35,673,678 at April 30, 2024 and $38,990,129 at April 30, 2025. Pet. Ex. 7 at 63 and Attachment AEB-10.

Ms. Bulkley explained that while each of the methodologies is a reasonable approach to estimating the fair value operating income, Petitioner is not proposing to rely on the fair value increment that results from the methodologies described above. Rather, Petitioner proposes to include only the return on the Indiana Cities Acquisition Adjustment that has been authorized by the Commission in other proceedings through informed fair value ratemaking. Below is the resulting Return on Indiana Cities Acquisition Adjustment presented by Ms. Bulkley:

Return on Indiana Cities Acquisition Adjustment

Date	Indiana Cities Acquisition Adjustment	Return on Indiana Cities Acquisition Adjustment
July 31, 2023	$4,713,294	$319,090
April 30, 2024	$4,362,716	$294,483
April 30, 2025	$3,895,280	$267,995

2. Industrial Group. Mr. Gorman testified that the fair value increment as proposed by Ms. Bulkley is not appropriate and inflates the compensation provided to the utility above a fair and reasonable level. He stated her fair value increment proposal is severely flawed and he recommends it be rejected and not relied upon by the Commission for any purpose in setting rates in this proceeding. As an example, he noted the starting point for her fair value rate base was the estimate provided in Cause No. 44450, which was never approved as reasonable by the Commission, and therefore, is not a reasonable de facto estimate of Petitioner's

fair value rate base.

3. INAWC Rebuttal. In response to Mr. Gorman's concerns with her calculation of the fair value increment, Ms. Bulkley testified that the basis of her analysis was not the findings from the settled case. Instead, her estimate of the fair value rate base builds on what Petitioner presented in its evidence in the settled case, which is based on the last fair value finding from a litigated case. Moreover, Ms. Bulkley pointed out that the methodology she relied on in developing the fair value rate base has been relied on by the Commission in several prior cases. Ms. Bulkley explained that in these cases, the Commission methodology begins with the fair value rate base from Petitioner's last fair value finding in a rate case and trends the rate base using a cost inflation index. The Commission then adds net plant additions to determine the updated fair value of the plant. She reiterated that Petitioner is proposing to recover the return on the acquisition adjustment for the Indiana Cities acquisition, not the fair value increment on the entire rate base.

4. Discussion and Findings. Although Indiana-American appears to request that we make a finding of the fair value of Petitioner's rate base, Ms. Bulkley testified that Petitioner is not asking the Commission to rely on, or otherwise use, the fair value of its rate base as calculated through her fair value methodology for any ratemaking purpose except for the calculation of a specific fair value increment to the return on the Indiana Cities Acquisition Adjustment. Pet. Ex. 7 at 64. No party objected to the inclusion of an adjustment for the Indiana Cities acquisition, and as discussed below, when calculating a fair rate of return for INAWC, we will reflect that specific adjustment.

In addition, rather than rely on Ms. Bulkley's calculation of the fair value of its rate base to serve as the statutory "fair value" of its rate base under Ind. Code § 8-1-2-6 for ratemaking purposes, Petitioner proposed the use of its net original cost rate base as of the close of its test year to calculate its fair rate of return. No party objected to the use of net original cost as the basis for a fair value finding. Accordingly, we find a determination of the fair value of Petitioner's rate base to be unnecessary and conclude that Petitioner's net original cost of its rate base, adjusted by our other findings contained in this Order, is the appropriate and proper statutory fair value of its used and useful plant and equipment. Based on our findings herein, we find the resulting return on Indiana Cities Acquisition Adjustment as follows:

Date		Indiana Cities Acquisition Adjustment		Return on Indiana Cities Acquisition Adjustment
July 31, 2023		$4,713,294		$319,090
April 30, 2024		$4,401,669		$297,113
April 30, 2025		$3,934,233		$270,675

8. Fair Rate of Return.

A. ROE.

1. INAWC Case-in-Chief. Ms. Bulkley supported Petitioner's proposed ROE and testified in support of INAWC's projected capital structure. She recommended

an ROE of 10.60% as reasonable and appropriate for this proceeding.

In determining her recommended ROE, Ms. Bulkley first developed a proxy group of utility companies that face similar risk as INAWC. To that proxy group, she applied the Constant Growth Form of the Discounted Cash Flow ("DCF") model, the Capital Asset Pricing Model ("CAPM"), and the Empirical Capital Asset Pricing Model ("ECAPM"). Her recommended ROE also takes into consideration the following factors: (1) INAWC's capital expenditure program relative to the proxy group companies; (2) the test year convention mechanism used to set rates for INAWC; (3) the risk associated with variations in volume/demand and the resulting effect on INAWC's revenues and cash flows; and (4) INAWC's proposed capital structure as compared to the capital structures of the proxy group companies. She stated that while she did not make specific adjustments to her recommended ROE for these factors, she did consider them in the aggregate when determining where her recommended ROE falls within the range of the analytical results.

Ms. Bulkley testified that she considered the following key factors in her cost of equity analyses and recommended ROE: (1) the standards established by the U.S. Supreme Court's *Hope* and *Bluefield* decisions for determining a fair and reasonable authorized ROE for public utilities; (2) the effect of current and prospective capital market conditions on the cost of equity estimation models and on investors' return requirements; (3) the results of several analytical approaches that provide estimates of Petitioner's cost of equity; and (4) Petitioner's regulatory, business, and financial risks relative to the proxy group of comparable companies in determining where Petitioner's ROE should fall within the reasonable range of analytical results to appropriately account for any residual differences in risk.

Ms. Bulkley presented the results of her Constant Growth DCF, CAPM and ECAPM analyses, ultimately leading to a range from 10.00% to 11.00% as reasonable.

Ms. Bulkley explained that utilities compete directly for capital with other investments of similar risk, which include other water, natural gas, and electric utilities. Therefore, the ROE authorized for a utility sends an important signal to investors regarding whether there is regulatory support for financial integrity, dividends, growth, and fair compensation for business and financial risk. She testified that the regulatory framework is one of the most important factors in debt and equity investors' assessments of risk and that credit rating agencies consider the authorized ROE and equity ratio for regulated utilities to be important for two reasons: (1) they help determine the cash flows and credit metrics of the regulated utility; and (2) they provide an indication of the degree of regulatory support for credit quality in the jurisdiction. She stated not only do credit ratings affect the overall cost of borrowing, they also act as a signal to equity investors about the risk of investing in the equity of a company. She testified that providing the opportunity to earn a market-based cost of capital supports the financial integrity of Petitioner, which is in the interest of both customers and shareholders.

Ms. Bulkley walked through the effect current and prospective market conditions have on the cost of equity for Petitioner, stating that the combination of persistently high inflation, and the Federal Reserve's changes in monetary policy contribute to an expectation of increased market risk, and an increase in the cost of the investor-required ROE. She explained that because the share prices of utilities are inversely correlated to interest rates, and government bond yields are already

substantially greater than utility stock dividend yields, the share prices of utilities will likely decline, which is the reason a number of equity analysts have classified the utility sector as either underperforming or underweight. She said the expected underperformance of utilities means that DCF models using recent historical data likely underestimate investors' required return over the period that rates will be in effect. In addition, Ms. Bulkley testified that prospective market conditions warrant consideration of forward-looking cost of equity estimation models such as the CAPM and ECAPM, which may better reflect expected market conditions.

Ms. Bulkley described her process of selecting a group of proxy companies to estimate the cost of equity for INAWC. She then walked through her use of the Constant Growth DCF model, the CAPM, and the ECAPM methods for estimating the cost of equity. The mean and median DCF results using the average growth rates ranged from 9.65% to 9.97%, and the mean and median results using the maximum growth rates ranged from 10.76% to 11.04%. Her traditional CAPM analyses produced a range of returns from 10.19% to 10.88% and her ECAPM analysis results ranged from 10.77% to 11.29%. Ms. Bulkley performed a flotation cost calculation and used it to identify a recommended ROE within the range of ROE estimates from her various models. Ms. Bulkley also explained that from a credit perspective, the additional pressure on cash flows associated with high levels of capital expenditures exerts corresponding pressure on credit metrics and, therefore, credit ratings. She noted that Petitioner's capital expenditure requirements as a percentage of net utility plant are significant and will continue over the next few years. Additionally, similar to a number of the operating subsidiaries of the proxy group, Ms. Bulkley noted that INAWC does have a capital tracking mechanism to recover some of Petitioner's projected capital expenditures.

2. <u>OUCC and Intervenors</u>. OUCC witness Dellinger recommended an ROE of 9.00%. He derived this recommendation from an analysis of the Constant Growth DCF model, the Two-Stage DCF model, the CAPM and the ECAPM. Mr. Dellinger discussed his approach to these models and how they differed from Ms. Bulkley's approach. As to the appropriate proxy group, Mr. Dellinger explained why he included some additional companies and excluded others from those used by Ms. Bulkley.

Mr. Dellinger described the DCF model, his results, and how his results compared with Ms. Bulkley's results. His Constant Growth DCF analysis produced a 9.0% ROE for the mean calculation and a 9.32% ROE for the median. Mr. Dellinger discussed how the limitations and weaknesses of the Constant Growth DCF model are addressed by using a two-stage model. His Two-Stage DCF model resulted in a 7.61% ROE for the Mean calculation and an 7.16% ROE for the median calculation.

Mr. Dellinger described the CAPM, his preferred metric for interest rates (the 7-day yield of the 30-year treasury), and the calculation of Beta. He also discussed the equity risk premium component and the issues with Ms. Bulkley's calculation. He also discussed a logical inconsistency in Ms. Bulkley's DCF used for her CAPM due to a mismatch between the inputs Ms. Bulkley's used in her model. Mr. Dellinger ultimately recommended a CAPM ROE of 7.39% calculated on the Mean and 7.38% calculated on the Median. He also ran an ECAPM, which then resulted in an ROE of 7.59% calculated on the Mean and 7.54% calculated on the Median. He did not recommend reliance on the ECAPM, because he did not believe it to be a compelling model.

Mr. Dellinger explained why his results, which were lower than those of Ms. Bulkley, were appropriate and reasonable. He discussed the historic spread between U.S. Treasury rates and Indiana American's awarded ROEs over time. Mr. Dellinger testified that flotation costs should not be reflected in a higher cost of equity, as investors adjust a stock's market price to account for the fact that a portion of the proceeds they pay for shares does not go to Petitioner issuing equity.

Industrial Group witness Gorman recommended an ROE of 9.10%, which was 30 basis points less than the midpoint of his recommended range to "offset some of the excessive cost to ratepayers created by INAWC's unreasonable equity-thick ratemaking capital structure and mitigate, in part, its cost of service increase and related adjustment to tariff rate charges" in the proceeding. IG Ex. 1 at 5. Mr. Gorman also recommended that the Commission not adjust the ROE for the recovery of flotation costs because it is not based on the recovery of reasonable flotation expenses for Petitioner.

Mr. Gorman reviewed market evidence concerning how regulatory decisions and authorized returns on equity for regulated utility companies have supported utilities' access to capital, financial integrity, and credit standing. He testified the industry authorized returns on equity for water utilities have ranged from 9.04% to 9.76% for the period of 2014-2022. He also noted that in the only rate case for a water utility to date in 2023 that identified an equity return, the approved return on equity was 8.70%. Based on these authorized ROEs, he said credit rating agencies have rated the credit standing of regulated utilities as "stable" and the credit quality of the industry has increased over the last few years.

Mr. Gorman also testified regarding the investment risk of INAWC and its proposed capital structure. He explained that INAWC's capital structure has a far greater common equity ratio in comparison to authorized rate-setting capital structures allowed for electric, natural gas, and water utilities over the last several years. He testified that INAWC's equity thick capital structure has the effect of increasing charges to customers, relative to the industry average ratemaking capital structure, with a revenue impact that is comparable to a 120 basis point differential in the return on equity. Mr. Gorman's recommended ROE represents a movement of a little over half of this 120 basis point difference from the high end of his recommended range of 9.0% to 9.8%.

Mr. Gorman explained the methods he used to estimate INAWC's cost of common equity including several variations of the DCF model, the risk premium model, and the CAPM and the inputs he used in applying these models. His DCF recommendation was 9.00%. His CAPM analysis resulted in 10.10% and his Risk Premium analysis resulted in 9.55%.

Crown Point witness Guerrettaz did not perform any quantitative analyses regarding the cost of equity for Petitioner. Mr. Guerrettaz instead estimated that a reasonable authorized ROE for Petitioner is 9.00% based on his understanding of the financial markets and Petitioner's business characteristics. He testified that Petitioner has extremely low business risk because it: (1) sells an essential service, (2) enjoys traditional rate regulated revenue pricing without competition, and (3) grows rate base, revenues, and profits through utility acquisitions and risk-reducing tracking mechanisms. Mr. Guerrettaz stated that the business risk of Petitioner and its parent company is nominal based on stock prices and dividend growth.

CAC witness Inskeep recommended the Commission reject Petitioner's proposed ROE to mitigate the rate impact of an "extraordinary utility unaffordability crisis." CAC Ex. 1 at 36. He noted the Commission has approved ROEs for Indiana American of 9.70% (Cause No. 44022), 9.75% (Cause No. 44450), and 9.80% (Cause No. 45142) as compared to Indiana American's proposal in this case of 10.6%. He stated that customers do not derive a tangible benefit from an increased ROE, rather a higher ROE reflects a higher profit margin for Indiana American's shareholders at the cost of higher rates for its customers.

3. INAWC Rebuttal. Responding to the issues raised by the OUCC and Intervenors, Ms. Bulkley testified the primary factors that should be considered are: (i) the importance of investors' actual return requirements and the critical role of judgment in selecting the appropriate ROE; (ii) the importance of providing a return that is comparable to returns on alternative investments with commensurate risk; and (iii) the need for a return that supports a utility's ability to attract needed capital at reasonable terms. She also considered the effect of current and expected capital market conditions on these factors.

Ms. Bulkley asserted that the OUCC and Industrial Group ROE are inconsistent with recent changes in market conditions and do not reflect the current cost of equity. She noted that interest rates have increased since Petitioner's last rate proceeding, and authorized ROEs have increased from 2021 through 2023, which demonstrates that borrowing costs and the cost of equity have increased. She testified that Mr. Gorman's and Mr. Dellinger's proposals that the Commission reduce Petitioner's currently authorized ROE are directionally inconsistent with market conditions and the investor required ROE. She stated that a comparison of Mr. Gorman's ROE recommendations in various rate proceedings in Indiana since 2019 demonstrates that his recommended ROE in this proceeding is inconsistent with the increase in the cost of equity reflected in his model results and that his proposed risk adjustment reduction to the ROE of 30 basis points is arbitrary and asymmetric given his past testimony.

Ms. Bulkley testified that making reasonable adjustments to the OUCC's cost of equity analyses of Mr. Dellinger results in a range of returns from 9.53% to 10.82%, which demonstrates that Petitioner's requested ROE is reasonable and appropriate. She disagreed with the composition of his proposed proxy group and the application of his constant growth DCF model. Ms. Bulkley also explained her disagreement with Mr. Dellinger's criticisms of her DCF, CAPM and ECAPM analyses.

Ms. Bulkley testified that while Mr. Gorman states that he relies on the midpoint of his DCF results, as well as the midpoint of the results of all his cost of equity analyses as his overall ROE recommendation, he incorrectly states the midpoint of his DCF results and the results of his overall cost of equity analyses. She said simply correcting these two errors produces a midpoint ROE of 9.60% instead of the 9.40% stated in Mr. Gorman's testimony.

When Mr. Gorman's risk premium analysis is adjusted to reflect the inverse relationship between interest rates and the equity risk premium, Ms. Bulkley showed the cost of equity is 10.86%. She stated this change increases Mr. Gorman's cost of equity range of 9.10% to 10.86%. Thus, the midpoint, which is the central tendency that forms the basis for Mr. Gorman's market cost of equity recommendation, would be 9.98%.

Ms. Bulkley defended her use of flotation costs by stating that such costs, just like rate base investments, are part of the invested costs of the utility, and the need to reimburse shareholders for the lost returns associated with equity issuance costs has been recognized by the academic and financial communities. Ms. Bulkley did not address Mr. Guerrettaz's and Mr. Inskeep's ROE recommendations other than to recommend they be dismissed summarily because neither provided an independent analysis.

4. Discussion and Findings. In setting the rate of return, the Commission's decision must be framed by *Bluefield Waterworks & Improvements Co. v. Pub. Serv. Comm'n*, 262 U.S. 679, 43 S.Ct. 675 (1923) and *Fed. Power Comm'n v. Hope Natural Gas, Co.*, 320 U.S. 591, 64 S.Ct. 281 (1944).[21] The general standards these cases established require a cost of common equity set by the Commission to be sufficient to establish a rate of return that will maintain the utility's financial integrity, attract capital under reasonable terms, and be commensurate with the returns of other businesses of comparable risk.

The Commission is also mindful that "the cost of common equity cannot be precisely calculated and estimating it requires the use of judgment." *Indiana-American Water Co.*, Cause No. 44022, at 35 (June 6, 2012). Due to this lack of precision, the use of multiple methods is desirable, in part, because no one method will produce reasonable results under all conditions and in all circumstances. The Commission is also mindful of the strengths and weaknesses of the various models typically used to estimate a utility's cost of common equity, and we find that with appropriate and reasonable inputs, models such as the DCF and other methods can produce reasonable estimates of a utility's cost of common equity. Consistent with the standards in *Hope* and *Bluefield*, as well as under Indiana law, INAWC's authorized return on equity should be reasonable given the totality of the circumstances.

The parties proposed various returns using the DCF model and other methods as bases for their positions. Ms. Bulkley's analysis of INAWC's cost of equity produced a range of 10.00% to 11.00% with the recommendation that the Commission adopt an ROE of 10.60%. The OUCC's analysis produced a range of 7.16% to 9.32% with a recommended ROE of 9.00%. Mr. Gorman's analysis for the Industrial Group produced a range of 9.00% to 9.80% with a recommended ROE of 9.10%, adjusted downward 0.30% from 9.40% due to Petitioner's capital structure. Accordingly, the overall recommendations provided by the witnesses would place the approved return on equity between 9.0% to 10.6%.

In addition to the recommendations of these experts and while not determinative of the ROE in this case, we note the ROE awarded Indiana's vertically-integrated electric utilities outside of settled cases has been trending lower over time. *See, e.g.,* Indiana Michigan Power Company, 10.2% in Cause No. 44075 (2013); Indianapolis Power and Light Company, 9.85% in Cause No. 44576 (2016); Northern Indiana Public Service Company LLC, 9.75% in Cause No. 45159 (2019); Indiana Michigan Power Company, 9.70% in Cause No. 45235 (2020); and Duke Energy Indiana, LLC, 9.70% in Cause No. 45253 (2020). We also note that Petitioner's current ROE of 9.80% was approved in 2019 pursuant to a settlement reached in Cause No. 45142. While we find the overall

[21] *See also, Indianapolis Power & Light Co.*, Cause No. 44576 at.41 (IURC March 16, 2016).

downward trend instructive, we also recognize the change in general economic factors, like the increase in interest rates, since these orders were issued.

Our determination should also appropriately consider Petitioner's specific risk characteristics, such as the mitigation of risk associated with Petitioner's use of regulatory mechanisms, including a forecasted test year in this proceeding and the trackers approved for INAWC. In addition to the DSIC and SEI trackers, the Commission also approved in Cause No. 45043, a lead service line replacement program under Ind. Code ch. 8-1-31.6. The effect of these tracking mechanisms is to reduce the uncertainty of the earnings that an investor can expect. *See Ind. Mich. Power Co.,* Cause No. 44075 at 42-43 (IURC Feb. 13, 2013). Moreover, in this case, INAWC is adding two major projects into rate base, along with substantial costs associated with its acquisition of Lake Station, which removes even more risk from Petitioner.

Having taken into consideration the observable market data reflected in the record, and a general assessment of the investment risk characteristics of the water and wastewater utility industry, combined with a thorough understanding of the Indiana jurisdiction and its risk mitigation ratemaking mechanisms, and INAWC in particular, and the expert witness recommended range identified above, the Commission finds a reasonable range for Petitioner's ROE is 9.3% to 9.9%. The resulting midpoint of this range is 9.60%. Taking into consideration all the evidence presented and based on the rising capital cost environment, the Commission finds that an ROE of 9.65% would represent a fair and reasonable rate.

B. Cost of Debt. Petitioner's projected cost of long-term debt as of July 31, 2023 is 4.73%, and 4.71% as of April 30, 2024 and as of April 30, 2025 is 4.71%. The computation of these costs is shown on INAWC Financial Exhibit CC, Schedule CC1, Workpaper 2 contained within Petitioner's Exhibit 29. No party disputed these costs.

C. Capital Structure.

1. INAWC Case-in-Chief. Mr. Furia presented Petitioner's projected capital structures as of July 31, 2023, April 30, 2024, and April 30, 2025 to be used for computing Petitioner's WACC at each of the three steps proposed for rate implementation. These dates match the dates used to calculate the proposed rate base for each of Step 1, Step 2, and Step 3. Mr. Furia explained that the revenue requirement for each proposed increase will use Petitioner's actual capital structure as of these dates when rates go into effect. He used Indiana American's actual capital structure as of September 30, 2022 and adjusted the component balances in that capital structure to reflect all changes expected to occur by July 31, 2023, April 30, 2024 and April 30, 2025. He reflected expected long-term debt maturities on January 1, 2024 and May 1, 2024, a common equity infusion that occurred in March of 2023, new long-term debt issuances planned for November 2023 and May 2024, and a common equity infusion planned for May 2024, as adjustments to arrive at the capitalization for the forecasted test year.

The total projected capitalization of Indiana American as of April 30, 2025 is $1,731,127,386, and the overall WACC is 6.88%. This WACC reflected Petitioner's proposed cost of common equity of 10.60%. The total projected capitalization of Indiana American as of April 30, 2024 is $1,545,974,304, and the overall WACC is 6.75%, and also reflects a cost of common equity of 10.60%. The total projected capitalization of Indiana American as of July 31, 2023 as

filed in Petitioner's case-in-chief was $1,511,522,316, and the overall WACC was 6.77%, and also reflected a cost of common equity of 10.60%.[22] Mr. Furia described the bases for various components on Schedule CC1, including accumulated depreciation on contributed utility plant for Muncie Sewer, OPEBs, the prepaid pension asset, all included at zero cost. With respect to OPEBs and the prepaid pension asset, because the balance for the relevant time periods represented asset positions, they were included in the capital structure as negative values.

Mr. Furia described adjustments to INAWC's long-term debt balance to reflect: (1) maturity of the 6.990% first mortgage series B on January 1, 2024; (2) maturity of the 2.300% tax-exempt bonds on January 1, 2024; (3) maturity of the 7.110% taxable series general mortgage bonds on May 1, 2024; (4) the new taxable debt issuance in the amount of $23,000,000 planned for November 2023; and (5) the new taxable debt issuance in the amount of $96,658,000 planned for May 2024. He described the new long-term debt Petitioner plans to issue in November 2023 and March 2024. Indiana American's projected cost of long-term debt as of July 31, 2023 was 4.73% and the projected cost of long-term debt as of April 30, 2024 and as of April 30, 2025 is 4.71%. Pet. Ex. 13 and 14, Financial Exhibit CC, Schedule CC1.

Mr. Furia described adjustments to INAWC's common equity component of its capital structure to reflect: (1) a common equity infusion of $53,000,000 on March 15, 2023, (2) a common equity infusion of $73,600,000 planned for May 2024, and (3) changes to the retained earnings balance that are expected to occur between September 30, 2022 and April 30, 2025. He stated these adjustments reflect Petitioner's projections for the 2023-2025 period and are based on Petitioner's projected capital requirements and the need to maintain appropriate capital structure ratios.

INAWC witness Bulkley testified that comparing Petitioner's projected equity ratio as of April 30, 2025 of 56.15% (excluding the adjustments for zero cost capital items) demonstrates that Petitioner's requested equity ratio is within the range of equity ratios for the proxy group. She further stated Petitioner's proposed equity ratio is reasonable considering that credit rating agencies have identified the outlook for the utility sector as "negative" due to the negative effect on the cash flows and credit metrics associated with increasing interest rates, inflation and commodity costs, and the pressure that those factors place on customer affordability and utilities' prompt rate recovery.

2. <u>OUCC and Industrial Group</u>. OUCC witness Dellinger did not disagree with the Petitioner's proposed capital structure for purposes of determining the WACC. However, Mr. Dellinger did testify about how Petitioner's capital structure has changed over time, becoming more weighted toward equity and more expensive for customers and implicating affordability.

He stated that customers benefit from having an optimal capital structure (meaning the lowest reasonable WACC), but gross profitability declines as more debt is included in the capital structure, because in a regulated environment profits come from the return on equity. Mr. Dellinger stated that in the present case, Indiana American's cost of debt is 4.71% and its after-tax cost of

[22] This was updated in Petitioner's Response to Request No. 2 to the Commission's August 30, 2023 Docket Entry (Pet. Ex. 29) to $1,527,028,439 and an overall WACC of 6.73%.

equity is 14.13%, so the cost of equity is three times the cost of debt. He showed that in each case since 2010, the percentage of equity in the capital structure has increased. Mr. Dellinger also noted that in Petitioner's last financing case (Cause No. 45660), the final order for which was issued less than one year prior to this case, INAWC projected that this ratio would start to decrease. But instead, it has increased again and is now projected to be 56.15%. He testified that if the capital structure had the same equity percentage in this case as it did in 2012 (48.98%), the step 3 annual revenue requirement would be $6.2 million lower.

OUCC witness Ms. Stull recommended adjustments to Petitioner's projected balance of ADIT to account for adjustments she proposed to the amortization of EDIT and the calculation of income tax expense but otherwise accepted Petitioner's proposed capital structure components. She recommended two adjustments that affected the amount of ADIT to be included in Petitioner's capital structure: (1) a reduction to income tax expense to incorporate the repairs deduction for ratemaking purposes and (2) an adjustment to the amortization of EDIT. Ms. Stull explained that because she proposed to include the repairs deduction in the determination of income tax expenses for ratemaking purposes, there would be no difference between book and tax on a going forward basis and, therefore, no additional ADIT (related to the repairs deduction) should be projected for Steps 1, 2, or 3. She further explained that, due to the way Petitioner projected and presented its ADIT balances, the effect on ADIT as a result of this adjustment was not readily transparent. She estimated the effect to ADIT by multiplying the repair deduction by 25% and reducing ADIT accordingly. Ms. Stull's adjustment was a $2,927,966 reduction to ADIT in Step 2 and a $9,439,895 reduction to ADIT in Step 3.

Industrial Group witness Gorman testified that Indiana American's projected capital structure is not reasonable because it imposes excessive cost on its retail customers. He testified that Petitioner's equity ratio is excessive relative to its bond rating, and the capital structure largely attributes credit benefits to support its parent company's bond rating, rather than being structured to support a regulated Indiana utility capital structure. Mr. Gorman acknowledged that the Commission has historically declined to make pro forma adjustments to utilities' capital structures but recommended the Commission consider the excessive cost INAWC imposes through its "equity rich capital structure" in determining a reasonable ROE that reflects Petitioner's actual financial risk to ensure that the overall rate of return and the resulting costs imposed on customers are just and reasonable. He presented a comparison of Petitioner's projected capital structure to those used to set rates in the utility industry, concluding that INAWC's capital structure "has a far greater common equity ratio in comparison to authorized rate-setting capital structures allowed for electric, natural gas and water utilities over the last several years." IG Ex. 1 at 65.

Mr. Gorman also objected to the inclusion of the prepaid pension and OPEB assets in INAWC's capital structure. Mr. Gorman testified that the prepaid pension asset reflects funds provided by customers through rate revenue, which Petitioner has been able to use to offset its actual pension expense. As the prepaid pension asset was funded by collections from customers, rather than shareholder contributions, Indiana American is not entitled to a return of that sum by including the asset in its capital structure or cost of service. He stated Petitioner did not show that the amount of pension expense included in cost of service and recovered in customer rates during the time the prepaid pension asset was accumulated was limited to Petitioner's annual pension expense. Specifically, he presented a table comparing actual pension expense to the amount reflected in rates and testified that, since 2020, there has been an overcollection that has fully

compensated for most of the current prepaid pension asset. He proposed a similar adjustment to the OPEB asset included in the capital structure.

3. INAWC Rebuttal. Ms. Bulkley explained that Mr. Gorman's analysis of recent authorized equity ratios for water and natural gas utilities was flawed because he included limited-issue rider cases in his benchmarking analysis, relied on the mean and median authorized equity ratios for water and natural gas utilities in each year since 2013, and incorrectly asserted that Petitioner's projected equity ratio is higher than the maximum authorized equity ratios of the water and natural gas utilities since 2013. She explained that the "maximum" authorized equity ratio that Mr. Gorman reflects in his testimony is the highest average or median result over that time period, not the highest overall authorized equity ratio over that period. She testified that from 2013 through 2023, the range of authorized equity ratios was 42.01% to 60.59%, meaning Petitioner's projected equity ratio of 56.16% is well within the range of the authorized equity ratios for natural gas utilities over this period.

She also explained Mr. Gorman's comparison of Petitioner's projected capital structure to the capital structures of the holding companies in the proxy group is flawed because it is not appropriate to compare the projected equity ratio of Petitioner to the average equity ratio of the proxy group at the holding company level. Additionally, she stated, if the capital structures at the holding company level are considered, the market value of debt and equity must be used to estimate the percentage of debt and equity in the capital structure, not the book value of debt and equity as Mr. Gorman has done. She stated that relying on a cost of equity estimate based on market values but a capital structure based on book values, results in the incorrect conclusion that a return reflecting the financial risk of the market value equity ratio would be sufficient to compensate investors for a much more highly levered capital structure based on book value. She testified that Petitioner's projected ratemaking capital structure of 56.16% is consistent with the actual capital structures of the operating utility subsidiaries of the proxy group of 56.09%.

INAWC witness Farrell responded to Mr. Gorman's recommendation to remove the prepaid pension and OPEB assets from the capital structure for ratemaking purposes. He explained that Petitioner has followed GAAP to record its annual pension costs and cash pension plan contributions, which has resulted in a prepaid pension asset on Petitioner's balance sheet. Mr. Farrell stated that any asset on Petitioner's balance sheet is inherently financed through Petitioner's capital structure until it is recognized as expense on Petitioner's income statement. Mr. Farrell said it is those cash contributions that have resulted in the existence of the prepaid pension asset in the first place and the substantial benefits to customers include lowering pension costs and providing a source of ADIT.

INAWC witness Ciullo presented the ADIT associated with Petitioner's prepaid pension asset and prepaid OPEB asset is $1,687,610 and $1,647,921 respectively. Mr. Farrell testified that the lower pension and OPEB expense and accelerated income tax deductions directly lower costs to customers. He explained that the cash pension plan contributions reduce pension expense. In addition, Mr. Farrell explained that the economic benefit of the tax deductibility of Petitioner's pension plan occurs when Petitioner contributes cash to the plan—not when it books (and reflects in regulatory accounting) its pension expense. As with other circumstances where the timing of tax deductions is different from the timing of book expense (e.g., utility plant depreciation), the financing value of the income tax benefits should accrue to the benefit of customers. He also noted

that to the extent that a prepaid pension asset is excluded from the calculation, it would be inequitable to include the ADIT balance related to prepaid pension in rate base because it is a well-known regulatory principle that the inclusion in the capital structure of ADIT should only include ADIT for book-tax differences included elsewhere in the revenue requirement determination.

Mr. Farrell testified that the prepaid pension asset represents the cumulative difference between Indiana American's contributions to the pension trust and cumulative pension expense. He said the entire balance represents investor supplied funding and, as a result, is entitled to a return, which supports Petitioner's position of including the prepaid pension asset as a negative zero cost component of the capital structure. The same is true of the OPEB asset. Mr. Farrell explained that in a situation where the pension or OPEB expense is negative, the "other side of the pension credit entry" is to a prepaid pension asset (or OPEB as the case may be). He said typical reasons for a negative pension expense are expected return on plan assets in excess of other components of pension cost and positive plan experience (e.g., lower than expected health care cost increases or participation rates). He pointed out that Petitioner cannot access these pension assets because employers are not permitted to access funds from an ongoing pension or OPEB plan other than for the payment of benefits under that plan.

Mr. Shimansky responded to Mr. Gorman's comparison of actual pension expense to the amount used to set the revenue requirement for calculating rates. He testified that, absent deferred accounting, Mr. Gorman's attempt to compare pension expense in later years to pension expense included in the revenue requirement to deny proper recovery of costs in a rate case would be prohibited retroactive ratemaking. Further, he noted that customers pay rates and have no claim to variances between the level of expense in rates and actual expenses in later years. Finally, he presented analyses showing that throughout the period of Mr. Gorman's analysis, Indiana American had not earned its authorized rate of return.

4. Discussion and Findings. Addressing Mr. Gorman's Prepaid Pension and OPEB asset position first, the inclusion of a prepaid pension asset in either the utility's rate base or capital structure has been previously addressed in other Indiana utility rate cases. For example, in *Indiana Michigan Power Co*., Cause No. 44075 at 10 (IURC Feb. 13, 2023), we found that:

> [T]he record reflects that the prepaid pension asset was recorded on the Company's books in accordance with governing accounting standards. The record also reflects that the prepaid pension asset has reduced the pension cost reflected in the revenue requirement in this case and preserves the integrity of the pension fund. Petitioner made a discretionary management decision to make use of available cash to secure its pension funds and reduce the liquidity risk of future payments. In addition, the prepayment benefits ratepayers by reducing total pension costs in the Company's revenue requirement. Therefore, we find that the prepaid pension asset should be included in Petitioner's rate base.

These findings were upheld on appeal. *Ind. Office of Util. Consumer Counselor v. Ind. Mich. Power Co.*, 7 N.E.3d 1025 (Ind. Ct. App. 2014) (transfer denied); *see also Duke Energy Indiana, LLC*, Cause No. 45253 at 26-27 (IURC June 29, 2020). For OPEBs, this treatment has been

confirmed for more than thirty years. *Ind. Bell Tel. Co., Inc., et al*, Cause No. 39348 (IURC Dec. 30, 1992).

Petitioner has demonstrated a projected prepaid pension asset of $10,463,716 and an OPEB asset of $11,254,406 in Step 3, and the prepaid pension and OPEB assets have been recorded on Petitioner's books in accordance with applicable accounting standards. The record also reflects that the prepaid pension asset has reduced the pension cost reflected in the revenue requirement in this case, and the asset serves to preserve the integrity of the pension fund. The prepayment benefits customers by reducing total pension costs in Petitioner's revenue requirement. The record also reflects that the entire balance of the prepaid pension asset represents investor supplied funding and, as a result, is entitled to a return, which supports Petitioner's position of including the prepaid pension asset as a negative zero cost component of the capital structure. The same is true of the OPEB asset. Petitioner's evidence showed that it does not have access to funds from the ongoing pension or OPEB plan other than for the payment of benefits under the plan. Therefore, we find that the prepaid pension and OPEB assets should be included in Petitioner's capital structure as offsets to zero cost capital as proposed by Petitioner.[23]

As to Mr. Gorman's reliance on comparisons of past amounts reflected in rates to actual expense to disallow the prepaid pension asset, we agree with Mr. Shimansky that this would constitute prohibited retroactive ratemaking. *Office of Util. Cons. Couns. v. Duke Energy of Ind.*, 183 N.E.2d 266 (Ind. 2022).

Turning now to the appropriate equity component to use in the capital structure for setting rates for Petitioner, we find that Petitioner's forecasted capital structures at each of the relevant cutoff dates for the implementation of rates in three steps are reasonable. Longstanding Indiana precedent requires the use of a utility's actual, not hypothetical, capital structure when setting rates. Hypothetical capital structures are contrary to Indiana law. *See Public Service Comm'n of Ind. v. Ind. Bell Tel. Co.*, 235 Ind. 1, 130, N.E.2d 467 (Ind. 1955). Although we are dealing with a future test period and using forecasted capital structures at this point in the process, Petitioner's proposal will incorporate its actual capital structure, not a forecasted capital structure, when implementing its Step 1, 2, and 3 rate increases. We find the proposed equity and debt components to be comparable to those of similarly situated utilities and in line with this Commission's prior findings on what constitutes a reasonable capital structure to satisfy the *Bluefield* and *Hope* standards and our charge under Indiana law to ensure that rates are just and reasonable while affording the utility an opportunity to earn a fair return. Accordingly, as referenced above, we reject Mr. Gorman's invitation to adjust the ROE based on the projected capital structure. We accept Petitioner's projected capital structures in this case.

Finally, the OUCC proposed changes to the regulatory treatment of the repairs deduction for federal income tax purposes and raised issues concerning the appropriate amortization of EADIT. Industrial witness Gorman has proposed to accelerate the amortization of Indiana EADIT. All of these issues, to the extent they were to be accepted, would have an impact on ADIT reflected

[23] Because we reject the Industrial Group's recommendation to remove the prepaid pension and OPEB assets from Petitioner's capital structure, we need not make the adjustments, correctly recommended by Petitioner, to the ADIT balances included in the capital structure were those assets to be removed.

in the capital structure. Later herein, we reject Ms. Stull's and Mr. Gorman's proposals and so there is no need to adjust ADIT flowing from these positions for purposes of the capital structure.

D. Overall WACC. Petitioner's projected capital structure and WACC were included in Financial Exhibit CC, Schedule CC1 of Petitioner's Exhibit 13 and its supporting workpapers. The overall WACC was calculated by summing the component costs of the capital structure, with each component weighted by its respective proportion to total capitalization. Based on the projected capital component balances and component costs described in Mr. Furia's direct testimony, and as updated for July 31, 2023 actuals, Indiana American's projected WACC is 6.88% as of April 30, 2025, 6.75% as of April 30, 2024, and 6.73% as of July 31, 2023 as shown on the financial exhibits provided with Petitioner's response to the Commission's August 30, 2023 Docket Entry.

Based upon the foregoing findings and after giving effect to the ROE we authorize above, we find that Petitioner's forecasted capital structure and weighted cost of capital as indicated below is reasonable and should be adopted for purposes of setting rates in this proceeding:

Attachment 7

	Step 1			
	As of 7/31/23	Percent of Total	Cost	Weighted Cost
Common Equity	$ 716,559,651	47.41%	9.65%	4.58%
Long Term Debt	557,418,248	36.88%	4.73%	1.74%
Accumulated Deferred Income Taxes	253,164,451	16.75%	0.00%	0.00%
Accumulated Depr on Contr Utility Plant for Muncie Sewer	98,742	0.01%	0.00%	0.00%
Prepaid OPEBs (Other Post Retirement Employee Benefits)	(8,264,162)	-0.55%	0.00%	0.00%
Accumulated Deferred Investment Tax Credits - Pre 1971	-	0.00%	0.00%	0.00%
Job Development Investment Tax Credits (JDITC) - Post 1970	607,436	0.04%	7.47%	0.00%
Prepaid Pension	(8,062,051)	-0.53%	0.00%	0.00%
Total Capital Structure	$ 1,511,522,315	100.0%		6.32%

	Step 2			
	As of 4/30/24	Percent of Total	Cost	Weighted Cost
Common Equity	$ 731,237,765	47.30%	9.65%	4.56%
Long Term Debt	570,746,268	36.92%	4.71%	1.74%
Accumulated Deferred Income Taxes	261,928,953	16.94%	0.00%	0.00%
Accumulated Depr on Contr Utility Plant for Muncie Sewer	100,471	0.01%	0.00%	0.00%
Prepaid OPEBs (Other Post Retirement Employee Benefits)	(9,545,695)	-0.62%	0.00%	0.00%
Accumulated Deferred Investment Tax Credits - Pre 1971	-	0.00%	0.00%	0.00%
Job Development Investment Tax Credits (JDITC) - Post 1970	597,878	0.04%	7.47%	0.00%
Prepaid Pension	(9,091,336)	-0.59%	0.00%	0.00%
Total Capital Structure	$ 1,545,974,304	100.0%		6.30%

	Step 3			
	As of 4/30/25	Percent of Total	Cost	Weighted Cost
Common Equity	$ 834,238,915	48.19%	9.65%	4.65%
Long Term Debt	651,443,865	37.63%	4.71%	1.77%
Accumulated Deferred Income Taxes	266,474,818	15.39%	0.00%	0.00%
Accumulated Depr on Contr Utility Plant for Muncie Sewer	102,776	0.01%	0.00%	0.00%
Prepaid OPEBs (Other Post Retirement Employee Benefits)	(11,254,406)	-0.65%	0.00%	0.00%
Accumulated Deferred Investment Tax Credits - Pre 1971	-	0.00%	0.00%	0.00%
Job Development Investment Tax Credits (JDITC) - Post 1970	585,133	0.03%	7.47%	0.00%
Prepaid Pension	(10,463,716)	-0.60%	0.00%	0.00%
Total Capital Structure	$ 1,731,127,385	100.0%		6.42%

We find that these respective WACCs, adjusted to reflect Petitioner's actual capital structure at the time and applied to Petitioner's actual net original cost rate base per our previous findings plus the remaining unamortized balance of the Indiana Cities acquisition adjusted as of the same applicable date, represents a fair return on the fair value of Petitioner's used and useful property.

9. Disputed Test Year Revenues. The tables below are summaries of Step 1 and Step 2 pro forma present rate adjustments. The adjustments in bold were disputed and are discussed

below.

Step 1	Water			Wastewater		
Description	Base Year Ended '9/30/22	Adjustments	Present Rates Step 1	Base Year Ended '9/30/22	Adjustments	Present Rates Step 1
Operating Revenue	$ 247,037,067		$ 247,037,067	$ 1,734,039		$ 1,734,039
Late Fee Revenue	1,261,837	$ 146,275	1,408,112	8,275	$ 285	8,560
Miscellaneous Revenue	2,964,225		2,964,225	570		570
						-
URT Tax Impact		(3,221,822)	(3,221,822)		(19,277)	(19,277)
Normalization of Billings - Usage		**(1,584,569)**	**(1,584,569)**		12,831	12,831
Annualization of Lowell		700,661	700,661		-	-
Customer Normalization		**3,039,147**	**3,039,147**		60,752	60,752
DSIC Revenue Adjustment		**24,035,317**	**24,035,317**		-	-
SEI Revenue Adjustment		5,150,494	5,150,494		-	-
Yankee Surcharge		-	-		-	-
Miscellaneous Adjustments		**411,538**	**411,538**		4,899	4,899
Acquisition Adjustment		95,807	95,807		-	-
Eliminate 50% of LIPP		**10,262**	**10,262**		**-**	**-**
Rate Increase OOR		-	-		-	-
Normalize Misc. Billing Units		11,835	11,835		-	-
			-			-
Total Operating Revenues	$ 251,263,129	$ 28,794,945	$ 280,058,074	$ 1,742,884	$ 59,490	$ 1,802,374

Step 2	Water			Wastewater		
Description	Step 1 Pro forma Proposed Rates	Adjustments	Present Rates Step 2	Step 1 Pro forma Proposed Rates	Adjustments	Present Rates Step 2
Operating Revenue	$ 269,759,541		$ 269,759,541	$ 3,811,799		$ 3,811,799
Late Fee Revenue	1,537,630	$ 10,382	1,548,012	18,817	$ 632	19,449
Miscellaneous Revenue	2,964,225		2,964,225	570		570
						-
URT Tax Impact	(3,221,822)	-	(3,221,822)	(19,277)	-	(19,277)
Normalization of Billings - Usage	**(1,584,569)**	**(1,390,474)**	**(2,975,043)**	12,831	(660)	12,171
Annualization of Lowell	700,661	-	700,661		-	-
Customer Normalization	**3,039,147**	**3,434,062**	**6,473,209**	60,752	88,399	149,151
DSIC Revenue Adjustment	24,035,317	-	24,035,317		-	-
SEI Revenue Adjustment	5,150,494	-	5,150,494		-	-
Yankee Surcharge	-	(76,056)	(76,056)		-	-
Miscellaneous Adjustments	411,538	-	411,538	4,899	-	4,899
Acquisition Adjustment	95,807	75,826	171,633		-	-
Eliminate 50% of LIPP	10,262	-	10,262		-	-
Rate Increase OOR	-	206,594	206,594		10,555	10,555
Normalize Misc. Billing Units	11,835	19,024	30,859		-	-
			-			-
Total Operating Revenues	$ 302,910,066	$ 2,279,358	$ 305,189,424	$ 3,890,391	$ 98,926	$ 3,989,317

A. <u>Normalization of Billings – Declining Use</u>.

1. <u>INAWC Case-in-Chief</u>. Mr. Rea presented a quantitative analysis of water consumption by INAWC's customers. He explained the modeling used to develop the revenue forecasts for the residential customer class and the development of the revenue projections for all customer classes (residential, commercial, industrial, public authorities, and sales for resale). He testified that the parameters and relationships necessary to analyze declining water use, weather impacts on water consumption, and the impact of COVID on water consumption for customers were estimated using statistical linear regression modeling. Mr. Rea testified his regression models show a trend of declining use identified for residential customers of approximately 585 gallons per year per customer. He stated several factors drive the decline in residential customers' usage, including the incremental introduction of low-flow fixtures and appliances, new regulations that lead to further reductions in fixture flow rates, conservation programs, and public initiatives that have led to greater consumer water conservation awareness. Mr. Rea testified that INAWC's modeling normalizes for weather and COVID and shows that there is a pervasive decline in residential usage over the past ten years, a trend expected to continue in the future.

2. <u>OUCC and Intervenors</u>. While both OUCC and Industrial Group recognized the impact of declining residential water usage per customers, OUCC witness Dellinger and Industrial Group witness Gorman provided testimony proposing different estimated levels of forecasted use per customer than Petitioner using different methodologies than INAWC to arrive at those estimates. Mr. Gorman proposed a 1.1% decline from Year End 2022 use per customer to yield 3,941 gallons per customer per month for the 12-months ended December 2023 and 3,897 gallons per customer per month for the 12-month period ending December 2024. Mr. Dellinger

proposed a 0.89% decline from the 12-month period ended September 2022 to yield a projection of 4,019 gallons per customer per month for 12-months ended December 2023 and 3,971 gallons per month for the 12-month period ended April 2025. Mr. Gorman's estimates were higher than Petitioner's by approximately 40 gallons per month and Mr. Dellinger's estimates were higher than Petitioner's by approximately 100 gallons per month.

OUCC witness Dellinger testified that INAWC's declining use projections are not consistent with other information Petitioner has produced regarding general average declines in usage of 2% per year, and target reductions in water usage presented in American Water's investment literature. He testified that advances in water saving technology drives enhanced efficiency and that this trend should, over time, reduce the need for larger water and wastewater treatment plants, allow for lower storage and pumping requirements, and generally provide savings and benefits to society at large.

Mr. Dellinger testified Petitioner is not requesting a percentage reduction from actual usage but instead proposes to use the output of a regression analysis, which results in a much steeper decline for the period between the base period and calendar year 2023, to estimate future usage. Rather than producing a "trendline," he said Petitioner produced a future monthly projection of estimated flows based on estimated precipitation, estimated cooling degree days, monthly adjustments, and an estimated 585-gallon annual decline. Mr. Dellinger pointed to inconsistencies in Petitioner's monthly model between forecasted maximum monthly usage values and the historical data. He testified the means to capture the decline in customer use is via an annual trendline applied to actual usage, and not a monthly model with significant and unnecessary complexity.

Mr. Dellinger conducted his own analysis using annual data instead of monthly data with no weather variables and a single COVID impact variable to measure the impact on usage due to the COVID pandemic in 2020 and 2021. He acknowledged that weather affects usage, but the effects are more pronounced on a monthly basis, and for declining usage what is important is the underlying trend of lower use on an annualized basis. He stated he did run regression models on an annualized basis incorporating weather adjustments, but weather adjustments did not have statistical significance or relevance to the annualized analysis.

Industrial Group witness Gorman testified that Petitioner's projected use per forecasted level of customers over the forecast period understates a reasonable estimate of residential sales throughout the forecasted test period. He testified that Petitioner's use of declining use per customer based on ten years of historical trends does not reflect actual, recent, historical data. It fails to acknowledge that declining use per customer will slow over time as customers continue to replace old less water-efficient appliances with new more efficient ones—a factor Petitioner notes as among those driving customer declining use over the historical time period. Further, Mr. Gorman testified that a review of INAWC data shows that declining use per customer has begun to slow and thus, assuming the trend continues, Petitioner has understated customer use through the forecast period, understated revenue at current rates, and inflated the claimed revenue deficiency. Mr. Gorman presented an analysis to show that there is an obvious change in use per customer on a normalized sales basis but that the relative change is not linear from year to year. Mr. Gorman concluded that on an annual basis, the declining use per customer has changed from

approximately 1.5% per year decline over the period 2013-2017, slowing to approximately a 1% per year decline over the period 2019-2022, which forms the basis for his proposal.

3. INAWC Rebuttal. Mr. Rea disagreed with Mr. Dellinger's approach to modeling residential usage without reflecting weather effects and his approach of using less data to forecast usage. In response to Mr. Dellinger's modeling that input both cooling degree days and precipitation on an annualized basis, he stated the results were not surprising because using fewer data points doesn't make the weather impacts go away, it just makes it harder to identify the impacts. Mr. Rea took exception to Mr. Dellinger's approach of ignoring the impacts of weather on water consumption. He testified it makes no sense to argue that it is better to model annual data to get an annual answer and ignore weather impacts than to model monthly data, understand weather impacts, normalize for them, and sum monthly normalized results to get an annual answer. He performed a comparison of the results of Mr. Dellinger's modeling approach using actual (non-normalized) annual usage compared to weather-normalized data and testified the weather-normalized model shows more declining usage. He testified the results of his comparison validate the results from the monthly model.

In response to Mr. Gorman's analysis, Mr. Rea did not dispute that the percentage change in residential usage is smaller in the latter half of the ten-year historical period than the first half. However, without a finding that the change in trend is statistically significant, Mr. Rea testified it is impossible to know whether the change in trend is real or simply by happenstance. He therefore disagreed with Mr. Gorman's conclusion that there has been a significant and lasting reduction in the rate of declining residential usage use per customer.

4. Discussion and Findings. All parties who offered testimony on the level of declining use by INAWC's residential customers recognized some level of expected annual reduction per customer. Mr. Rea, on behalf of the Petitioner, estimated a reduction of 585 gallons per customer, per year based on a linear regression model. Pet. Ex. 5 at 68. Mr. Gorman calculated a reduction of approximately 520 gallons per customer per year using the ten-year average from the results of Petitioner's linear regression model. IG Ex. 1 at 28, Table 5. The OUCC calculated a decline of 436 gallons per customer, per year based on a linear regression model. OUCC Ex. 6 at 3-4. The difference in the parties' positions, as explained above, is in how the amount of annual per customer declining use was calculated.

The results of the parties' regression models or average of a model are shown below. A negative number implies a decline in usage whereas a positive number implies an increase.

Attachment 7

Year	INAW normalized use (weather and Covid) per customer	% change year-to-year	OUCC normalized use (Covid) per customer	% change year-to-year	Industrial Group (INAW 10-Year Average	% change year-to-year
2013	4.422		4.346		4.422	
2014	4.343	-1.787%	4.310	-0.836%	4.343	-1.787%
2015	4.279	-1.474%	4.273	-0.844%	4.279	-1.474%
2016	4.210	-1.613%	4.237	-0.851%	4.210	-1.613%
2017	4.191	-0.451%	4.200	-0.858%	4.191	-0.451%
2018	4.093	-2.338%	4.164	-0.865%	4.093	-2.338%
2019	4.134	1.002%	4.128	-0.873%	4.134	1.002%
2020	4.144	0.242%	4.270	3.449%	4.144	0.242%
2021	3.898	-5.936%	4.144	-2.944%	3.898	-5.936%
2022	3.984	2.206%	4.019	-3.033%	3.984	2.206%
2023	3.901	-2.078%	3.982	-0.905%	3.939	-1.128%
2024	3.852	-1.252%	3.946	-0.913%	3.895	-1.128%
2025	3.804	-1.268%	3.910	-0.921%	3.851	-1.128%
INAW Average 2013 - 2022				-1.128%		
OUCC Average 2013 - 2022				-0.851%		
Average INAW and OUCC 2013 - 2022				-0.989%		

The Commission believes the output of regression analysis can provide important data to determine future residential usage per customer, but reviewing the results both in the periods from where the original data came from (2013-2022) and the forecast period (2023-2025) provide an important reasonableness check.

Simply looking at the data above raises concern with the reliability of INAWC's and the OUCC's model. Mr. Rea used ten years of monthly data, which was normalized for weather and COVID. The results showed there is a year-to-year decrease from 2013 to 2018, which appears logical, particularly as we agree that usage per customer has decreased over time with water saving appliances. However, in 2019 and 2020, usage per customer increases. Then, in 2021 there is a significant decline (-5.94%), which is twice the next largest decline and over five times the ten-year average of -1.128%. Finally, in 2022, it increases 2.206%. Thus, in those four years, the model predicted three years of increase and one relatively large decrease, indicating a random, rather than a "pervasive," decline over the past ten years as Mr. Rea suggests. The forecast results from Petitioner's model also raises concern. Petitioner's regression model declined by -2.078% in 2023, which is above any decline until 2018, but drops to -1.252% in 2024, and -1.268% in 2025. We also reject Mr. Rea's proposition that the Commission should focus on the Adjusted R-Squared, which is a measure of how well the regression line or model approximates actual data. The Commission does not view this as a competition and the winner has the highest Adjusted R-Squared. In fact, Mr. Rea's original model only has an Adjusted R-Squared of 84.7%, while Mr. Dellinger's model has an Adjusted R-Squared of 87.5%.

The OUCC's model used ten years of annual data, which was normalized only for COVID. The model showed that weather was not a statistically significant variable. The results show a steady decline from 2013-2019, but 2020 has a relatively large increase, and 2021 and 2022, a relatively large decrease, which is unexplainable based on the previous years. The forecast results from the OUCC's model are more consistent for 2023, 2024, and 2025, showing -0.905%, -0.913%, and -0.921%, respectively. We are also not sufficiently concerned to eliminate the OUCC's model, as Mr. Rea argues, because it used annual data instead of monthly data, since there was no evidence showing that one year in the ten-year data set was an outlier when considering weather or that there is a trend in weather, such as hotter and/or dryer, over the past ten years.

The Industrial Group used the ten-year average from the results of Petitioner's linear regression model because he argued the period 2013-2017 is different from 2019-2022. However, because of our concerns with Petitioner's results, we reject Mr. Gorman's declining usage of 1.128% per year as our ultimate determination.

As indicated above, the output of regression models is informative but given our concerns over the results of the regression models, we believe Mr. Gorman's method of taking an average has merit. As shown above, INAWC's ten-year average is -1.128% and the OUCC's ten-year average is -0.851%. Because we do not believe one regression model to be superior to another, we find the average of INAWC's and the OUCC's (-0.989%) is a reasonable approximation of the yearly decline in residential usage per customer. This percentage reduction will be applied to the monthly average actual usage per customer beginning with the 12 months ending December 2022 of 4.058, which results in the following table.

	Usage Per Month	Gallons Per Year	Decline in Gallons Per Year
For the 12 Months Ended 12. 31. 2022	4.058	48,702	
For the 12 Months Ended 12. 31. 2023	4.018	48,220	-482
For the 12 Months Ended 12. 31. 2024	3.979	47,743	-477
For the 12 Months Ended 12. 31. 2025	3.939	47,271	-472

Using Petitioner's model, which multiplies the forecasted adjusted volume by the appropriate rate block to calculate the adjustment, we find appropriate to use a pro forma declining usage adjustment of ($1,584,569) for Step 1 and ($1,390,474) for Step 2, which results in total pro forma declining usage of ($2,975,043).

B. Customer Normalization.

1. INAWC Case-in-Chief. Mr. Rea explained the development of INAWC's pro forma revenue in this case. A summary of pro forma revenues for Indiana American's water and sewer operations under present and proposed rates is provided in Petitioner's Exhibit 14, Schedules REV1 W and REV1 WW, which show operating revenues by customer class for the base year under present rates (12-months ended September 30, 2022) and for the Step 1 (12-months ended December 31, 2023) and Step 2 and Step 3 (12-months ended

April 30, 2025) forecast periods. He testified that base year revenues for the 12 months ended September 30, 2022 were based on actual billing determinants for the base year period and were annualized using the rates that became effective November 2022 that reflect the impact of removing the URT from revenue requirements. Revenues for future test year at present rates for Step 1 were based on current rates and projected billing determinants by customer class for the 12-month period ending December 31, 2023, as well as projections for other miscellaneous revenues.

These projections of revenues for the Step 1 period at present rates compared to the calculated revenue requirement for the same period is the basis for the requested increase in this case for Step 1. For Step 2, revenues at present rates were based on proposed rates from Step 1 and projected billing determinants by customer class for the 12-month period ending April 30, 2025. For Step 3, revenues at present rates were based on proposed rates from Step 2 and projected billing determinants by customer class for the 12-month period ending April 30, 2025.

Mr. Rea testified that for each class, forecasted sales were determined by multiplying forecasted customer counts for each class by forecasted use per customer. Metering billing determinants were developed by applying forecasted customer counts to the base year pattern of meter sizes in each class. Usage billing determinants were determined by applying forecasted sales to the base year pattern of usage by rate block in each class. Forecasted billing units for both monthly meter charges and usage were multiplied by current rates to get forecast revenue at present rates for Step 1 and were multiplied by Step 1 proposed rates to get forecast revenue at present rates for Step 2 and then multiplied by Step 2 proposed rates to get forecast revenue at present rates for Step 3.

Mr. Rea detailed the specific factors for forecasting customer and usage by customer class components for organic growth for each class. He explained how the various components of Other Revenues were developed. He also explained the calculation of revenues under proposed rates utilized the following billing determinants: billing determinants for Step 1 are based on forecasted usage and customer count information for the 12-month period ending December 2023. Billing determinants for Step 2 and Step 3 are identical and are based on forecasted usage and customer count information for the 12-month period ending April 2025.

2. OUCC. OUCC witness Sullivan raised issues with respect to certain elements of Petitioner's revenue calculations. Regarding INAWC's proposed adjustment for non-residential declining use, Ms. Sullivan testified that using a three-year average consumption rate (October 1, 2019 through September 30, 2022) is not appropriate because consumption levels between April 2020 and December 2021 were affected by COVID. Although Indiana American considered this in its residential consumption analysis, it was not given consideration in Mr. Rea's non-residential customer consumption analysis. For her analysis, Ms. Sullivan instead calculated a ten-year median value from the ten years of historical data provided by Petitioner to forecast future non-residential consumption. She testified using a median value of the ten years of data would eliminate the high and low values from non-typical years, like years with droughts and pandemics.

Ms. Sullivan also testified regarding INAWC's proposed adjustment for organic growth. She said Petitioner did not project any growth for its non-residential customer classes after December 31, 2023, but non-residential growth should be recognized through the end of the future

test year, April 30, 2025. She also calculated a different Step 1 organic customer growth adjustment by using the OUCC's average customer consumption values instead of Petitioner's values and calculated a different Step 2 adjustment by including non-residential customer class growth through April 30, 2025.

3. INAWC Rebuttal. Mr. Rea did not take issue with the OUCC's adjustment for residential customer counts, which were nearly identical to Petitioner's. However, because he disagreed with the OUCC's forecast of residential use per customer, he disagreed with Ms. Sullivan's residential class revenue adjustments. Similarly, he disagreed with Ms. Sullivan's commercial class adjustment that was based on the OUCC's use per customer projection for 2023, which is a reduction from 2022 but was well above any level seen in the 2017-2021 timeframe. Mr. Rea stated Petitioner's projections for use per customer for commercial customers are more in line with recent history and should be used instead of the OUCC's projections. He further disagreed with OUCC industrial usage forecasts showing increases in 2024 and 2025 that are higher than any year in the historical period. He stated this is not a realistic result for a class that has shown flat or even slightly declining usage over time. He testified that Petitioner's forecast of usage is more realistic and reflective of current usage levels in both 2021 and 2022.

With respect to Ms. Sullivan's adjustment for the Public Authorities class, Mr. Rea testified that the combination of the ten-year median use per customer for the Public Authorities class and the customer growth function employed by Ms. Sullivan results in total usage for the class that is higher than any annual usage for this class would suggest. He said that this results from using a use per customer data point in the historical data that is not consistent with the customer counts that serve as the base for the forecast which come from a different year, producing what he described as a gross mismatch in this class between projections and historical reality.

4. Discussion and Findings. INAWC and the OUCC used the same general methodology for forecasting residential customer count with the only difference being when to begin the forecast period. Petitioner begins the forecast period October 2022, while the OUCC begins the forecast period January 2023. In rebuttal, Mr. Rea did not take issue with the OUCC's customer count adjustment. The Commission believes that when actual data is available, it should be used. Thus, we find the OUCC's residential customer count should be adopted, which is shown in the table below.

3 months ending 12.2022	12 months ending 12.2023	12 months ending 12.2024	12 months ending 12.2025
289,845	292,295	294,672	296,930

The non-residential customer total usage is customer count multiplied by the usage per customer. INAWC did not model non-residential usage per customer using regression analysis, but instead used, in many cases, an average based on the three-year average for the 12 months ending September 2020 through September 2022, which includes the COVID years of 2020-2021. In addition, customer counts for several non-residential customer classes were based on the count as of September 2022. Mr. Rea argued that using a consistent methodology across all customer

classes is preferable, such that all classes are treated equitably and no bias is built into the forecast process.

For usage per customer, OUCC witness Sullivan used the ten-year median (2012-2021) because it eliminates the high and low values for non-typical years (i.e., droughts and pandemics). Generally, for customer count the OUCC used actual customer count for October through December 2022 and customer growth was based on the methodology used for residential customers.

The Commission is not persuaded that the median over the past ten years is a good predictor of future water usage per customer for the non-residential class and finds it preferable to use an average of more recent years. The Commission also questions the reasonableness of reaching back to 2012 for the start of the ten years when, for residential usage per customer, both the OUCC and INAWC start in 2013. We agree with Petitioner that for certain non-residential customer classes the OUCC's methodology results in abnormally high total billed usage. However, while we agree a three-year average is a better predictor, we do not agree that in all cases the years 2020, 2021, and 2022 should be used to calculate the average. The use of the same methodology across the non-residential customer classes may produce an unrealistic forecast. Thus, the Commission examined INAWC's data from 2018 through 2022, attempting to avoid the COVID years and years that appeared to be an outlier, and determined, based on its review, which of the five years should be used to determine the three-year average and a reasonable predictor of future usage per customer.

For customer counts, the parties generally differed on whether to use actual figures for the three months October through December 2022. As with residential customer growth, the Commission believes that when actual data is available, it should be used.

Accordingly, our findings on customer count and usage per customer for the Commercial Class, Industrial Class, Public Authority Class, and Sale-for-Resale Class are shown in the table below.

Class of Customer	3 Months Ending 12.2022 Customer Count	3 Months Ending 12.2022 Avg. Usage Per Customer	12 Months Ending 12.2023 Customer Count	12 Months Ending 12.2023 Avg. Usage Per Customer	12 Months Ending 12.2024 Customer Count	12 Months Ending 12.2024 Avg. Usage Per Customer	12 Months Ending 12.2025 Customer Count	12 Months Ending 12.2025 Avg. Usage Per Customer
Commercial[1]	28,552	26.598	28,733	26.181	28,860	26.183	28,994	26.184
Industrial[2]	654	564.140	653	609.972	653	609.972	653	609.972
Public Authority[3]	2,185	54.150	2,244	66.386	2,367	66.449	2,514	66.517
Sale-for-Resale[4]	24	N/A	24	N/A	24	N/A	24	N/A

1. Only difference in count was use of actual data.; Year 2020 usage/customer is outlier, used average of 2019, 2021, and 2022.
2. INAWC count is more accurate.; Years 2018 and 2020 usage/customer are outliers, used average of 2019, 2021, and 2022.
3. OUCC count is more accurate.; Years 2018 and 2019 usage/customer are outliers, used average of 2020, 2021, and 2022.
4. There is no disagreement on count.; used INAWC billed usage per customer.

These figures were entered into Petitioner's model, which multiplies the forecasted adjusted volume by the appropriate rate block to calculate the adjustment. Using this methodology results in a pro forma customer growth adjustment of $3,039,147 for Step 1 and $3,434,062 for Step 2.

	IURC
Step 1 - Customer Growth Adjustment:	
Residential	$ 1,308,578
Commercial	313,836
Industrial	189,475
Public Authority	881,020
Miscellaneous	-
Sale for Resale	-
Fire	346,238
Step 1 Adjustment -- Increase (Decrease)	**$ 3,039,147**
Step 2 - Customer Growth Adjustment:	
Residential	$ 1,873,505
Commercial	398,463
Industrial	-
Public Authority	789,235
Miscellaneous	-
Sale for Resale	-
Fire	372,859
Step 2 Adjustment -- Increase (Decrease)	**$ 3,434,062**

C. Low-Income Pilot Program ("LIPP") Discount Adjustment.

1. OUCC. Ms. Sullivan recommended an additional $15,259 in revenues related to the LIPP, for a $25,521 increase to operating revenue to eliminate the discounts provided under Petitioner's low-income pilot program during the base period based on the amount recorded to its general ledger during the base year.

2. INAWC Rebuttal. Mr. Shimansky explained that under the settlement approved in Cause No. 45142, a regulatory asset was established for the customer-funded portion of the total program costs. The total amount of discounts provided under the LIPP is recorded as a debit to revenues (having the effect of decreasing revenues) but then the customer-funded portion is credited to revenues (having the effect of making the revenues whole for that portion) and debited to the regulatory asset. Petitioner only added back $10,262 to adjust for the LIPP because that is the portion (the non-deferred company contributions to the LIPP) by which the revenues were decreased.

3. Discussion and Findings. The evidence reflects that the portion of the discount that represents the customer-funded portion of the LIPP discounts and is recorded to the regulatory asset to be collected at a later date was already added back to revenues. The revenues for this portion of the discount that is attributable to the customer obligation does not need to be added back a second time. Accordingly, we find Petitioner's adjustment should be accepted.

D. DSIC Revenue Adjustment.

1. OUCC. Ms. Sullivan also proposed an adjustment to forecasted operating revenues related to Cause No. 42351 DSIC 14 ("DSIC 14"). She testified that INAWC's forecasted DSIC revenues were overstated by $85,983, because to include anything other than the approved amount of DSIC revenues could result in INAWC's revenues being adjusted twice—once in this case and again when the reconciliation is calculated. From the amount authorized in DSIC 14 ($35,316,103), she subtracted DSIC revenue included in the base year operating revenues ($11,366,769). As a result, she recommends a $23,949,334 increase to base year operating revenue to reflect total authorized DSIC revenues based on total DSIC revenues authorized by the Commission in DSIC 14**.**

2. INAWC Rebuttal. Mr. Shimansky responded by explaining that Ms. Sullivan's adjustment was based upon a figure from the DSIC 14 Order before it was adjusted as called for in that order. He said the DSIC 14 Order required INAWC to revise its DSIC factor to adjust the property tax expense for accrued depreciation when submitting its tariff. After giving effect to this language, he said the final total DSIC revenues is $35,316,103.

3. Discussion and Findings. Both Indiana American and the OUCC agree that Petitioner's forecasted DSIC revenues equal $35,316,103, the amount authorized in DSIC 14. However, they have different pro forma DSIC revenue adjustments because they each used different base year amounts. Ms. Sullivan determined that base year DSIC revenues total $11,366,769, resulting in a pro forma increase of $23,949,334. Mr. Shimansky, however, determined base year revenues of $11,280,786, resulting in a pro forma increase of $24,035,317. Although the OUCC's lower pro forma adjustment amount would result in a higher rate increase, Mr. Shimansky recommended the OUCC's proposed adjustment be denied. Accordingly, we accept Petitioner's pro forma DSIC revenue adjustment.

E. Late Fee Adjustments.

1. OUCC. OUCC witness Sullivan also recommended an increase to operating revenues for late fees based on application of the late fee ratio (using the same methodology as Petitioner) to the OUCC's recommended operating revenues. She testified the late fee ratio reflected in Petitioner's late fee adjustment was 0.5108%

2. INAWC Rebuttal. Mr. Shimansky testified that because Indiana American disagreed with the OUCC's proposed adjustment to operating revenues, no adjustment to late fees is necessary.

3. Discussion and Findings. We find Petitioner's proposed water late fee ratio of 0.5108% for Step 1 and 0.5081% for Step 2 should be applied to the level of pro forma water operating revenues at present rates found in this Order.

10. Disputed Test Year Expenses. The tables below summarize Step 1 and Step 2 pro forma present rate adjustments. The adjustments in bold were disputed and are discussed below.

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Step 1	Water			Wastewater		
Operating and Maintenance Expenses	Base Year Ended '9/30/22	Adjustments	Present Rates Step 1	Base Year Ended '9/30/22	Adjustments	Present Rates Step 1
Purchased Water	$ 381,079	$ (20,137)	$ 360,942	$ (856)		$ (856)
Production - Fuel & Power	**9,061,988**	**485,255**	**9,547,243**	**47,778**	**(3,893)**	**43,885**
Production - Chemicals	**3,693,252**	**3,039,732**	**6,732,984**	25,860	6,880	32,740
Waste Disposal	1,497,670	168,744	1,666,414	717,122	(125,001)	592,121
Salaries and Wages	**17,644,123**	**2,925,321**	**20,569,444**	**200,371**	**(185,487)**	**14,884**
Pension	(1,292,968)	1,923,563	630,595	(5,391)	9,964	4,573
OPEB	(2,645,262)	907,428	(1,737,834)	(18,743)	6,140	(12,603)
Group Insurance	**3,760,373**	**843,973**	**4,604,346**	**48,937**	**(45,943)**	**2,994**
Other Benefits	**1,276,876**	**423,681**	**1,700,557**	**13,445**	**(13,118)**	**327**
Support Services	**25,462,958**	**1,511,404**	**26,974,362**	**184,660**	**10,961**	**195,621**
Contract Services	**1,888,539**	**1,300,789**	**3,189,328**	57,136	1,256	58,392
Bldg. Maintenance & Services	**1,637,996**	**(2,756)**	**1,635,240**	**53,715**	**(18,387)**	**35,328**
Telecommunications	**695,038**	**45,170**	**740,208**	**3,625**	**179**	**3,804**
Postage, Printing, & Stationary	**51,951**	**265**	**52,216**	183	13	196
Office Supplies & Services	**539,343**	**42,241**	**581,584**	**2,835**	**215**	**3,050**
Advertising & Marketing	300	(300)	-	-	-	-
Employee Related Expense	**331,016**	**(30,609)**	**300,407**	**1,705**	**111**	**1,816**
Miscellaneous Expense	**2,459,435**	**(105,743)**	**2,353,692**	**32,421**	**1,730**	**34,151**
Rents	353,197	(49,757)	303,440	1,024	274	1,298
Transportation	**1,225,890**	**117,849**	**1,343,739**	**(962)**	**962**	**-**
Uncollectible Accounts	**2,103,281**	**404,071**	**2,507,352**	**15,254**	**1,030**	**16,284**
Customer Accounting	**290,355**	**13,791**	**304,146**	2,103	(5)	2,098
Regulatory Expense	**649,640**	**(301,095)**	**348,545**	**4,712**	**(2,184)**	**2,528**
Insurance Other Than Group	3,009,272	858,474	3,867,746	22,177	5,873	28,050
Maint. Supplies & Services	**4,343,548**	**1,661,096**	**6,004,644**	**60,994**	**13,354**	**74,348**
Capital movements	3	(3)	-	2	(2)	-
Total O&M Expenses	78,418,893	16,162,447	94,581,340	1,470,107	(335,078)	1,135,029
Other Expenses						
Depreciation	**53,265,802**	**13,128,974**	**66,394,776**	**1,350,810**	**(426,974)**	**923,836**
Amortization	**285,871**	**65,831**	**351,702**	**2,315**	**309**	**2,624**
Federal income taxes	**13,131,316**	**(832,412)**	**12,298,904**	**95,230**	**(325,455)**	**(230,225)**
State income taxes	**3,702,083**	**(144,535)**	**3,557,548**	**26,848**	**(77,105)**	**(50,257)**
Investment tax credits	(39,816)		(39,816)	(289)		(289)
Property Taxes	**13,137,584**	**3,290,514**	**16,428,098**	**296**	**458,492**	**458,788**
Payroll Taxes	**1,312,165**	**228,461**	**1,540,626**	**14,673**	**(14,082)**	**591**
Environmental Tax	312,173	7,939	320,112	2,263	(913)	1,350
URT	2,423,546	(2,423,546)	-	17,576	(17,576)	-
IURC Fee	273,469	127,448	400,917	1,983	75	2,058
Total Expenses	$ 166,223,086	$ 29,611,121	$ 195,834,207	$ 2,981,812	$ (738,307)	$ 2,243,505

Attachment 7

Step 2	Water			Wastewater		
Operating and Maintenance Expenses	Step 1 Pro forma Proposed Rates	Adjustments	Present Rates Step 2	Step 1 Pro forma Proposed Rates	Adjustments	Present Rates Step 2
Purchased Water	$ 360,942	$ -	$ 360,942	$ (856)		$ (856)
Production - Fuel & Power	**9,547,243**	**60,058**	**9,607,301**	**43,885**	**197**	**44,082**
Production - Chemicals	**6,732,984**	**2,442,281**	**9,175,265**	32,740	7,818	40,558
Waste Disposal	1,666,414	109,109	1,775,523	592,121	38,768	630,889
Salaries and Wages	**20,569,444**	**919,019**	**21,488,463**	**14,884**	**(187)**	**14,697**
Pension	630,595	-	630,595	4,573	-	4,573
OPEB	(1,737,834)	-	(1,737,834)	(12,603)	-	(12,603)
Group Insurance	**4,604,346**	**242,792**	**4,847,138**	**2,994**	**(37)**	**2,957**
Other Benefits	**1,700,557**	**70,273**	**1,770,830**	**327**	**(12)**	**315**
Support Services	**26,974,362**	**1,226,865**	**28,201,227**	**195,621**	**8,898**	**204,519**
Contract Services	**3,189,328**	**173,204**	**3,362,532**	58,392	2,175	60,567
Bldg. Maintenance & Services	**1,635,240**	**53,866**	**1,689,106**	**35,328**	**1,135**	**36,463**
Telecommunications	**740,208**	**33,421**	**773,629**	**3,804**	**126**	**3,930**
Postage, Printing, & Stationary	**52,216**	**500**	**52,716**	196	-	196
Office Supplies & Services	**581,584**	**35,474**	**617,058**	**3,050**	**183**	**3,233**
Advertising & Marketing	-	-	-	-	-	-
Employee Related Expense	**300,407**	**14,501**	**314,908**	**1,816**	**82**	**1,898**
Miscellaneous Expense	**2,353,692**	**76,247**	**2,429,939**	**34,151**	**1,277**	**35,428**
Rents	303,440	6,950	310,390	1,298	16	1,314
Transportation	**1,343,739**	**54,979**	**1,398,718**	-	-	-
Uncollectible Accounts	**2,711,763**	**23,334**	**2,735,097**	**34,961**	**1,141**	**36,102**
Customer Accounting	**304,146**	**7,482**	**311,628**	2,098	-	2,098
Regulatory Expense	**348,545**	**-**	**348,545**	**2,528**	**-**	**2,528**
Insurance Other Than Group	3,867,746	679,323	4,547,069	28,050	4,927	32,977
Maint. Supplies & Services	**6,004,644**	**198,730**	**6,203,374**	**74,348**	**2,449**	**76,797**
Capital movements	-	-	-	-	-	-
Total O&M Expenses	94,785,751	6,428,408	101,214,159	1,153,706	68,956	1,222,662
Other Expenses						
Depreciation	**66,394,776**	**4,801,739**	**71,196,515**	**923,836**	**137,907**	**1,061,743**
Amortization	**351,702**	**637,408**	**989,110**	**2,624**	**827**	**3,451**
Federal income taxes	**16,815,212**	**(2,628,751)**	**14,186,460**	**182,436**	**(42,563)**	**139,873**
State income taxes	**4,665,641**	**(646,283)**	**4,019,358**	**50,991**	**(10,162)**	**40,829**
Investment tax credits	(39,816)	-	(39,816)	(289)	-	(289)
Property Taxes	**16,428,098**	**2,398,303**	**18,826,401**	**458,788**	**65,893**	**524,681**
Payroll Taxes	**1,540,626**	**92,931**	**1,633,557**	**591**	**(14)**	**577**
Environmental Tax	**320,112**	1,949	**322,061**	1,350	-	1,350
URT	-	-	**-**	-	-	-
IURC Fee	434,155	2,803	436,958	5,095	647	5,742
Total Expenses	$ 201,696,257	$ 11,088,507	$ 212,784,763	$ 2,779,128	$ 221,491	$ 3,000,619

A. Production Expenses.

1. INAWC Case-in-Chief. Mr. Cifuentes explained that production costs are expenses that vary according to the amount of water provided or wastewater processed. The costs include purchased water, fuel and power, chemicals, and waste disposal. System delivery

is the amount of treated water that Petitioner's treatment plants produce. Water sales and other factors impact the amount of water produced by the plants, which in turn impact expenses associated with treating and distributing that water. Mr. Rea proposed pro forma revenue adjustments related to declining usage and customer growth and calculated associated pro forma system delivery. INAWC used the same level of system delivery in its pro forma fuel and power and chemical production related expenses.

With respect to fuel and power expense, Petitioner proposed a total company Step 1 increase of $310,160 to base period fuel and power expense of $9,109,766 yielding Step 1 pro forma fuel and power expense of $9,419,926. Petitioner proposed a Step 2 decrease of $479 yielding Step 2 pro forma fuel and power expense of $9,419,447. Pet.'s Ex. 13, OPER Sch. OM2.

Regarding chemicals expense, Petitioner proposed, in its updated June 6, 2023 filing, a total company Step 1 increase of $2,981,484 to base period chemical expense of $3,719,112 yielding Step 1 pro forma chemical expense of $6,700,596. Petitioner proposed a Step 2 increase of $2,426,941 yielding Step 2 pro forma chemical expense of $9,127,537. Pet.'s Ex. 13, OPER Sch. OM3. Petitioner's update corrected a conversion error in the calculation of historic base period usage (quantity) and forecasted usage in light of a transition from gaseous chlorine to liquid chlorine (sodium hypochlorite) and the difference in the amount of chemical utilized in the treatment process. OUCC Ex. 4 at 23.

2. OUCC. The OUCC accepted Petitioner's pro forma adjustments for purchased water, fuel and power, chemicals, and waste disposal.

3. Discussion and Findings. No party disputed Petitioner's pro forma purchased water and waste disposal expenses. Because the Commission's determination on declining usage and customer growth revenue adjustments do not impact these two expenses, we find they should be approved.

While the OUCC recommended declining usage and customer growth revenue adjustments that would have increased INAWC's pro forma revenues, the OUCC did not propose a corresponding increase in production expense. However, with increased revenues, we find that an associated increase in fuel and power and chemical expense should be recognized. Therefore, in conjunction with the increase in system delivery associated with the Commission's pro forma declining usage and customer growth revenue adjustments determined herein, we approve the following pro forma production costs:

Attachment 7

Fuel and Power Expense

Line		Total Company	Water	Wastewater
1	Base Year Fuel and Power Expense as of 9/30/2022:	$9,109,766	$9,061,988	$47,778
	Detail of adjustments to Fuel & Power Expense:			
	System Delivery	(85,434)	(86,155)	721
	Billing adjustments and annualization of New Locations	280,813	280,813	-
	2023 Rate Changes	273,878	278,492	(4,614)
	Acquisitions	5,550	5,550	-
	Production Change Improvements	6,555	6,555	-
	2023-2025 Inflation Adjustments	-	-	-
2	Step 1 Pro forma Adjustment	$481,362	485,255	(3,893)
3	**Fuel and Power Expense as of 12/31/2023 (Line 1 + Line 2)**	$9,591,128	$9,547,243	$43,885
	Detail of adjustments to Fuel & Power Expense:			
	System Delivery	43,114	42,917	197
	Billing adjustments and annualization of New Locations	-	-	-
	2023 Rate Changes	-	-	-
	Acquisitions	1,786	1,786	-
	Production Change Improvements	15,355	15,355	-
	2023-2025 Inflation Adjustments	-	-	-
4	Step 2 Pro forma Adjustment	60,255	60,058	197
	Pro Forma Fuel and Power Expense as of 4/30/2025 Test Year (Line 3 + Line 4)	$9,651,383	$9,607,301	$44,082

Chemicals Expense

Line		Total Company	Water	Wastewater
1	Base Year Chemicals Expense as of 9/30/2022:	$3,719,112	$3,693,252	$25,860
	Detail of adjustments to Chemical Expense:			
	Change in System Delivery	45,008	45,008	-
	Change in Chemical Pricing and Usages	3,000,574	2,993,694	6880
	Acquisitions	1,030	1,030	-
2	Step 1 Pro forma Adjustment	$3,046,612	$3,039,732	$6,880
3	**Chemicals Expense as of 12/31/2023 (Line 1 + Line 2)**	$6,765,724	$6,732,984	$32,740
	Detail of adjustments to Chemical Expense:			
	Change in System Delivery	16,602	16,602	-
	Change in Chemical Pricing and Usages	2,433,441	2,425,623	7,818
	Acquisitions	56	56	-
4	Step 2 Pro forma Adjustment	2,450,099	2,442,281	7,818
	Pro Forma Chemicals Expense as of 4/30/2025 Test Year (Line 3 + Line 4)	$9,215,823	$9,175,265	$40,558

B. Labor and Labor-Related Expenses.

1. INAWC Case-in-Chief. In its updated filing dated June 6, 2023, Petitioner proposed a Step 1 increase of $3,252,490 to base period salaries and wages expense of $17,844,494 yielding Step 1 pro forma salaries and wages expense of $21,096,984. Petitioner proposed a Step 2 increase of $1,223,089 to Step 1 pro forma salaries and wages expense of $21,096,984 yielding Step 2 pro forma salaries and wages expense of $22,320,073. In Step 1 Petitioner proposed a $709,640 increase for existing positions, an increase of $267,509 for its annual performance plan, an increase of $82,541 for its long-term performance plan, an increase of $598,117 for overtime expense, and an increase of $1,594,683 to add new positions. In Step 2 Petitioner proposed a $724,564 increase for existing positions, an increase of $91,878 for its annual performance plan, an increase of $7,636 for its long-term performance plan, an increase of $109,879 for overtime expense, and an increase of $289,132 to add new positions. As explained by INAWC witness Grisham, pro forma salaries and wages expense was calculated on a position-by-position basis, based on 408 full-time positions.

INAWC witness Britto explained that Petitioner is projecting an increase in staffing levels to support the increased investment and maintenance for aging infrastructure, systems added through acquisitions, and compliance with increasing water quality and wastewater regulations as well as to improve levels of service, quality, reliability, and efficiency for customers and the community. She stated Petitioner's operations are widely dispersed throughout the state and INAWC operates distinct public water systems providing service to approximately 78 communities. She explained Petitioner continues to look to improve efficiency, enhance compliance, and better serve customers by evaluating areas of operations and identifying the positions that fit best in a regional approach and can function optimally at a centralized location. She testified Petitioner has slowly added support staff to ensure it is adding the right positions in the right areas to support its customers and maintain compliance.

Ms. Britto provided a summary of the positions INAWC has added and plans to add from 2019 through the Test Year. She testified 13 positions were added as a result of the Sheridan and Lowell acquisitions. In 2021 and 2022, five positions were added to provide more effective oversight and operations support, including two Director of Operations positions, an Information Technology Specialist and two Business Operations Specialists. Ms. Britto stated Petitioner is adding four positions in 2023 to provide more effective oversight and support of operations throughout the state, including a state-wide water quality and environmental compliance supervisor, two staff engineers, and a state-wide training coordinator. She said Petitioner added three senior manager roles to operations in the East, Central, and West regions (for a total of six managers across the state, one per region) in 2022. Petitioner also added six new pipe mechanics to create two crews for replacing lead service lines that fall outside of Petitioner's scheduled engineering projects. Ms. Britto stated Petitioner plans to add three water treatment plant operators for the East, Central and South regions in 2023. Thus, by 2024, Petitioner will have added six water quality and environmental compliance positions to better support its regional structures and improve its focus on water quality and environmental compliance. Ms. Britto stated these additional employees will support compliance with more stringent regulations that require additional tracking, monitoring, and reporting and will enhance Petitioner's cross connection control program, which is a critical component to protect the distribution system and customer

health and safety. She further testified Petitioner plans to add four health and safety specialists: two in 2023 (one Northern region, one Southern region) and two more in 2024 (one Central region, one Western region) to align with and support Petitioner's regional structure and further strengthen Petitioner's commitment to safety.

Ms. Britto also explained how Petitioner proposes to address its current and future staffing needs given existing workforce demographics. She said Petitioner is no exception to the challenge faced by water utilities across the country with the loss of significant knowledge and expertise over the next five to ten years due to retirements. Ms. Britto testified that currently 28% of Indiana American's front-line employees are over the age of 55, and 16% are over 60 years of age. She explained these tenured employees have familiarity with Indiana American's operations and processes, along with the necessary licenses required by state and federal regulations, that cannot be easily supplemented with new employees. Ms. Britto testified Indiana American believes the most logical solution is to hire employees before the wave of retirements hit so the new hires can learn side-by-side with the soon to be retirees. She stated this approach will also provide the new hires with the on-the-job experience required for a license and provide ample time for the new hires to prepare for and pass applicable exams.

For water payroll taxes, Petitioner proposed a Step 1 increase adjustment of $267,597 yielding a Step 1 pro forma payroll taxes expense of $1,579,762 and a Step 2 increase adjustment of $116,192 yielding Step 2 pro forma payroll taxes expense of $1,695,954. For wastewater payroll taxes, Petitioner proposed a Step 1 decrease adjustment of $14,000 yielding a Step 1 pro forma payroll taxes expense of $673 and a Step 2 pro forma payroll taxes expense of $673.

For water group insurance, Petitioner proposed a Step 1 increase adjustment of $958,645 yielding a Step 1 pro forma group insurance expense of $4,719,018 and proposed a Step 2 increase adjustment of $312,265 yielding a Step 2 pro forma group insurance expense of $5,031,283. For wastewater group insurance, Petitioner proposed a Step 1decrease adjustment of $45,868 yielding a Step 1 pro forma group insurance expense of $3,069 and proposed a Step 2 pro forma group insurance expense of 3,069.

2. OUCC. Mr. Malan disagreed with Petitioner's increase to salaries and wages expense. He testified that INAWC made no adjustment for perpetual vacant positions and explained that, through the normal course of business, INAWC will continue to have vacancies. He noted that a level of positions has historically remained vacant, and Petitioner did not have full employment through the base period or the verifiable link period. Mr. Malan also asserted that customers should not have to bear the cost of an expense Petitioner is not likely to incur.

Mr. Malan testified that while the OUCC accepts Petitioner's adjustments to salaries and wages expense for Step 1 and Step 2 and the increase resulting from the addition of 46 new employees proposed in this Cause, the OUCC disagrees with Petitioner's proposed increase to salaries and wages expense due to historic vacancies. He testified that 100% staffing is not realistic and therefore it would be imprudent to include the full salaries and wages for all positions as INAWC requested.

To determine a rate for vacant positions based on INAWC historic vacancy levels, Mr. Malan used Petitioner's vacancies and number of full-time equivalents ("FTEs") on December 31 for the years 2013 through 2022. He then averaged the vacancy percentage for years 2013-2022 to arrive at an average vacancy rate of 3.66% and adjusted Step 1 downward by 1.23% to 2.43% to account for Petitioner's acknowledged five vacant positions less the historic vacancy rate. He adjusted Step 2 by the full 3.66% vacancy rate. He applied this historic vacancy rate in determining appropriate adjustments for salaries and wages expense, payroll taxes, group insurance, and other benefits.

Based on this historic vacancy rate, Mr. Malan recommends a Step 1 increase of $2,739,833 to base period salaries and wages expense of $17,844,494 yielding Step 1 pro forma salaries and wages expense of $20,584,327. Mr. Malan further recommends a Step 2 increase of $918,832 to Step 1 pro forma salaries and wages expense of $20,584,327 yielding Step 2 pro forma salaries and wages expense of $21,503,159.

For payroll taxes, Mr. Malan recommends a Step 1 increase of $214,379 to base period payroll taxes expense of $1,326,960 yielding Step 1 pro forma payroll taxes expense of $1,541,339. He further recommends a Step 2 increase of $92,917 to Step 1 pro forma payroll taxes expense of $1,541,339 yielding Step 2 pro forma payroll taxes expense of $1,634,256.

For group insurance, Mr. Malan testified that in conjunction with his proposed reduction to salaries and wages expense, a corresponding reduction to group insurance expense is also necessary to adjust for the historic vacant positions at the calculated rate. Mr. Malan testified OUCC recommends a Step 1 increase of $798,030 to base period group insurance expense of $3,809,308 yielding Step 1 pro forma group insurance expense of $4,607,338. He also states the OUCC recommends a Step 2 increase of $242,755 to Step 1 pro forma group insurance expense of $4,607,338 yielding Step 2 pro forma group insurance expense of $4,850,093.

3. Industrial Group. Mr. Gorman testified that INAWC has set its cost of service to include both the costs of new employees and employees who are expected to retire during the timeframe in which rates set in this proceeding are likely to be in effect. He testified that an adjustment should be made for employee attrition due to retirements, transfers, or other factors. Mr. Gorman stated employee attrition can offset increases in Petitioner's employee count and labor expense as a result of hiring employees for new positions, leaving the number of positions unchanged and potentially reducing wage expense as new hires start at lower wage rates than those employees who have left. He stated failing to make an adjustment for employee attrition, will result in customer rates that include excessive labor costs. Mr. Gorman further testified that it is unreasonable for Petitioner to include increases for new employees and increases in contractor expenses in addition to an increase in overtime expense instead of assuming that the new hires will alleviate overtime pressures on existing employees or that the cost of overtime for new hires might be less than that of existing employees. Mr. Gorman proposed an adjustment of 16% for employee attrition spread over the rate increase period. He did not make an adjustment to overtime expense ($1.9 million in the base period), stating these expenses (along with the proposed increases in overtime expense) can be used by Petitioner for any required overtime it may need as employees retire.

4. INAWC Rebuttal. Ms. Britto acknowledged it is reasonable to

assume that occasionally there will be vacant positions. She agreed that Mr. Malan's use of a historical average vacancy rate compared to budget could represent a reasonable estimate of vacancies at any point in time but contended that there are other reasonable representations as well. She explained that using the actual head count over the last ten years as compared to the head count assumed in rate cases (and thus built into rates), Indiana American averages 3.47% more employees than what was used to set rates.

With respect to Mr. Gorman's proposed reduction based upon a 16% attrition rate spread equally over Steps 1 and 2, Ms. Britto asserted such an adjustment is speculative and not grounded in any evidence. Ms. Britto further testified there is also no evidence that an employee who actually retires will leave a position open that will remain unfilled. Further, Ms. Britto stated that Mr. Gorman's position is unsupported by the fact that Indiana American has hired above the level of employees assumed in its rate cases during the last ten years.

As to Mr. Gorman's criticism that Petitioner did not propose an adjustment to overtime expense, Ms. Britto explained that because water utilities operate 24/7 to provide essential service to customers, overtime is often a business requirement to provide clean, reliable service. She stated a large part of overtime work includes emergency call out service work and W5 operators that need to be on site, which will continue to be performed and cannot be replaced by the FTEs proposed in this case.

5. Discussion and Findings. No party disputed Petitioner's proposed new positions. Instead, the parties took issue with INAWC's proposed FTEs due to the potential for vacancies and the possibility for new employees and the proposed increased use of contractors to offset the need for overtime. While the OUCC recommended approval of Petitioner's proposed FTEs, denial of the proposed increase to contractor expense and a new proposed vacancy rate adjustment (Step 1 – 2.43% and Step 2 – 3.66%), the Industrial Group recommended approval of Petitioner's proposed increase to contractor expense (with minor adjustments) and a reduction to the proposed FTEs.

The parties seem to agree that it is reasonable to assume a certain level of vacancies within Petitioner's forecasted headcount. The purpose of a future test year process is to forecast expenses a utility expects to incur during the year in which rates are in effect. Thus, it is reasonable to expect that vacancies will exist prior to the start of the test period.

Petitioner also provided testimony supporting its need to continue a certain level of overtime consistent with its forecast, particularly because the utility operates on a 24/7 basis. However, while we agree that a certain level of overtime will always be necessary due to emergencies and availability of qualified personnel, we also expect that Petitioner's proposed use of contractors will free up its staff for other projects. Accordingly, with our adjustment to the vacancy rate (Step 1 – 2.43% and Step 2 – 3.66%) and Petitioner's contract expense as discussed below, we find Petitioner's proposed overall labor expense level, including the overtime expense adjustment, to be reasonable. We find Petitioner's pro forma salaries and wages expense should be $20,584,328 for Step 1 and $21,503,160 for Step 2.

For payroll taxes, with our adjustment to the vacancy rate (Step 1 – 2.43% and Step 2 – 3.66%), we find Petitioner's Step 1 to be $1,541,217 and Step 2 to be $1,634,134 based on the pro forma level of salaries and wages approved herein.

For group insurance, with our adjustment to the vacancy rate (we find Petitioner's Step 1 – 2.43% and Step 2 – 3.66%), we find Petitioner's Step 1 to be $4,607,340 and Step 2 to be $4,850,095.

C. Other Benefits Expense.

1. INAWC Case-in-Chief. In Step 1 Petitioner proposed a $30,071 increase to 401(k) expense, a $270,441 increase to defined contribution plan expense, a reduction of $7,156 to employee stock purchase plan expense ("ESPP"), a $21,499 increase to Voluntary Employee Benefits Association expense, a $928 increase for additional miscellaneous benefits for existing positions, and a $136,665 increase for additional miscellaneous benefits for new positions. In Step 2 Petitioner proposes a $92,229 increase to 401(k) expense, a $97,197 increase to defined contribution plan expense, a $14,301 increase to ESPP expense, a $9,820 increase to Voluntary Employee Benefits Association expense, a $97 decrease to existing positions, and a $118,633 decrease to new positions.

2. OUCC. The OUCC did not accept Petitioner's Step 1 and Step 2 adjustments for new employee 401(k) and ESPP expense. Mr. Malan testified that Petitioner overstated its new employee 401(k) expense by assuming a 100% participation rate and that Petitioner's five-year average 401(k) participation rate is 86%. Accordingly, he recommended Step 1 new employee 401(k) expense of $81,826, which is $13,319 less than that requested by Petitioner. He proposed Step 2 new employee 401(k) expense of $16,131, which is $2,626 less than Petitioner's request. Mr. Malan further took exception with Petitioner's calculation of its proposed new employee ESPP expense, which also assumed 100% participation. He testified that Petitioner's five-year average ESPP participation rate is 37%. Thus, he recommended a $5,452 reduction to Petitioner's proposed Step 1 new employee ESPP expense and a $1,072 reduction to Petitioner's proposed Step 2 new employee ESPP.

3. INAWC Rebuttal. Ms. Grisham responded to OUCC witness Malan's arguments that Petitioner's 401(k) and ESPP programs are not fully enrolled, acknowledging they are not, but rejecting Mr. Malan's proposed five-year average participation rate. She explained that rather than assuming a participation rate, Petitioner's calculation to determine the average expense per employee is based on actual costs and includes $0 line items for the 41 and 226 employees that are not currently participating in the 401(k) and ESPP program, respectively. Ms. Grisham pointed out that Mr. Malan's use of the five-year average 401 (k) participation rate ignores the fact that participation rates over the past five years have been increasing as the number of pension-eligible employees decreases. She presented actual annual participation rates for Petitioner's 401(k) for the most recent three years, which is higher than the five-year average of 86%.

4. Discussion and Findings. With respect to the OUCC's proposed reductions to other benefits expense, we find that Petitioner's methodology already accounts for non-participating employees and therefore provides a more accurate and realistic preview of the

dollars Petitioner will spend on both 401(k) and ESPP expenses than the five-year average participation rate recommended by the OUCC. With respect to the 401(k) participation rate in particular, Petitioner's evidence shows the five-year average participation rate likely underestimates future participation rates. *See* Pet. Ex. 20 at 5, Table 1. Accordingly, we find that the evidence in this case supports Petitioner's forecasted level of other benefits expense with an adjustment for vacant positions, and we decline to make the OUCC's recommended new employee benefit adjustments. We find Petitioner's pro forma other benefits expense to be $1,700,884 for Step 1 and $1,771,145 for Step 2.

D. Support Services Expense.

1. INAWC Case-in-Chief. Petitioner proposed forecasted total support services expense of $27,411,536 in Step 1 and $28,657,034 in Step 2. Mr. Grisham testified the services provided by the Service Company include, among others, customer service, water quality testing, innovation and environmental stewardship, human resources, communications, information technology and cyber security, finance, accounting, payroll, tax, legal, engineering, accounts payable, supply chain, and risk management.

2. OUCC. Ms. Stull testified that Petitioner's proposed forecasted total support services expense is a 44.44% increase over the revenue requirement in the 2019 Rate Order. She accepted Indiana American's forecasted adjustments to support services expenses. However, she recommended removal of all business development department costs, which Petitioner forecasted to be $241,552 in Step 1 and $251,285 in Step 2. Ms. Stull testified she recommended removal of all business development department costs for the same reasons expressed by the Commission in Cause No. 44022, wherein it found no evidence that the business development activities provided a benefit to customers. Therefore, Ms. Stull proposed to eliminate all operating expenses included in service company expenses for the business development department.

3. INAWC Rebuttal. Ms. Grisham disagreed with Ms. Stull's recommended adjustment to remove business development costs from support services expense. She testified the evidentiary record in Cause No. 44022 does not control the Commission in this proceeding, and business development does more in communities than facilitate acquisitions. Ms. Grisham testified that American Water's business development activities help build relations with community businesses and leaders and benefit customers of Indiana American by mitigating the costs to be recovered per customer, enhancing purchasing power, and spurring activities that contribute to their local economies.

Ms. Grisham explained business development activities that grow Indiana American's customer base enable system investment costs and operating expenses to be spread across a larger customer group. She testified despite Petitioner's operating expenses increasing by approximately $9 million from 2013 through 2022, due in part to the customer base expanding by approximately 37,000 customers during that time period, operating expense per customer actually decreased slightly, from $255 per customer in 2013 to $253 per customer in 2022. Ms. Grisham further testified that business development activities also benefit many of the communities served by Petitioner. As an example, needed investment allowed a soft sewer ban to be lifted in Sheridan, allowing growth in a community that had been stifled by lack of treatment capacity.

Finally, Ms. Grisham testified that through operation improvements of acquired wastewater and water utilities, business development activities achieve public policy objectives of improving the quality of the water consumed by customers and of the public bodies of water into which wastewater effluent is discharged.

4. Discussion and Findings. The OUCC accepted Indiana American's forecasted adjustments to support services expenses but recommended removal of all business development department costs from the expense totals. Pub. Ex. 3 at 29. The OUCC recommended disallowance of these costs for the same reasons the Commission cited in *Indiana-American Water Co*., Cause No. 44022, 2012 WL 2154248, (IURC 6/6/2012), where the Commission found no evidence that Petitioner's business development activities provided a benefit to customers.

Petitioner asserts that its business development activities help build community relations, achieve public policy objectives, and benefit customers by enhancing purchasing power and spreading costs across a larger customer group from acquisitions and economic development. However, we agree with the OUCC that although Petitioner claims it has lowered customer operating expenses and other costs, Indiana American has not sufficiently tied those reductions to its business development activities. Although Petitioner may be achieving economies of scale and enhancing its purchase power, it is doing so in part through its acquisitions. Also, while acquisitions may facilitate economies of scale as measured by operating expense per customer, this metric does not consider the initial investment to acquire the customers or subsequent investments in the acquired utilities. And, as the OUCC pointed out, this may not necessarily be a benefit to Indiana American's customer base, particularly given the fact that Ind. Code § 8-1-30.3-5 provides for favorable ratemaking treatment on acquisitions. Thus, the Commission remains concerned that customers may be subsidizing INAWC's business development with limited offsetting customer benefits and Petitioner's evidence does nothing to alleviate those concerns.

As for improving community relations and achieving public policy objectives, we note that Petitioner has included approximately $593,312 in its forecasted expenses for "external affairs and public policy," which could cover those anticipated expenses. Therefore, we accept the OUCC's recommended adjustment to remove business development costs of $241,552 in Step 1 and $251,285 in Step 2. We find Petitioner's pro forma support services to be $27,169,983 for Step 1 and $28,405,746 for Step 2.

E. Contract Services – Line Locates.

1. INAWC Case-in-Chief. Ms. Britto testified that Petitioner continues to see a significant increase in Indiana 811 notices to locate and mark its facilities since Petitioner's last general rate case and projects this trend will continue through the test year in this Cause. She presented Petitioner's projected volume of notices to locate and mark its facilities based on the average increase in notices from 2020 to 2022. She explained that non-essential frontline service work was deferred from March 2020 through December 2021 to help protect the safety of employees and customers during the pandemic and, consequently, Petitioner did not contract out work such as locates during this time. Ms. Britto testified that with the continuing increases in the volume of notices to locate and mark facilities, as well as frontline service work no longer being deferred, Petitioner has frequently reassigned employees from completing customer service orders

and other crucial (although less time sensitive) tasks such as hydrant maintenance, valve maintenance, leak detection, fire service inspections, cross-connection inspections, contractor site inspection, cross training/development activities, and a variety of other water distribution tasks to stay current with the 811 work demands. She stated Petitioner proposes to address the continued increasing demand to locate and mark its facilities by utilizing contractors to do most of this work. The proposed increase in contract services expense (Pet. Ex. 13, OPER Schedule OM 11 in the file INAWC 2023 Rate Case – Contract Services) is based on the costs of bid responses received from contractors to complete the current and the projected level of notices requiring Petitioner to locate and mark its facilities. She said shifting to contractors for line locates will limit the number of new hires included in this case to address this work and repurpose employees back to maintenance activities.

INAWC witness Grisham explained that the level of contract services operating expense for the test year was determined beginning with the expense level from the base period and then adding a projected monthly level of work to locate and mark facilities as discussed by Ms. Britto. A monthly inflation factor of 0.23% was then applied through the end of the future test year.

2. OUCC. The OUCC recommended denial of Petitioner's proposed Step 1 and Step 2 adjustments for contracted line locates. Mr. Malan testified that Petitioner made no reduction to any other expense to offset the $4.2 million total increase to contract services expense for additional contracted services to perform line locates, including no adjustments to reduce overtime or wages that would not be needed for those line locates which would be performed through contract services. He testified that Petitioner did not incur any base period expense for contracted line locates nor any time since and has made no effort to outsource line locates since Petitioner's deferral of non-essential frontline service work had ended in December of 2021. He noted that in its last rate case, Petitioner had received approval for $507,528 for additional contracted line locates, yet no locates were performed by outside vendors. Mr. Malan contended that Petitioner has not sufficiently justified its failure to implement its prior proposal and request to use additional contract services for performance of line locates. He testified that Petitioner also failed to provide sufficient justification for its proposed adjustment. He stated it is also unclear to what extent line locates will be performed by contractors, instead of employees, or whether these costs have been double counted in Petitioner's proposals.

In addition, OUCC witness Seals testified that the number of Petitioner's service orders show a decreasing trend and that the transition to advanced metering infrastructure ("AMI") meters should further improve the efficiency of local field service employees. Because these AMI meters will be able to be read remotely by Indiana American staff without manual contact, meter-reading functions will be largely eliminated. He said the combination of decreased service orders and decreased meter reads would free employees to complete additional tasks, including line locates, that would foster a reduced need for contract services, which is not otherwise subject to adjustment.

3. Industrial Group. Mr. Gorman proposed to cap Petitioner's projected levels of contractor expenses at its Step 1 request because he said Petitioner has not proven the projected number of line locates it proposes to outsource is reasonable nor that it will actually incur its projected cost. Mr. Gorman took issue with Petitioner's forecasted increase in line locates in excess of the historical increase and said Petitioner did not offer evidence that the increase experienced in 2022 is representative of a sustained acceleration in the number of calls to

Indiana 811 rather than simply an outlier, nor has it shown the line locates are expected to increase at the same rate going forward. He noted that Petitioner did not use previously requested funds in its prior rate case on contractors for line locates. He recommended the contractor expense tied to outsourcing line locates be capped at the 2024 increase, which would allow Petitioner to increase contractor expense by $3.9 million for line locates. He said capping these costs achieves a balance of Petitioner's desire to outsource line locates to reduce the workload on internal employees while protecting customers from cost increases that he says Petitioner is unlikely to incur in the rate effective period.

4. INAWC Rebuttal. Regarding Petitioner's employment of outside vendors to perform line locates, Ms. Britto explained that the COVID pandemic commenced shortly after Petitioner's last rate case and as a result non-essential frontline service work was deferred. During the pandemic, Ms. Britto said existing staff could be redeployed from completing customer service orders and other maintenance activities to remain current with the locate work demands. She testified Petitioner is no longer operating in the same conditions, and conditions existing during the pandemic do not serve as a reasonable basis to doubt that Petitioner will use contract labor to complete the forecasted line locates. She noted that the OUCC did not dispute Petitioner's projection of locate requests or the cost per locate, nor did he propose any other method or cost for addressing locate requests. As to Mr. Gorman's dispute of the forecasted growth in locates, she said that Indiana American had actually reduced the projection from the 8% increase seen in 2021-2022 to project a 6% increase in line locates. Ms. Britto testified that Mr. Gorman's proposal to cap contractor expense for line locates at the 2024 increase of $3.9 million, while more reasonable than Mr. Malan's recommendation, would still leave Petitioner short of recovery for costs it expects to incur while rates are in effect. She stated Mr. Gorman's use of a seven-year average of forecasted growth is driven down by pandemic years and opined that the 6% growth rate is more reflective of what is expected for the future.

5. Discussion and Findings. INAWC requests a substantial increase to its contract services expense to perform line locates. Specifically, Petitioner requests a two-step adjustment, allowing it to increase its contractor expenses by approximately $3.9 million for the year ending December 31, 2023 and an additional $303,771 increase over Step 1 for the year ending April 31, 2025. Petitioner's forecasted expense is based on one of three bids it received for such contract services. Based on the evidence presented, we find Petitioner has failed to support its proposed increase in contractor expense.

INAWC has previously requested and received approval to outsource its line locates to contractors, as opposed to using internal employees, and not followed through with the approved outsourcing. In the 2019 Rate Order, Petitioner received approval of approximately $500,000 for additional contract service for line locates. However, the evidence shows no line locates have been performed by outside vendors and Petitioner instead has reassigned employees from completing customer service orders and a variety of other tasks to perform the line locates. We understand the impact from the COVID pandemic, but Petitioner has failed to sufficiently explain its delay since that impact was alleviated, particularly given Petitioner's assertion that the amount of line locates increased in 2022 and are expected to continue.

Despite Petitioner's purported intention to utilize contract labor for line locates, it has not done so, and this failure gives us reason to doubt the extent to which Petitioner will actually use

the requested increase to outsource labor for line locates going forward. This uncertainty is further heightened by the fact that INAWC has yet to execute a contract securing outside labor for line locates, is negotiating the use of outside contractors with its union employees, and thus, its proposed level of spend is based solely on bids it has received and not on a firm contract. We also note that the bid relied upon by Petitioner for its forecasted expense is significantly higher than the lowest bid and Petitioner offered no explanation for its choice to rely on that bid other than to indicate it was the middle bid.

Furthermore, INAWC has made no reduction to any other expense to offset its proposed increase to contract services expense for additional contracted services to perform line locates, including no adjustments to reduce overtime or wages for its own employees that would not be needed if those line locates would be performed under contract service agreements. Thus, it is unclear to what extent line locates will be performed by contractors, instead of employees, or whether these costs have been double counted in Petitioner's proposals.

Petitioner's proposed increase in contractor expense is also based on its assumption that line locates will increase by 6% in 2024 and 2025, despite the fact that since 2016, line locates have, on average, increased by just 4% each year. Pet. Ex. 4 at 31. INAWC attempts to justify this assumption by pointing to the 8% increase in line locates in 2022. However, it offered no evidence demonstrating that the increase in 2022 is representative of a sustained acceleration in the number of line locates requested rather than simply an outlier.

Petitioner is seeking a substantial increase in staff (both employee and contractor) in this case. As noted earlier, Petitioner is adding 46 new positions at a cost of $1,883,816 while also proposing to outsource all line locates at a cost of $4,194,530. These two increases result in an additional $6,078,346, a 34% increase in labor costs from Petitioner's base period salaries and wages of $17,884,494.

Based on the evidence presented, we find that Petitioner's contract services expense should be based on the lower bid received. However, given our finding above regarding Petitioner's proposed labor expense and in recognition that at least some outsourcing of its line locates will allow Petitioner to meet its goal of developing a pool of skilled workers, we find that Petitioner should be authorized to outsource half of its line locates, resulting in a contract services Step 1 water adjustment of $1,300,789, which includes the two undisputed adjustments for removal of lobbying expense and inflation. The total company Step 1 contract services adjustment is $1,302,045 after including the $1,256 wastewater adjustment. The contract services Step 2 water adjustment is $173,204, which includes the inflation adjustment of $69,147. The total company Step 2 contract services adjustment is $175,379 after including the $2,175 wastewater adjustment. We find contract service for Step 1 to be $3,247,720 and for Step 2 to be $3,423,099.

F. Inflation/Annualization.

1. INAWC Case-in-Chief. Mr. Cifuentes described Petitioner's methodology used to calculate its pro forma expense levels that are based on an inflation factor for the verifiable link period and then trended through the future test year. Petitioner used unique and specific inflation factors developed for each O&M category that aligns with the U.S. Bureau of Labor Statistics by specific measure category and type of cost to recognize the impact of inflation

on Petitioner's expenses for the verifiable link period and through the future test year. Petitioner also proposed to annualize or normalize the following expense accounts: building maintenance & supplies (OM12); telecommunications expense (OM13); postage, printing & stationery (OM14); office supplies and services (OM15); employee related expense (OM17); maintenance supplies & services (OM18); and miscellaneous expense (OM25). To calculate the annualization, Petitioner selected the last month of 2023 within each respective workpaper and multiplied the monthly expense by 12 to get the yearly expense.

2. OUCC. Mr. Compton recommended the adjustments to annualize these expense accounts be denied, because he disagreed with how Petitioner normalized (i.e., annualized) these expenses for inflation. Mr. Compton explained that Petitioner calculated the annualization of each expense by multiplying the expense in the last month of 2023 by twelve, essentially projecting each expense for inflation. Petitioner's pro forma adjustment was then calculated by subtracting each month's expense in 2023 (January through December) from the monthly annualization Petitioner had calculated. Mr. Compton testified that by adjusting for inflation and then annualizing the expense based on the year-end's inflationary adjusted expense, Petitioner double counted inflation in Step 1.

Mr. Compton explained that annualizing is appropriate and necessary when there is less than a full year of information, but because Petitioner's base year and future projections are based on a full year's worth of data, there was no need to annualize the expense accounts and doing so has the effect of double counting inflation.[24] Mr. Compton testified Petitioner's annualization adjustment should be removed from each Step 1 expense projection for each respective expense account.

3. Industrial Group. Mr. Gorman objected to Petitioner's use of the historical three-year average of inflation rather than economists' projected prospective inflation rate through the close of the forecasted test year (April 2025). He explained that relying on a historical three-year average that ends at the start of the base period (September 2022), as INAWC proposes, does not adjust historical O&M costs for the inflation outlook expected from the base period through the forecasted test year. He testified that the prospective inflation outlooks by independent economists from October 2022, through the end of the forecasted test year, April 2025, are significantly lower than the actual inflation rate that occurred for the three-year period ending in September 2022. In other words, inflation has decreased significantly from the level that is reflected in INAWC's historical average. Thus, Mr. Gorman explained that relying on escalation factors based on historical data is not a reasonable basis for projecting increases in O&M expenses over the link period and future test year and inaccurately inflates INAWC's actual O&M expense from the historical base year through the forecasted test year.

To account for the disparity between the historical rate of inflation leading up to the base period and the independent inflation outlook from the base period through the close of the test year, Mr. Gorman recommend adjusting the forecasted test year O&M expense to reflect inflation outlooks from the historical base period through the forecasted test year. Mr. Gorman testified that this effectively lowers the inflation rate used by Petitioner from 5.05% to 2.97%. Mr. Gorman

[24] Mr. Compton noted the only annualization he would consider acceptable by these standards would be an annualization of expenses for Lowell but considered annualizing expenses for all communities to be unreasonable.

testified that adopting his approach and adjusting the various inflation factors that INAWC uses to the consensus economists' forecasts for future inflation would lower the claimed revenue deficiency by approximately $698,000 for water and $30,000 for wastewater.

4. INAWC Rebuttal. Responding to Mr. Compton's recommendation to remove annualization for the identified O&M expenses, Mr. Cifuentes testified that the purpose of the annualization is to adjust the Step 1 expenses to a level predictive of what INAWC will experience going forward. Mr. Compton's recommendation, however, bases the Step 1 level of these expenses on the projected levels for calendar year 2023, which fails to reflect the inflation projected to occur during most of 2023 and understates the level projected to be occurring at the anticipated date of the order in this Cause.

Mr. Cifuentes explained there is no double counting of inflation in the adjustment. The monthly amount for December 2023 within each of the relevant expense accounts is multiplied by 12, which represents 12 months to arrive at the pro forma level of expense for 2023 on an annualized basis. The annualized amount (based on the last month in 2023) captures the inflation adjustment and does not compound, nor is it calculated in excess of its intended value.

In response to Mr. Gorman's proposed adjustment to use consensus analysts' reports to forecast inflation, Mr. Cifuentes responded that Mr. Gorman's recommendation is flawed in assuming that analysts' and/or economists' reports provide projected inflation rates that would consistently be useful and relevant to the expenses to which they are applied. He stated accuracy is enhanced when specific inflationary rates are applied to each category of expenses when available and Mr. Gorman's proposal would use one across-the-board rate of 2.97%, which is an average of the general consumer price index forecasted to occur from 2022 through 2024, or a general inflationary factor. Mr. Cifuentes stated this rate does not contemplate for, adjust, or target each expense category presented in this Cause.

5. Discussion and Findings. We find the evidence shows that Petitioner has not already adjusted for inflation the relevant expense accounts in developing its forecast for calendar year 2023 prior to annualizing such expenses. As a result, without the step of annualizing these amounts based on the last month in 2023, the full effect of inflation at the time this Order is issued would not be captured. We find that Petitioner's method of annualizing these expenses better matches the amount to be included in rates to the amount projected to be incurred at Step 1. We therefore reject the OUCC's proposed removal of annualization for these expense accounts.

INAWC witness Cifuentes chose specific inflationary factors for the applicable industry, which he used in his adjustment. We find that the use of more specifically tailored inflationary factors for each of the O&M categories as sourced from the U.S. Bureau of Labor Statistics provides a more reliable forecast of inflation with respect to each category of expense to which those inflationary factors were applied than the use of generic inflation economist outlooks. Accordingly, we reject the Industrial Group's recommended blanket inflationary factor.

G. Miscellaneous Expense.

1. INAWC Case-in-Chief. INAWC proposed an overall $57,089

decrease to base year miscellaneous expense of $2,491,856 yielding pro forma miscellaneous expense of $2,434,767 for Step 1 expenditures. In addition, Petitioner proposed an overall $20,435 increase to base year miscellaneous expense to yield a pro forma expense of $2,512,291 for Step 2 expenditures.

2. OUCC. Mr. Compton explained that Petitioner proposed eight adjustments to base year miscellaneous expense. Petitioner also proposed adjustments to remove $124,760 of charitable contributions, a total of $23,000 of lobbying expenses, and $42,000 of penalties from base year expenditures. In addition, Petitioner proposed to add in $300 of adjustments from OM16, $27,594 of adjustments from OM17, $65,767 of adjustments for inflation, and $39,010 of adjustments for annualization to base year expenditures for Step 1 expenditures. Mr. Compton explained that Petitioner proposes the same adjustments for Step 2 expenditures as it did in Step 1; however, Petitioner does not adjust for annualization and proposes an inflation adjustment for an increase of $179,255 to base year expenditures. All other adjustments remained the same.

Except for Petitioner's adjustments for the annualization of the expense account, Mr. Compton accepted Petitioner's proposed miscellaneous expense adjustments. However, Mr. Compton proposed other adjustments. Mr. Compton removed $38,023.12 from the Community Relations for a full season plan of courtside tickets for Pacer games at Gainbridge Fieldhouse, explaining this expense is of no benefit to customers and should not be included in rates. He also removed from the base year $8,900 from the 2022 Environmental Grant Program because its function is charitable and image-building. He noted Petitioner's pamphlet provides, "All grants will be funded either by the American Water Charitable Foundation upon the advice or recommendation of personnel from American Water and its state subsidiaries or directly by such American Water subsidiary." OUCC Ex. 5, Attachment JTC-5. Mr. Compton testified that as the program can be funded by the charitable foundation, it should be treated as such and therefore should not be treated as a recoverable expense. Lastly, rather than removing from the base year only a portion of the National Association of Water Companies ("NAWC") bill (13%), which Petitioner acknowledged is involved in lobbying on behalf of public utilities, Mr. Compton recommended the full amount for the NAWC invoice of $188,932.91 be removed from the base year as NAWC activities substantially benefit shareholders' interests rather than customers.

Based on the foregoing, Mr. Compton recommended a decrease of $309,001 to base year miscellaneous expense of $2,491,856, resulting in a pro forma miscellaneous expense of $2,182,855 for Step 1 expenditures. Additionally, he recommended a decrease of $192,468 to base year miscellaneous expense to resulting in a pro forma miscellaneous expense of $2,299,388 for Step 2 expenditures.

3. INAWC Rebuttal. Mr. Shimansky accepted removal of the Indiana Pacers expenses.

INAWC witness Cifuentes explained the Environmental Grant Program focuses on projects that address watershed and/or source water protection in INAWC's service areas and is therefore beneficial to customers. He stated the costs to administer the program include the cost of preparing, printing, and mailing of Environmental Grant Brochures plus associated costs, including time spent by staff to evaluate the applications and to choose recipients. Mr. Cifuentes

provided an example of an Environmental Grant Program project that benefited INAWC customers called the Riverview Park Bioswale & Prairie Planting Improvements project where the funds will be used to improve water quality by installing a vegetated bioswale to capture runoff at Riverview Park that currently discharges to Holt Ditch within 50 feet of convergence with the White River. He testified the project will reduce flooding and storm water runoff and associated pollution into the White River, a water source for INAWC. He stated the removal of invasive species and installation of native plants will help to filter pollutants and sediment from water exiting the site.

Mr. Cifuentes disagreed with the OUCC that all NAWC activities benefit the interest of shareholders rather than customers. The NAWC is a professional association that provides a forum for its members to collaborate, share best practices, and leverage their strengths to benefit the communities they serve. Indiana American's utilization of tools offered by its NAWC membership benefit customers through professional development for INAWC employees, which provides more efficient and effective service through knowledge of the latest trends and techniques.

4. Discussion and Findings. On rebuttal, Petitioner accepted the OUCC's position that Indiana Pacers tickets should be removed from miscellaneous expense and employee-related expense. We agree and find such expense should be removed.

As for the Environmental Grant Program, we agree with the OUCC and find that this program is primarily charitable in nature and for the purpose of building Petitioner's image in its communities. The evidence shows that the program can be funded by the American Water Works' charitable foundation or its state subsidiary, supporting the primarily charitable nature of the program. Expenses identified as charitable contributions are considered non-recoverable expenses and should not be included in the revenue requirement of the requesting utility. Therefore, we find this expense should be removed.

With respect to Petitioner's NAWC expense, Indiana American properly excluded the portion of the expense related to lobbying and we find the remainder of the expense to be properly included. As Mr. Cifuentes explained on rebuttal, NAWC is professional association that provides a forum for its members to collaborate and share best practices and grow through professional development, which benefits customers through more efficient and effective utility service.

Accordingly, we find Petitioner's forecasted miscellaneous expense for the total company is $2,387,843 for Step 1 and $2,465,367 for Step 2.

H. Transportation Expense.

1. OUCC. Mr. Compton accepted Petitioner's proposed pro forma level of transportation expense with one exception. He testified that the proposed level of transportation expense included a "salvage value reclass inflation" and that salvage value is not a transportation expense. Citing to the National Association of Regulatory Utility Commissions Uniform System of Accounts for Class A Water Utilities, Mr. Compton testified that salvage value should be accounted for through accumulated depreciation and not as a transportation expense. Mr. Compton recommended all salvage value reclass be removed from base year transportation expense, producing a reduction of $99,421.

2. **INAWC Rebuttal.** Mr. Cifuentes explained that the reclassification that Mr. Compton was referencing was a credit received from a vendor during the base period for vehicles that had been retired from plant records. As such, it was a credit against the bill (which was booked as transportation expense), and the credit needed to be reclassified to salvage value (which Mr. Cifuentes agreed is not an expense). As such, reclassifying the credit must be done to properly state the amount to be booked to expense.

3. **Discussion and Findings.** We find that Mr. Cifuentes has adequately explained why the credit must be reclassified so as to properly reflect transportation expense. As such, we reject Mr. Compton's recommendation.

I. Bad Debt Expense.

1. **INAWC Case-in-Chief.** Petitioner proposed pro forma bad debt expense of $3,295,142, which includes the incremental increases to bad debt expense associated with each step of Petitioner's pro forma present rate revenue increases, using a factor of 0.9062% and a factor of 0.8945% for each step's proposed revenue increase.

2. **OUCC.** Ms. Sullivan proposed bad debt expense adjustments to base year bad debt expense totaling $629,201 yielding pro forma bad debt expense of $2,734,586 utilizing the same factors used by Petitioner.

3. **Discussion and Findings.** We agree with the factors used by the parties to compute Petitioner's forecasted bad debt expense. We find, based on the methodology used by the parties and our pro forma operating revenues proposed in this case, Petitioner's bad debt expense is $3,141,034.

J. Customer Accounting - Credit Card Fees and Disconnection Process.

1. **INAWC Case-in-Chief.** Petitioner proposed to include $1,163,647 in the revenue requirement attributed specifically to its proposal to waive the credit card processing fees applied to individual customers and include those fees in the cost of service within Customer Accounting expense (OM22). Pet. Ex. 2 at 35-36. Mr. Shimansky testified that charging a credit card fee on top of the customer bill adds friction to the process of paying a bill. He stated that eliminating the direct payment of the fee will help more customers pay their bill on time and avoid late fees and potential disconnections and is also expected to improve timely collections.

2. **OUCC.** Mr. Compton recommended the Commission deny Petitioner's proposal because such costs should not be socialized but remain with the cost causer. He argued it should not be the burden of all customers to pay the costs being generated by a subset of customers. Mr. Compton disagreed with the suggestion that customers will be saving money. While he acknowledged that customers paying their bills with credit or debit cards will save money, the customers who don't pay their bill with a card will see an increase in their bills. He stated there is no evidence that Petitioner's proposal will generate any value in customer satisfaction, on-time payment, and disconnection avoidance. Mr. Compton suggested that any increase in timely collections that might result will accrue to Petitioner's benefit as it would make more money in the long run. Mr. Compton argued the net benefit to customers as a whole is neutral as some customers would be receiving assistance at the expense of other customers. He noted that

customers who have been paying through methods other than credit or debit card to avoid paying a fee will no longer be able to save that money because they will have to pay for the benefit whether they take advantage of it or not. He also indicated his recommendation is consistent with the Commission's Order in Cause No. 45253, wherein a similar request was denied.

3. CAC. Mr. Inskeep testified that the CAC supports INAWC's proposal and believes it is beneficial to consumers. He testified consumers should not be charged extra fees for paying their monthly bill in the manner most convenient to them, within reason. He noted that payment by credit card is a popular payment method among consumers in Indiana. Mr. Inskeep testified that the support given by Petitioner to stop assessing per-transaction charges for payment by credit card would also apply to other per-transaction fees for payment by phone, debit card, or other reasonable method. He recommended the Commission approve Indiana American's proposal to remove the $1.95-per-transaction charge on credit card transactions and also direct Indiana American to discontinue any other per-transaction charges assessed on residential customers for paying a water and/or wastewater bill, including, but not limited to, payment by phone or debit card. Mr. Inskeep also expressed concern with Petitioner's disconnection policies for customers with medical conditions, reconnection procedures, and its use of internal credit scores that are used to apply discriminatory treatment in its collection activities.

4. INAWC Rebuttal. Responding to the OUCC, Mr. Shimansky testified that when the cost to pay by credit and debit card is removed from the individual customer, those bills become easier to pay leading to more timely payments and lower uncollectible expenses. When this happens, all customers benefit as uncollectible expenses are a part of the revenue requirement. Mr. Shimansky demonstrated the impact on other rates is relatively minor (0.3% of total Operating Revenues) in comparison to making it easier to pay bills. With respect to customer satisfaction, Mr. Shimansky stated the use of a credit card may help customers avoid late payment fees and the discontinuation of water service for non-payment and associated reconnection fees, each of which contribute to customer satisfaction, as does avoiding the incurrence of additional costs associated with mailing in payments or traveling to make in person payments.

With respect to CAC's recommendation that all fees associated with any customer bill payments should be removed, Mr. Shimansky responded that Petitioner has not done the analysis or determined the increased revenue requirement associated with removing such other fees. He testified that Petitioner is not opposed to doing an analysis and corresponding proposal in the next rate case if the Commission finds it necessary. Ms. Britto denied the use of internal credit scores in Petitioner's collection process and testified that Petitioner applies its procedures and policies uniformly to all customers, which are consistent with Commission rules.

5. Discussion and Findings. The Commission addressed a similar proposal to socialize the cost of providing a fee-free payment option in *Duke Energy Indiana, Inc.* Cause No. 45253 at 105-106 (IURC June 29, 2020), wherein it found the proposal unreasonable because it had not been shown to provide value to non-participating customers. While Petitioner asserted in this case that all customers would benefit from more timely payments by those customers who use credit or debit cards for payments and the resulting lower uncollectible expense that results from more timely payments, Petitioner provided no evidence or cost/benefit analysis to support those assertions. Instead, the only analysis performed was to calculate the estimated

amount of fees that would be generated from a small subset of customers using a credit or debit card to pay their water bill that it proposed to allocate to all customers. Therefore, we reject Indiana American's proposal to shift its credit card processing fees to all customers.

We also find that Indiana American adequately explained the use of an internal credit metric, which is not used in its collection process. Additionally, Indiana American's disconnection, reconnection, and collection policies and procedures are consistent with the Commission's rules, and we decline to require any modifications based on the CAC's recommendations. However, we encourage Petitioner to continue discussions with CAC and others about additional options for decreasing the number of residential disconnections and improving the reconnection process, particularly for the more vulnerable residential customers.

K. Regulatory Expense - Rate Case.

1. INAWC Case-in-Chief. INAWC forecasted $1,404,295 for rate case expense to be amortized in rates over 3 years, or $468,098 per year. INAWC Financial Exhibits OPER Schedule OM23 within the INAWC 2023 Rate Case – Regulatory Expense file of Petitioner's Exhibit 13.

2. OUCC. Ms. Sullivan testified that the OUCC does not oppose the rate case costs forecasted by Petitioner but disagreed with the total costs to be amortized as well as the amortization period to be used. She stated Petitioner was authorized to recover $1,941,165 in the 2019 Rate Order amortized over three years but not removed from rates. Thus, Petitioner will have collected $647,055 per year for approximately 4.58 years by the time the rates in this case are implemented (July 2019 through approximately February 2024), or $2,965,669, resulting in what she described as an over-collection of at least $1,024,504. Ms. Sullivan testified that because the OUCC has agreed to include under recovered rate case costs in prior cases, it is only equitable that any over collection of rate case costs should be credited against rate case costs to be incurred in this case. She recommended the $1,404,295 of forecasted rate case costs be reduced by the "over collection" of rate case costs from Cause No. 45142, resulting in net rate case costs of $379,791. She recommended this amount be recovered during Step 2 and then removed from Step 3 rates to avoid any future over collection of rate case costs. She also recommended all rate case expense be removed from Step 1 resulting in no rate case expense recovery in Step 1, stating that Step 1 may be of indefinite length and therefore removing rate case expense from Step 1 removes the potential for additional over, or under, recovery of OUCC's recommended net rate case expense.

Ms. Sullivan also recommended a five-year amortization period should the Commission not accept her recommendation. She testified this period is more appropriate than Petitioner's proposed shorter three-year period because the time between rate case filings has been approximately five years for the last three rate case filings. She stated INAWC has been able to extend the period between rate case filings due to its use of DSIC and SEI trackers. Ms. Sullivan further recommended that if the Commission orders a three-year amortization of rate case expense, the Commission order rate case expense should be removed by a tariff filing at the completion of the amortization period.

3. INAWC Rebuttal. Mr. Shimansky disagreed that rate case expense

from Cause No. 45142 was over-collected. Citing to a term of the settlement in the prior rate case, he testified that the parties agreed to an annual regulatory expense amortization of $647,055, which included a $50,000 reduction to the annual forecast proposed by Petitioner, driven by reduced projected levels of expense associated with settling the case rather than fully litigating it. Mr. Shimansky testified there was no agreement as to the time over which to amortize the rate case expense. He also noted that there was no term in the settlement that required a filing of new tariffs following expiration of any amortization period. He testified there was no agreement to stop amortizing rate case expense and the balance in the regulatory account for those expenses was never fully amortized to a zero level.

4. Discussion and Findings. The Commission's Order in INAWC's prior rate case approved a settlement among the parties that authorized an annual regulatory expense amortization amount. *See* 2019 Rate Order at 14 and Appendix A of the approved settlement at 4. While the OUCC asserts that the settlement established a total rate case expense amount of $1,941,165 to be amortized over three years, there is no indication in the Commission's Order, or the settlement attached thereto, that anything other than an annual regulatory expense amortization amount was agreed upon or approved. Therefore, we decline to modify the settlement or our Order approving it through the OUCC's recommended offset.

Accordingly, we approve Petitioner's proposed rate case expense. However, we find that such expense should be amortized over four years based on Petitioner's historical average of time between rate cases.[25] Petitioner shall also file revised tariffs upon the end of the amortization period to remove the annual amortization expense from its rates if the four-year period adopted herein expires before new rates are approved.

L. Amortization - COVID Deferral.

1. INAWC Case-in-Chief. INAWC is seeking recovery of $383,817 of COVID related costs. Mr. Shimansky testified that the amortization amount includes balances from both the regulatory asset and the regulatory liability that was set up and charged since March 6, 2020 through December 31, 2021. INAWC proposed to amortize this net balance over three years. These costs include foregone late fees, disconnect/reconnect expenses, uncollectible/bad debt expense, other direct costs, debt carrying costs, and Service Company expenses, offset by savings realized by Petitioner on forgone Travel and Conference expenses.

2. OUCC. Ms. Stull accepted Petitioner's basic methodology for calculating COVD-19 costs but disagreed with Petitioner's "conclusions." She testified that the methodology should include recognition of the line locate costs not incurred during the pandemic but recovered through rates. She calculated an avoided cost of $916,667. As a result, she recommended a deferred COVID regulatory liability of $532,850 (Petitioner's net regulatory asset of $383,817 reduced by avoided line locate costs of $916,667). She also disagreed with INAWC's proposal to amortize deferred COVID costs over three years, positing that five years is a more appropriate amortization period as that is the time between rate case filings for INAWC's last three rate cases. Ms. Stull recommended a deferred COVID regulatory liability of $532,850 be

[25] Petitioner's prior rate case filings include Cause No. 44022 on May 2, 2011, Cause No. 44450 on January 24, 2014, Cause No. 45152 on September 14, 2018, and Cause No. 45870 on March 31, 2023.

amortized over a five-year period as a reduction of $106,570 to INAWC's annual total company operating expenses.

3. INAWC Rebuttal. Mr. Shimansky opposed Ms. Stull's recommendation, noting that Petitioner voluntarily deferred avoided travel and conference expense savings when it was not required to do so. He cited to the June 29, 2020 Order in the Commission's COVID investigation, Consolidated Cause Nos. 45377/45380 (at 9-10) ("45380 Order"), which provided: "All jurisdictional Indiana utilities are authorized to use regulatory accounting for COVID related impacts directly associated with any prohibition on utility disconnections, collection of certain utility fees (i.e., late fees, convenience fees, deposits, and reconnection fees), and the use of expanded payment arrangements, as well as COVID related uncollectible and incremental bad debt expense." Mr. Shimansky noted this was precisely the deferred accounting authority sought by the OUCC and, in fact, the OUCC actively opposed further deferred accounting authority. He stated there is no deferred accounting authority for the avoided line locate expense. He also acknowledged that there is no deferred accounting authority for the avoided transportation and conference expense, and Petitioner did not to have offset those savings against the deferred expenses that were specifically authorized.

With respect to Ms. Stull's proposal to lengthen the amortization period for the COVID deferred costs, Mr. Shimansky responded that the costs in this regulatory asset were paid for by Petitioner over a period of around 22 months and Petitioner is not asking to recover interest on these accounts. Mr. Shimansky testified that to recover these costs over five years means Petitioner will be waiting almost nine years (COVID expense began in June 2020 versus end of amortization period of January 2029) with no interest compensation.

4. Discussion and Findings. The 45380 Order authorized regulatory accounting for COVID impacts associated with prohibitions on utility disconnections, waiver or exclusion of certain utility fees (i.e., late fees, convenience fees, deposits, and reconnection fees), and the use of expanded payment arrangements. In that same order, we declined to approve a request for deferral of O&M costs but found utilities could seek cost recovery or other related rate relief through future filings, such as a base rate case. While we recognize that Petitioner deferred certain O&M savings as offsets to the costs authorized to be deferred, we decline the OUCC's invitation to require additional offsets simply because Petitioner voluntarily included some offsets. Consistent with our decision above concerning the amortization of rate case expense, we find these costs should also be amortized over the four-year expected life of Petitioner's approved rates. Therefore, we authorize Petitioner to amortize $383,817 over four years, a figure that includes COVID costs, bad debt expense, and an offset for travel and conference expenses not incurred. Additionally, if the four-year amortization period expires before new rates are approved, Petitioner shall file a new tariff to remove the amortization from rates upon expiration.

M. Amortization - LIPP Expense.

1. OUCC. OUCC witness Stull proposed to amortize deferred costs related to Petitioner's LIPP over five years instead of three. She proposed to amortize the deferred low-income program costs of $77,127 over five years, for a $10,279 decrease to Indiana American's proposed amortization expense of $25,704.

2. INAWC Rebuttal. Mr. Shimansky responded that based on the period over which the discounts for customers through the LIPP program were captured in the regulatory asset and the fact that Petitioner has not sought carrying charges with respect to the deferred amounts, Petitioner's proposed three-year amortization period is appropriate. He also pointed out that it is inconsistent for the OUCC to suggest that the over-collection of the URT repeal revenues be returned immediately with interest but the expenses for LIPP are to be returned over five years with no interest.

3. Discussion and Findings. For the reasons stated above with respect to the amortization period for the deferred COVID costs, we find a four-year amortization period should be adopted. We further find INAWC should file a new tariff to remove the amortization from rates upon expiration if the four-year period adopted herein expires before new rates are approved.

N. Property Tax Expense.

1. INAWC Case-in-Chief. Mr. Cifuentes presented pro forma property tax expense. To calculate the forecasted property tax, he calculated the five-year weighted average of assessed values for 2017-2021 adjusted for the granted personal property assessment obsolescence claims, divided by the UPIS basis amounts for 2016-2020. This quotient provided the ratio of assessment value to UPIS value for real and personal property. The tax rate was calculated by dividing property taxes paid in 2022 by the 2021 assessed values. While property taxes are expensed in the year of assessment, they are paid in arrears. The five-year weighted average ratio of assessed value to UPIS was then multiplied by the December 31, 2024 UPIS to determine 2025 property tax expense. The monthly 2025 property tax expense was then annualized to arrive at the test year pro forma property tax expense (water and wastewater).

2. OUCC. Ms. Stull accepted generally Petitioner's method for forecasting property tax expense. However, Ms. Stull disagreed with Indiana American's use of its estimated property tax assessment as of December 31, 2024 to establish Step 2 property tax expense. She testified that property taxes are based on an assessment conducted on December 31 each year, and the December 31, 2023 assessment will have been the latest assessment as of the beginning of Petitioner's forward-looking test year (Step 2 – May 1, 2024). Ms. Stull testified that Step 2 rates should be based on the assessed value of the property as of the beginning of the test year (the December 31, 2023 assessment). She explained further that only Step 3 rates should be based on the December 31, 2024 assessment.

Ms. Stull noted that Petitioner included utility plant that is not subject to property tax in its property tax expense calculation. She noted the main extension to the Montgomery County Development Zone will be exempt from property taxes and Petitioner only included its net investment of $2,777,506 rather than its total investment of $18,000,000. Ms. Stull explained that property taxes are based on what was constructed and taxing entities do not consider whether plant was contributed in establishing what value is to be taxed. Ms. Stull also noted that while Petitioner is allowed to recover a return on and of its investment in customer-owned lead service line replacements, it does not actually own these assets and therefore does not owe property taxes on this investment. Therefore, Ms. Stull excluded$18,000,000 for the Montgomery County main

extension and $22,565,208 for lead service line replacements from her recommended property tax expense.

Ms. Stull also made several recommendations for the computation of property tax expense in future SEI and DSIC cases. She stated Petitioner should use its rate case methodology for purposes of calculating property taxes in these trackers.

3. INAWC Rebuttal. Mr. Shimansky agreed with Ms. Stull that the Montgomery County surcharge assets and customer-owned lead service line replacements should be excluded. He disagreed, however, with her recommendation that Step 2 rates should be based upon the December 31, 2023 assessment. He explained that the test year is the 12 months ending April 30, 2025, and that basing the Step 2 rates on the 2023 assessment will understate the pro forma test year expense. He agreed to her recommendations regarding the calculation of property tax in future SEI and DSIC cases.

4. Discussion and Findings. The primary dispute between the parties is whether to include property tax expense on plant that will be assessed on December 31, 2024 in Step 2 rates as proposed by Petitioner or in Step 3 rates as proposed by the OUCC.

In *Indiana-American Water Co., Inc.,* Cause No. 44022 at 93-94 (IURC June 6, 2012), we addressed a similar issue and referenced our decision in *Ind. Cities Water Corp.*, Cause No. 39166 (IURC July 8, 1992) wherein the utility sought to include an adjustment for plant added between December 31,1990 and May 31,1991. The test year in that case ended June 30, 1990, with a one-year adjustment period and the new plant was assessed for tax purposes on March 1, 1991, even though the tax rate would not be set until 1992 and taxes would not be due until 1993. Because the utility's accrual accounting system recorded property taxes as a liability in the year of assessment (*i.e.*, during the adjustment period), the utility estimated the property tax expense based on the most current tax rate. The Commission included the utility's proposed expense for new plant, finding that estimating the property tax using the most-current tax rate and an assessment made during the adjustment period resulted in a sufficiently fixed, known, and measurable expense.

Although this case is not based on a historical test year and the fixed, known, and measurable standard does not apply, we find it appropriate to consider the tax assessment date and the timing of when the utility's accrual accounting system records the property taxes as a liability. We find it is reasonable to permit recovery of property taxes on assessed plant in the period when the utility accrues the tax in its accounting records. In response to the Commission's August 25, 2023 Docket Entry, Petitioner stated that it will record property tax expense on 2024 investments in January 2025. Because the cutoff date for Step 2 revenues and O&M expenses are through April 30, 2025, we find the amount of property tax expense should be based on plant that will be assessed on December 31, 2024. Accordingly, we find Petitioner's forecasted property tax expense adjustment is $3,749,006 for Step 1 and $2,464,196 for Step 2. Further, we find the OUCC's recommendations regarding the calculation of property tax in future SEI and DSIC cases should be approved.

O. IURC Fee and Gross Revenue Conversion Factor.

1. OUCC. Ms. Sullivan calculated an updated gross revenue

conversion factor to reflect the IURC fee that went into effect on July 1, 2023. She also proposed a $134,693 increase to base year IURC fee expense of $275,452 for a total pro forma IURC fee expense of $410,145 utilizing the current 2022-2023 IURC fee of 0.1467603% and applying the fee to the OUCC's proposed operating revenue.[26]

2. INAWC Rebuttal. Mr. Cifuentes testified that Petitioner agrees with application of the current IURC fee rate for 2022-2023, but that percentage should be applied to the level of revenue ultimately adopted in this Cause.

3. Discussion and Findings. There is no dispute between the parties as to the appropriate IURC fee to use in calculating the gross revenue conversion factor, only in the appropriate level of revenues to which the percentage representing the fee for 2023-2024 should be applied. We find that the IURC fee of 0.1467603% should be applied to the level of pro forma operating revenues at present rates found in this Order. Further, we find the gross revenue conversion factor of 134.5031%, which includes the IURC fee of 0.1467603%, should be applied to the net increase required before gross-up for each phase as found in this Order.

P. Income Tax Expense. There were only two disputed issues concerning federal and state income tax expense: (1) the regulatory treatment of the timing difference associated with the repairs deduction, and (2) the appropriate amortization period for EADIT.

1. Repairs Deduction.

a. OUCC. Ms. Stull recommended a reduction to income tax expense to include Petitioner's repairs deduction in the determination of income tax expense for ratemaking purposes. She explained the repairs deduction represents costs that have been capitalized and included in rate base for book and ratemaking purposes but expensed for tax purposes as allowed by the Internal Revenue Code. Ms. Stull further explained that the adjustment she proposes is only for determining income tax expense for ratemaking purposes and has no effect on the operating expense or rate base.

Ms. Stull testified the tax normalization rules do not prohibit the inclusion of a repairs deduction for purposes of determining income tax expense for ratemaking purposes. Rather, normalization rules pertain to differences in depreciation methodologies and depreciation rates used for book and tax purposes, which are "protected" under the normalization rules. However, she explained, the repairs deduction creates a basis difference which is not protected under the normalization rules. She concluded it is unnecessary for customers to pay rates that include income taxes related to the repair deduction. She did not split the repairs deduction between water and wastewater operations because the amount for wastewater was immaterial and Petitioner's proposed subsidy to wastewater operations is significant.

Ms. Stull stated the ADIT balance at September 30, 2022 includes an amount related to the additional repairs deduction included in American Water's federal income tax return. This historical balance should continue to be included in ADIT. However, Ms. Stull explained that because she proposes to flow through the repairs deduction in the determination of income tax

[26] We note the 0.1467603% is the IURC Fee for the fiscal year 2023-2024.

expense for ratemaking purposes, there will be no difference between book value and tax value (at least for ratemaking purposes) on a going forward basis. Therefore, no additional ADIT should be projected for Petitioner's capital structure in Steps 1, 2, or 3.

Finally, Ms. Stull acknowledged a reduction to the ADIT balance included in Indiana American's capital structure should result from her recommendation. She estimated the effect to ADIT by multiplying her repair deduction by 25% and reducing ADIT accordingly. The effect of her proposed adjustment is a $2,927,966 reduction to ADIT in the Step 2 capital structure and a $9,439,895 reduction to ADIT in the Step 3 capital structure.

b. INAWC Rebuttal. Ms. Ciullo explained the Internal Revenue Service ("IRS") allows an immediate deduction for certain expenditures as repairs which, for regulatory accounting purposes, are capitalized rather than expensed. This creates a timing difference, which Petitioner proposes to normalize over the life of the capitalized asset. The effect of that timing difference is reflected in lower customer rates through the recognition of ADIT, consistent with the Muncie Remand Method as outlined in *Muncie Water Works Co.*, Cause No. 34571, 44 PUR4th 331 (Ind. Pub. Serv. Comm'n Sept. 16, 1981). Ms. Ciullo explained that Ms. Stull's proposal is to instead flow through the tax impacts of the tax repairs deductions because the rates paid by customers include income taxes INAWC will not pay until some future period, which she says unnecessarily increases rates for customers today. Ms. Ciullo explained that Petitioner's current approach of continuing to normalize tax repairs provides stability in customer rates by not having large fluctuations in bills when taxes come due. For the utility, Ms. Ciullo explained, normalization allows the utility to recover costs more evenly over time. She testified that current and future customers benefit from normalization because the timing difference is reflected as a zero-cost source of capital over the life of the underlying asset, which results in a lower authorized net operating income. In contrast, Ms. Ciullo stated, flow-through captures 100% of the benefit of the tax deduction for current customers, leaving none of the benefit for future customers.

Ms. Ciullo testified it is still necessary due to a timing difference to compute ADIT on the tax repairs adjustment under Ms. Stull's approach, since the costs associated with the tax repairs deduction are capitalized for book purposes. Under Ms. Stull's approach, however, a regulatory asset for the ADIT (and gross-up) for income taxes to be paid in the future would be created. Ms. Ciullo testified that changing certain tax expenses from normalization to flow-through adds unnecessary complexity to an already complex tax calculation and could add complexities with other filings, such as the DSIC. Ms. Ciullo stated that, if the capital expenditure qualifies for tax repairs for tax purposes and is treated as a flow through, then as the capital expenditure is depreciated for book purposes, the corresponding book depreciation also needs to be treated as flow-through. Thus, Petitioner would need to separately track any book activity, including retirements associated with the underlying capital, to ensure the full reversal of the regulatory asset created as a result of the flow-through treatment. She also indicated that if the treatment to flow-through was to be changed retrospectively, other considerations would also need to be made.

c. Discussion and Findings. Even though the repairs deduction timing difference has existed for several years, this is the first case where a party has proposed that its effects should be flowed through to customer rates rather than be normalized. While we have not faced this specific proposal with respect to the repairs deduction, Indiana long

ago decided that temporary tax timing differences (like the repairs deduction) are to be normalized:

> It has been a long standing practice of this commission to permit utilities, subject to our jurisdiction for rate-making purposes, to utilize normalization accounting principles in regard to timing difference adjustments and investment tax credits.

Muncie Water Works Co., 44 PUR4th 331, 337-38 (quoting *Boone County REMC v. Ind. Pub. Serv. Comm'n,* 239 Ind. 525, 536, 29 PUR3d 409, 159 N.E.2d 121 (1959). The use of normalization accounting principles permits an entity to equalize the tax consequences resulting from timing difference adjustments, such as accelerated depreciation, to taxable income and investment tax credits associated with capital assets over the useful life of the asset. Consequently, when such normalization is utilized for rate-making purposes, the present and future utility customers share such tax consequences equally over the life of the assets that are used to provide the utility service.

Timing differences have been normalized as standard ratemaking practice, in part, because other timing differences in the tax calculation, such as depreciation, would violate IRS normalization rules if flowed through to the ratepayers. Even though the repairs deduction could be flowed through to ratepayers without violating those rules, the additional complexities do not warrant the change proposed by the OUCC. As Ms. Ciullo noted, the corresponding book depreciation would need to be treated as a flow-through if the capital expenditure qualifies for tax repairs and is treated as flow-through. For consistency, the DSIC and other filings would need to be modified as well. Also, while the current method requires ratepayers to pay more income taxes through rates than the utility is required to remit to the IRS immediately, these funds are available to invest in rate base. Thus, the funds represented by deferred income taxes are a source of capital, like debt or equity, for which the utility is not required to pay interest or dividends. Thus, the deferred income taxes are included in the capital structure at zero cost, providing a benefit to the ratepayers.

Normalization relating to timing differences of deductions in tax calculations is a long-standing ratemaking practice. We do not believe a change is warranted due to the additional complexities that will result and because ratepayers receive benefits from the normalization practice. Accordingly, we reject the OUCC's proposal.

2. EADIT.

a. INAWC Case-in-Chief. Mr. Shimansky testified that pursuant to the settlement agreement in Cause No. 45032 S4, EADIT from the Tax Cuts and Jobs Act of 2017 is being returned as an offset against income tax expense using ARAM. Mr. Shimansky explained that the Workpapers for Deferred Income Tax were compiled by the American Water's Tax Department using PowerTax.

b. OUCC. Ms. Stull disagreed with Indiana American's proposed EADIT amortization. She testified that the ARAM used at the time of settlement was approximately 41 years. She objected to INAWC's calculation of ARAM of approximately 74 years, 63 years, and 65 years for Steps 1, 2, and 3, respectively. She asserted that while ARAM will vary from one period to the next, an increase of this magnitude is not reasonable. She stated

that Petitioner's workpapers do not provide any useful support for its calculation of EDIT amortization or its calculation of ARAM. While she understands Petitioner used PowerTax to perform the detailed calculations, she said it is incumbent upon Petitioner to provide basic information about the calculation, such as the ARAM used, along with an explanation of why it differs significantly from that used in prior cases.

Ms. Stull stated that while Petitioner cannot amortize EADIT any faster than ARAM without violating normalization rules, she considered the ARAM calculated in this case to be an error. Due to the absence of support in Petitioner's case-in-chief regarding its calculation of ARAM, Ms. Stull based her recommended ARAM on the results of the OUCC's depreciation study, which calculated remaining lives for water plant of 48.99 years, wastewater plant of 28.15 years, and total plant of 48.70 years. Ms. Stull considered an amortization period of 41 years to be a reasonable basis on which to calculate the EDIT amortization.

c. Industrial Group. Mr. Gorman proposed that the amortization period to return Indiana EADIT to customers be reduced to three years; and that the full balance of the refund be credited to Petitioner's water customers. He stated that the Indiana General Assembly gradually lowered the Indiana corporate income tax rates beginning in 2012. The current tax rate is 4.90% and the tax rate used in Petitioner's last rate case, Cause No. 45142, was 5.5416%. Mr. Gorman testified this results in Indiana EADIT balances that represent over-collections of deferred tax payments from customers that will no longer be remitted to government taxing authorities due to the change in Indiana tax law. Mr. Gorman proposed the Indiana EADIT credit to customers should be accelerated. He stated the Indiana EADIT can be amortized in accordance with the Commission's discretion and is not required to be refunded using ARAM. He urged the refunding of these deferred tax over-collections to customers as quickly as possible. Mr. Gorman stated the faster the refund to customers means a greater reduction to cost of service that can offset a portion of Petitioner's current proposed rate increase. He also contended that a faster amortization period will result in a more balanced treatment to the current generation of customers, most of whom would have been paying rates that reflect the old tax rate, without creating any detriment to INAWC or its future customers who did not contribute to the EADIT balance. Mr. Gorman proposed a faster amortization of three years, consistent with the proposed three step rate increase. Accelerating the amortization to three years increases the Indiana EADIT amortization expense from $136,087 to $1,508,393, or an increase of $1,372,306.

d. INAWC Rebuttal. Regarding the OUCC's disagreement with the portion of Petitioner's EADIT calculation using ARAM, Ms. Ciullo explained that while ARAM is supposed to mimic the average remaining life, it is not intended to be a straight-line calculation. She also noted that the 41 years Ms. Stull uses is based on an estimated calculation that was utilized in the prior rate case, at a time when Petitioner had not completed the implementation of the PowerTax system. Ms. Ciullo explained that PowerTax is the industry software used to compute the full ARAM calculation using detailed records for a more accurate calculation than can be done in Excel. She stated the ARAM calculation is more complex than using a straight-line method and using that method is only appropriate if a utility does not have the appropriate books and records to calculate ARAM. Ms. Ciullo testified that Ms. Stull is comparing an estimate of ARAM calculated prior to PowerTax to the ARAM result produced by PowerTax and the fact that the number has grown materially does not make it unreasonable. It is instead likely the result of using a far more detailed and accurate calculation than was available to Petitioner at the time of the last

case. Ms. Ciullo further testified that Ms. Stull's proposal to flow back protected EADIT over a 41-year period even though ARAM is more than 20 years longer unnecessarily risks a normalization violation by giving back the EADIT quicker than under ARAM. This could result in Petitioner no longer being able to utilize accelerated tax depreciation, which would be a severe detriment to both Petitioner and customers.

Mr. Shimansky acknowledged that unlike federal EADIT, the amortization period for Indiana EADIT rests entirely within the Commission's discretion. However, he disagreed with the highly expedited proposal from Mr. Gorman. First, Mr. Shimansky stated the underlying assets that set up this EADIT will continue to depreciate over the life of the assets. In other words, if the EADIT is flowed back over three years but the underlying asset is depreciated over its remaining life, there is a mismatch that contradicts Mr. Gorman's desire to provide more balanced treatment to current customers. Mr. Shimansky urged that if the Commission decides to accept Mr. Gorman's three-year proposal or other expedited proposal, then the order should also include language to change the tariff rate at the end of the amortization. This should include not only the income tax expense but also the capital structure, as fully amortized state EADIT (reflected as zero-cost financing in the capital structure) will increase the overall WACC.

e. Discussion and Findings. We note at the outset that the amortization for both federal and state EADIT were established in the settlement approved by the Commission in its June 24, 2020 Order in Cause No. 45032 S4. The record in that Cause and in the current proceeding reflects that federal protected EADIT could not be amortized using any shorter period than that established using ARAM without risking a normalization violation for federal income taxation purposes. It was understood on a going forward basis that the estimated pass back to customers established in that Cause was always intended to be updated through PowerTax to arrive at the actual ARAM calculation. Any other result would risk a normalization violation for purposes of the Internal Revenue Code. That update has occurred, and the resulting calculation of Petitioner's federal EADIT follows the method established in Cause No. 45032 S4 to avoid a possible normalization violation. The OUCC has made no showing that the ARAM calculation produced by PowerTax is in error. Therefore, we decline to adjust the calculation based on the OUCC's recommendation.

With respect to Indiana EADIT, our conclusion is the same as for the repairs deduction. While the question is one for our discretion, we long ago exercised that discretion and determined that temporary timing differences would be normalized because any other approach would be "out of touch with reality." *Muncie Water Works,* 44 PUR4th at 338. Accordingly, we reject Mr. Gorman's proposal to accelerate the pass back of Indiana EADIT.

11. Net Operating Income at Present Rates. Based on the evidence and determinations made above, we find Petitioner's adjusted test year operating results under its present rates are:

Operating Revenues	$ 284,238,732
Less: Deductions	
Operating and Maintenance	102,213,733
Depreciation & Cost of Removal	81,372,636
Amortization	992,561
General Taxes	21,715,052
Federal Income Taxes	6,889,379
State Income Taxes	2,244,414
Total Deductions	215,427,775
Present Rate Net Operating Income	$ 68,810,957

We find that with appropriate adjustment for ratemaking purposes, Petitioner's annual net operating income under its present rates for water/wastewater service would be $68,810,957. We have previously found that Petitioner's net original cost rate base as of the end of the test year is forecasted to be $1,835,553,713, that Petitioner's WACC is 6.42%, which would produce a return on net original cost rate base of $117,842,548. To this return we add the fair value increment for the Indiana Cities Water Corporation acquisition adjustment of $250,077, calculated pursuant to the methodology that has been utilized in numerous rate cases over the course of the more than twenty years, producing a total fair return on fair value of $118,092,625. Petitioner's current return of $68,810,957 will be insufficient to represent a fair return on the fair value of its rate base. We therefore find that Petitioner's present rates are unreasonable and confiscatory.

12. Authorized Rate Increase and Rate Implementation.

A. INAWC Case-in-Chief. Mr. Shimansky described Petitioner's proposed rate implementation in three steps. INAWC has chosen a test year that will commence a few months after the date of this Order. The first step will take effect upon the issuance of this Order. It will incorporate rate base, capital structure, depreciation, and grossed up return as of a rate base cutoff of July 31, 2023. The first step will also incorporate the annualized level of revenues, uncollectible expense, operating and maintenance expense, amortizations and taxes projected in the link period through December 31, 2023. The second step will incorporate the level of revenues, uncollectible expense, operating and maintenance expenses, amortizations and taxes projected through the test year, combined with rate base, capital structure, depreciation expense, and grossed up return as of the beginning of the test year (April 30, 2024). The third and final step will adjust revenues, uncollectible expense, and certain taxes (IURC fee and state and federal income tax), based upon rate base, capital structure and depreciation as of the end of the test year (April 30, 2025). At each step, INAWC will submit a rate base and capital structure compliance filing to certify that all utility plant reflected in that submission is in service as of that date.

B. OUCC. The OUCC did not object to Petitioner's proposed three-step process. However, Ms. Stull testified that the parties should have an opportunity to review Indiana American's update filings, conduct any necessary discovery, and be afforded meaningful opportunity to respond to the update filings. She said for all steps, Petitioner should certify the

plant in service and verify construction costs paid. She also recommended a number of additional submissions be made as part of the rate implementation: (1) filings should compare actual amounts to authorized amounts, with an explanation of variances greater than 5%; (2) rate base should be capped at each step at the amount in the forecast; (3) INAWC should file detailed general ledger information with each step; (4) for Steps 1 and 2, detailed schedules showing comparisons between actuals and "approved" amounts, by account and project number, along with detailed general ledger transactions, which would be followed by a 30-day period for review; and (5) for Step 3, the same as Steps 1 and 2, except that information supporting UPIS as of December 31, 2024 would be submitted by February 1, 2025. The remainder of the test year additions would be submitted by May 31, 2025, with parties having until July 30, 2025 for review. She testified that rates should take effect for all steps upon filing on an interim subject to refund basis.

C. Industrial Group. Mr. Gorman did not oppose the three-step process; however, he testified that multi-step processes are not needed and recommended that rate base be capped at the level approved in this Order.

D. INAWC Rebuttal. Mr. Shimansky testified that the OUCC's recommendations that rate base be capped at the amount authorized in this Order, that rates be put in effect upon submission on an interim basis subject to refund, and that a hearing be scheduled to resolve any disputes are consistent with past practice and is acceptable. He also testified that the 30-day period to submit objections is also acceptable. He agreed to an earlier submission of calendar year end data but stated that with year-end close it would be difficult to meet the proposed February 1 date and March 1 would be more realistic. He otherwise objected to the new additional requirements proposed by Ms. Stull. He testified that the Commission should not impose any reporting obligations different than those imposed in any other future test year case. He testified that no compelling reason has been offered for the additional layers of reporting she has requested and that it would be inefficient.

E. Discussion and Findings. The Commission approves Petitioner's unopposed three-step increase, with Step 1 taking effect as soon as possible after the issuance of this Order for service rendered after approval of the tariffs by the Commission's Water/Wastewater Division and based upon actual rate base and capital structure as of July 31, 2023. Step 2 rates will take effect on or about the beginning of the test year, based upon the rate base and capital structure as of May 1, 2024. Step 3 rates will take effect on or about the end of the test year, April 30, 2025, and based upon the end of test year rate base and capital structure. Step 3 rate base will be capped at the net original cost rate base we have found herein to be appropriate, with any amounts in excess of the cap being eligible for inclusion in other rate or tracker proceedings. All three steps will take effect on an interim subject to refund basis upon submission of the compliance filing described herein. The parties to this proceeding will have 30 days to submit any objections to the compliance filings for Steps 1 or 2 and 60 days for Step 3.

The OUCC took issue with the date for submission of rate base update as of December 31, 2024, and recommended capping the Steps 1 and 2 rate base figures and including specific additional information with the compliance filing. We agree with INAWC witness Shimansky that year-end closing may pose problems for a February 1 submission, and so we find a March 1 submission to be satisfactory. As to the other information the OUCC requests be submitted with

its compliance filing, this case presented complex issues involving rates, cost of service, and rate design. Thus, to verify and ensure adherence to the Commission's findings herein, a technical conference may be convened as needed for Petitioner to explain its compliance filing.

Accordingly, we find that at each of the three steps, Indiana American shall submit a certification of its actual utility plant in service and actual capital structure as part of its compliance filing broken out between water, wastewater, and corporate. The compliance filing will calculate rates for the applicable step based upon these certifications for water and wastewater, subject to the approved rate base at the conclusion of the test year found herein. All supporting schedules should be provided in Excel format with formulas intact. The rates shall take effect upon submission subject to the rights of parties to submit an objection to the compliance filing as previously found herein. If necessary to resolve any objections, we will schedule a hearing. However, within a week of Petitioner's compliance filing, a technical conference may be held at the request of either a party or Commission staff to allow for further discussion in determining whether Petitioner's filing complies with this Order and to determine what additional information, if any, should be provided for Step 2 and Step 3's compliance filings. We find this process is reasonable and consistent with the process that has been used and worked well in our other future test year cases.

Based on the evidence presented and subject to the approved compliance filing process, we find that Petitioner should be authorized to increase its rates and charges in three steps, calculated to produce combined additional operating revenue of $66,285,371 at the conclusion of the test year, resulting in total operating revenue of $350,524,090. This revenue is reasonably estimated to afford Petitioner the opportunity to earn net operating income that is no more than the fair return of $118,092,625 that we have found to be appropriate, based upon projected test year end rate base and capital structure. The rate increase shall take place over the three steps we have described and, subject to the compliance filings, shall be calculated to produce total company operating revenues and net operating income at each step as follows:

Step 1		
Operating Revenues	$	306,800,457
Less: Deductions		
Operating and Maintenance		95,939,457
Depreciation & Cost of Removal		67,318,612
Amortization		354,326
General Taxes		19,188,815
Federal Income Taxes		16,957,543
State Income Taxes		4,716,632
Total Deductions		204,475,385
Net Operating Income	$	102,325,072

Attachment 7

Step 1	
Original Cost rate Base	$ 1,614,354,213
Times: Weighted Cost of Capital	6.32%
Net Operating Income Required for Return on Rate base	102,027,186
Add: Fair Value Increment - Indiana Cities	297,880
Net Operating Income Required	102,325,066
Less: Adjusted Net Operating income	83,782,736
Net Revenue Increase Required before Gross-up	18,542,330
Gross Revenue Conversion Factor	134.5031%
Recommended Revenue Increase	$ 24,940,009
Divided By: Revenues Subject to Increase	$ 278,883,818
Recommended Percentage Increase	8.94%

Step 2	
Operating Revenues	$ 326,266,908
Less: Deductions	
Operating and Maintenance	102,589,675
Depreciation & Cost of Removal	72,258,258
Amortization	992,561
General Taxes	21,776,181
Federal Income Taxes	17,663,414
State Income Taxes	4,888,792
Total Deductions	220,168,881
Net Operating Income	$ 106,098,026

Attachment 7

Step 2	
Original Cost rate Base	$ 1,679,732,875
Times: Weighted Cost of Capital	6.30%
Net Operating Income Required for Return on Rate base	105,823,171
Add: Fair Value Increment - Indiana Cities	274,851
Net Operating Income Required	106,098,022
Less: Adjusted Net Operating income	93,393,359
Net Revenue Increase Required before Gross-up	12,704,663
Gross Revenue Conversion Factor	134.5031%
Recommended Revenue Increase	$ 17,088,166
Divided By: Revenues Subject to Increase	$ 305,965,938
Recommended Percentage Increase	5.58%

Step 3	
Operating Revenues	$ 350,524,090
Less: Deductions	
Operating and Maintenance	102,806,656
Depreciation & Cost of Removal	81,372,636
Amortization	992,561
General Taxes	21,811,463
Federal Income Taxes	19,989,553
State Income Taxes	5,458,591
Total Deductions	232,431,459
Net Operating Income	$ 118,092,631

Step 3	
Original Cost rate Base	$ 1,835,553,714
Times: Weighted Cost of Capital	6.42%
Net Operating Income Required for Return on Rate base	117,842,548
Add: Fair Value Increment - Indiana Cities	250,077
Net Operating Income Required	118,092,625
Less: Adjusted Net Operating income	100,057,961
Net Revenue Increase Required before Gross-up	18,034,664
Gross Revenue Conversion Factor	134.5031%
Recommended Revenue Increase	$ 24,257,183
Divided By: Revenues Subject to Increase	$ 323,054,105
Recommended Percentage Increase	7.51%

13. Depreciation Study.

A. INAWC Case-in-Chief. Mr. Kennedy presented full and comprehensive depreciation studies of Petitioner's water and wastewater plant in service as of December 31, 2022. Pet. Ex. 12, Attachments LEK-2 and LEK-3. Mr. Kennedy concluded that INAWC's requested depreciation rates, resulting in a composite depreciation rate related to water of 2.88% and related to wastewater of 4.53%, reasonably reflect the annual consumption of the undepreciated service value of the utility plant in service. The new rates would take effect upon approval of Step 1 rates in this Cause and thus would affect net original cost rate base at Steps 2 and 3.

The water depreciation study results in a depreciation rate related to Structures and Improvements of 1.94%, Transmission and Distribution plant of 2.59%, and a depreciation rate related to General Plant of 9.34%. Mr. Kennedy compared these rates to the current rates for each functional group. He testified that one significant cause of the change in depreciation rates is the change in average service life of many of the accounts. The average service life was shortened for 13 accounts and lengthened for 16 accounts, based on the detailed analysis presented in Mr. Kenney's report. In addition, Concentric completed a review of the net salvage requirements related to the water assets. He presented a summary of the proposed net salvage estimates compared to the currently used estimates, demonstrating the more negative net salvage requirements in 7 accounts and the less negative net salvage requirements in 17 accounts.

The wastewater depreciation study results in a depreciation rate related to Structures and Improvements of 4.97% and Collecting, Treatment and General Plant of 4.43%. Again, he noted one of the significant causes of the change in wastewater depreciation rates was the change in average service life of many of the accounts, with the shortening of the average service life of 2 accounts and the lengthening of the average service lives in 5 accounts. A more negative net salvage requirement was estimated for 3 accounts.

Mr. Kennedy testified that the average service life of many asset classes is lengthening throughout North America due in part to the increased focus of utilities in maintaining and life extending the infrastructure. However, at the same time as there has been a trend toward lengthening average service lives for some asset classes, Mr. Kennedy stated it has become common for there to be a shortening in other asset class, due in part to the quickening pace of technological change. For example, the pace of technological change in metering assets has resulted in the life of metering classes to be shortened industry wide.

Mr. Kennedy explained that his study calculates the annual and accrued depreciation using the Straight-Line Method and Average Life Group Procedure for most accounts. For certain general plant accounts, the annual and accrued depreciation are based on amortization accounting. Both types of calculations were based on original cost, attained ages, and estimates of service lives. Mr. Kennedy testified that the depreciation rates calculated in this study were calculated in the same manner as used in the prior full depreciation study—however, the calculation of the composite remaining life for the account as a whole has been slightly modified in this depreciation study.

B. <u>OUCC</u>. Mr. Garrett recommended several adjustments to Petitioner's proposed depreciation rates based on different service life estimates for several of Petitioner's water transmission and distribution accounts. His proposed depreciation rate adjustments would result in a $6.9 million decrease to Petitioner's proposed total annual depreciation accrual of $69.3 million. Mr. Garrett described the processes he employed to determine his proposed adjustments to Petitioner's depreciation rates. He explained the "curve-fitting process" in which the best Iowa curve is selected to fit the observed life table curve through a combination of visual and mathematical curve-fitting techniques, as well as professional judgment. He testified that mathematical fitting is an important part of the curve-fitting process because it promotes objective, unbiased results, particularly when there is sufficient data available. Mr. Garrett stated that for each of the accounts to which he proposed adjustments, Petitioner's proposed average service life, as estimated through an Iowa curve, is too short to provide the most reasonable mortality characteristics of the account. He asserted his proposal is generally based on the objective approach of choosing an Iowa curve that provides a better mathematical fit to the observed historical retirement pattern derived from Petitioner's plant data, in addition to applying judgment to the analysis. The eight accounts to which Mr. Garrett proposed adjustments include: Account 306.000 – Lake, River, and Other Intakes; Account 320.200 – Water Treatment Equipment – Filter Media; Account 333.000 – Services; Account 334.100 – Meters; Account 334.110 – Meters – Bronze Case; Account 334.130 – Meters – Other; Account 334.131 – Meter Reading Units; and Account 334.200 – Meter Installations.

C. <u>INAWC Rebuttal</u>. Mr. Kennedy explained that in his study, he followed a process of estimating service lives which starts with compiling historical data for the plant accounts or depreciable groups and analyzing this history using a similar process to that used by Mr. Garrett. However, rather than stopping at that point, Mr. Kennedy further considered additional information, including that gained from operational staff interviews, which provides critical information related to the reasons for past retirements and the expected future causes of retirement. For example, in addition to the on-going retirement of plant due to physical forces, Mr. Kennedy testified that significant future retirements may be caused by obsolescence resulting from the introduction of increased technology into some asset accounts and due to changing economic

considerations. The combination of the historical experience and the estimated future considerations yield survivor curves from which Mr. Kennedy's average service lives were derived. His average service life estimates were then tested against the approved average service life estimates of similar water utilities.

Mr. Kennedy walked through the bases for his selection of the Iowa curve estimates for each of the eight accounts where he and OUCC witness Garrett disagreed on the average service life or Iowa curve dispersion estimate.

D. Discussion and Findings. Ind. Code § 8-1-2-19(b) and (c) provide that:

> (b) The Commission, from time to time, shall ascertain and determine the proper and adequate rates of depreciation of the several classes of property of each public utility. Depreciation rates under this subsection shall be calculated to recover a reasonable estimate of the future cost of removing retired assets of the public utility.
>
> (c) A public utility's rates, tolls and charges shall be such as will provide the amounts required over and above the reasonable and necessary operating expenses, to maintain such property in an operating state of efficiency corresponding to the progress of the industry. . . .

Both Petitioner's witness Kennedy and OUCC's witness Garrett cited the foundational text, *Depreciation Systems*, which cautions against removal of judgment from the fitting process and blind acceptance of mechanical fitting processes. The cited material goes on to state that "the results of the mathematical fitting should be checked visually and the final determination of the best fit determined by the analyst." Pet. Ex. 22 at 4 (internal citations omitted). Based on the evidence presented, we find the process used in Mr. Kennedy's average service life estimates was more rigorous and complete than that employed by the OUCC. Furthermore, of the eight accounts for which Mr. Garrett recommends a change, three are for meters: Account 334.100 – Meters, Account 334.110 – Meters – Bronze Case, Account 334.130 – Meters – Other. We agree with Mr. Kennedy that the pace of technological change in metering assets has resulted in the life of metering classes to be shortened. We find Petitioner's requested depreciation rates reasonably reflect the annual consumption of the undepreciated service value of the utility plant in service. We find the use of the depreciation rates as presented in INAWC witness Kennedy's report, by account, will provide for an appropriate amount of depreciation expense in Petitioner's revenue requirement. Therefore, we find that the proposed depreciation rates set forth in the Petitioner's depreciation study should be adopted by the Commission for regulatory purposes as well as by Petitioner for financial reporting purposes.

14. Affordability.

A. INAWC Case-in-Chief. Mr. Prine testified Petitioner's proposed rate increase is primarily driven by the need to make expenditures necessary to keep water and wastewater service safe and reliable. He stated such expenditures cannot be avoided indefinitely and are in the long-term best interests of customers to avoid the possibility of even more increased costs. Mr. Prine stated, as an example, where mains are not replaced in a timely fashion or

equipment is neglected, costs rise as unanticipated main breaks can create water quality issues, unexpected expenses, and disruption to the communities served. He testified that because of the importance for service to remain affordable, Petitioner evaluated the customer impact of the proposed rate increase and performed an affordability analysis under the proposed rates. Mr. Prine described ways in which INAWC maintains the affordability of its water service, including continuously seeking to improve business processes and making investments that improve operational efficiencies. He stated Petitioner leverages the power of its organization to share learning on best practices and purchase equipment and supplies at advantageous terms.

Mr. Prine identified two proposed changes to Petitioner's water service rate design for customers who might face affordability issues: (1) an allowance-based rate for all water service customers, and (2) a Universal Affordability Tariff to further address the affordability of water service for vulnerable customers. He explained that an allowance-based rate will enhance the affordability of Basic Water Service, especially for the more economically vulnerable customers, without the need for these customers to directly apply for assistance. He stated an allowance-based rate design improves the affordability by reducing monthly bills for lower monthly usage amounts (which tend to equate more to Basic Water Service) and increasing monthly bills for higher monthly usage amounts (which tend to equate more to discretionary seasonal water use). Even with an allowance-based rate design, Mr. Prine acknowledged that affordability of service may still be an issue for the most vulnerable customers. Therefore, Petitioner is proposing a Universal Affordability Tariff to help the estimated 54,000 residential water service customers with household incomes at or below 150% of the federal poverty level. He stated the discount offered under this tariff would reduce a typical Basic Water Service bill for a three-person household from $58 per month to $40 per month, which is a discount of 30% on the total bill and is less than what these customers would pay for Basic Water Service under current rates.

INAWC witness Rea stated Petitioner's affordability analyses shows that INAWC's investment practices and management of its water and wastewater systems are in the long-term best interest of its customers; and Petitioner's affordability analysis also is a direct measure of the benefits that customers gain from Petitioner's prudent management of the system. Mr. Rea explained that Petitioner assesses affordability of water and wastewater service by comparing annual bills for water and/or wastewater service to household income. He stated that for the broader residential customer base, the most commonly available household income measure is Median Household Income ("MHI"), which can be measured at a community level and is paired with a data set that provides the number of customers served in each community to arrive at a weighted number that represents MHI for Petitioner's entire service territory. At a more detailed level, individual household income is considered, and affordability can then be assessed across a range of households based on their income levels and bills for water and/or wastewater service. Mr. Rea explained that a variety of household income data is available from the U.S. Census Bureau through the American Community Survey ("ACS") at the state, county, and community levels. He presented Petitioner's affordability study for water service and the affordability study for wastewater service in Petitioner's Exhibit 5, Attachments CBR-1 and CBR-2, respectively. He explained that for water service, Petitioner performed an Enterprise-Level Analysis and a Community-Level Analysis. For wastewater, only a Community-Level Analysis was provided, as there is not enough historical data.

Mr. Rea described the Enterprise-Level Analysis, which is a historical comparison of average monthly bills to MHI for Petitioner's residential customers over the last ten years. The metric used to describe affordability is the Bill-to-Income ("BTI") Ratio, which is defined as annual water bills divided by estimated annual household income. The MHI for Petitioner's service territory is a weighted average of the number of customers Petitioner serves in each community in the service territory and the median household income in each of those communities for owner-occupied and single-unit renter occupied homes as reported by data in the ACS based on the most recent year's available data (2021). The relationship between this service territory specific figure and the MHI for the State of Indiana for 2021 (also provided at the community level through the ACS) was then applied to historical MHI data for the State of Indiana to arrive at historical MHI data for the INAWC service territory. Mr. Rea testified that a benchmark for affordability expressed as a total bill's percentage of MHI is a policy decision; however, bills less than 2.0% or 2.5% of MHI for water service and 4.0% to 4.5% of MHI for combined water/wastewater service are considered "affordable" by some. He said the overall BTI Ratios for water service have improved over the last decade and is expected to be 0.76% under Petitioner's proposed Step 3 rates in this case, which is below the thresholds considered to be the high-end limit of affordability for residential customers at the system wide level.

Mr. Rea described the Community-Level Analysis as a deeper dive into affordability at a local level across different customer demographics and proposed rates for each community that Petitioner serves. For purposes of the affordability analyses, Mr. Rea said Petitioner used the concept of Basic Water Service to represent a water usage level that reflects water consumption provided for basic human services (cooking, cleaning, sanitation, and general health requirements), which is then assumed to be constant from month-to-month and not subject to significant seasonality or weather condition. Mr. Rea stated Petitioner defined Basic Water Service for purposes of the affordability analysis to be 40 gallons of water per household member per day based upon relevant literature and a review of residential billing data in months with minimum levels of discretionary water usage. The Community-Level Analysis showed that 84% of residential customers can expect to see bills for Basic Water Service less than 2% of their household income. Petitioner estimated there are approximately 47,500 residential water customers that will see bills for Basic Water Service above 2% of their household income, which is approximately 16% of the total customer population.

Mr. Rea testified that affordability of service is not uniform across Petitioner's service territory because household income can vary significantly across its service territory. He said Indiana American has diverse service territories and serves customers in urban, suburban, and rural communities. He explained that assessing affordability information for the entire residential customer population can demonstrate whether customers in general are having or would have difficulty paying their water bills under Petitioner's current or proposed tariff structure and inform decision-makers about the size and scope of efforts that may be needed to help these vulnerable customers better afford water and wastewater service.

Mr. Rea concluded that Petitioner's water service has been, is, and is expected to continue to be affordable for the majority of its residential customers, including under the proposed rates, but also that there are groups of customers for whom affordability of water service may be challenging.

B. OUCC. Mr. Bell expressed concern about the immediate financial impacts of Indiana American's requested rate increase. Mr. Bell advised the Commission that state policy for investment in infrastructure also requires decision-makers to recognize how infrastructure projects affect the affordability of utility services for present and future generations of Indiana citizens. He noted that Indiana American seeks approval of water rates that are 55% higher overall than the rates approved in 2019 and the requested wastewater rates are 106% higher. Mr. Bell noted that through DSIC and SEI trackers Petitioner has already increased rates to water customers by approximately 17.69%. Mr. Bell recommended the Commission consider the affordability of Indiana American's existing and proposed rates.

Mr. Bell stated that safe and reliable water and wastewater systems are critical to basic human needs but noted customers are faced with increasing utility costs and other cost of living increases due to inflation. He suggested that in recognition of the importance of affordability, Indiana American could seek a lower and more reasonable ROE, lower the equity portion its capital structure to establish a more reasonable 50/50 debt to equity ratio, moderate the growing level of capital expenditures, and reduce the corporate overhead costs being allocated to Indiana American. He explained that these actions could lower the proposed rate increase and lessen the financial impact to customers.

Mr. Bell believed Indiana American's affordability analysis recognizes Petitioner's rates have risen to the point where a significant number of its customers can no longer be expected to afford its water services without financial assistance, which it proposes come from its own residential customer base. Mr. Bell compared Indiana American's rates with various other water utilities in the state and concluded that Indiana American has the most unaffordable rates when compared to those other water utilities.

Mr. Compton stated that the OUCC does not consider 2% of household income to be an appropriate threshold to measure affordability. He also disagreed that Indiana American's water customers have a higher MHI than the statewide MHI. Mr. Compton stated the inputs Petitioner chose to calculate its customers' MHI understate the number of customers that will have a higher BTI than 2%. He identified three reasons for his disagreement with Petitioner's methodology. First, Petitioner's disregard of the ACS data is based on the faulty premise that we should ignore the effect of rate increases on indirect customers (i.e., customers that receive and pay for water service but do not have a direct relationship with the utility, such as renters). Second, in the absence of reliable data, further assumptions that mutate the integrity of the data should not be made. And third, excluding indirect customers naturally skews the results of affordability making Petitioner's water appear more affordable because statistically, households who rent generally have lower income.

Mr. Compton testified that Petitioner did not appropriately calculate for the BTI ratios. Mr. Compton explained Petitioner calculated the average bill by taking each year's revenue amounts and dividing by each year's respective customer count. However, in its calculation of revenues, Petitioner only included revenue generated from metered and unmetered sales to calculate the average bill. Petitioner did not include revenues generated by public or private fire protection charges. Mr. Compton presented his own calculation of the MHI for water customers using

Petitioner's methodology but including indirect customers. Mr. Compton calculated an overall MHI of $62,650 as compared to Petitioner's calculation of $69,151.

Mr. Compton noted that Petitioner's analysis for the wastewater model is identical to the water model other than using different ACS data. Using the same methodology Mr. Compton used to calculate the MHI for Petitioner's water customers, he calculated a MHI for Petitioner's wastewater customers of $65,504 as compared to Petitioner's calculation of $70,323.

Mr. Compton criticized Petitioner's use of a five-year estimate of household income data from the ACS, stating that to evaluate future affordability, a historical affordability analysis is not appropriate and the comparative data, if possible, should be more current. Mr. Compton testified that since the ACS does not provide current estimates for some communities in which Petitioner serves, it calls into question the usefulness of performing this kind of affordability analysis.

C. Crown Point. Mr. Guerrettaz opposed the proposed rates for Crown Point and SFR customers in general, stating the proposed rates and charges would be excessive and unreasonable.

D. CAC. Mr. Inskeep testified that Petitioner's analysis shows that its proposed rates will not be affordable for customers. He challenged Petitioner's proposed definition of Basic Water Service at 40 gallons per household member per day, instead urging that it be replaced with the total average bill (4,050 gallons per month). He recommended that the Commission take note of the sizeable population of Hoosier families who will not be able to afford Petitioner's proposed rate increase. Mr. Inskeep recommended the Commission act to significantly reduce the overall requested revenue requirement and approve proposals that will increase the affordability of essential water and wastewater service, like the Universal Affordability Tariff.

E. INAWC Rebuttal. Mr. Rea testified that the question of affordability of service is not simply a yes or no question but a continuum, as shown by Petitioner's Community-Level analysis. He stated there will always be customers for whom water service is more affordable than for others depending on demographics and income levels. Petitioner's Community-Level analysis shows that for a large majority of customers, Basic Water Service is expected to be less than 2% of household income (the benchmark Petitioner is using at the individual customer level) at Petitioner's proposed rates, but there are customers for whom Basic Water Service is expected to be more than 2% of household income. This is the target population that Petitioner's Universal Affordability Tariff is intended to address.

Mr. Rea disagreed with OUCC witness Bell that INAWC rates have reached a tipping point where a significant number of its customers can no longer be expected to afford water services. He stated the percentage of household income taken up by Petitioner's average water bills over time has gone down, not up and the BTI Ratio measured at the MHI level under Petitioner's proposed rates is consistent with levels seen historically. Mr. Rea testified that under Petitioner's proposed rates, Basic Water Service is expected to take up less than 2% of household income for 84% of Petitioner's residential customers. Basic water service is expected to take up more than 3% of household income for approximately 9% of Petitioner's residential customers before applying any discounts associated with the proposed Universal Affordability Tariff.

Mr. Rea testified that the terms household income and median household income are not interchangeable. He explained that Petitioner's Enterprise-Level analysis used MHI as the income component of the affordability comparison because it is broad based, easily available, and is available for multiple years of history, which lends itself well to a consistent longer-term historical analysis. Mr. Rea stated Petitioner's Community-Level analysis is not based on MHI, but instead on household income measured at the individual household level, using 2% of household income (not median household income) as a benchmark to estimate the numbers of customers where Basic Water Service is expected to take up differing percentages of household income. Petitioner proposed the Universal Affordability Tariff to address those customers.

Responding to the OUCC's criticisms of his affordability analysis, Mr. Rea stated that it is appropriate for the analysis to concentrate on direct customers because: (1) the use of an MHI statistic, which best estimates household income for Petitioner's direct customers, is consistent with the calculation of the average bill, which is also based on direct customers; and (2) for Petitioner's indirect customers (e.g., renters in multi-family buildings) it is impossible to know what these households pay in rent for water service. He further stated that even if, as Mr. Compton asserts, calculations of MHI for the communities that Petitioner serves would be lower if all rental households were included, then water consumption and total bills for rental households would also be lower than the average bills and consumption for the residential class in total. He said this is true because (1) households that rent are smaller than households that own their home, meaning consumption is likely to be lower, and (2) where there are multiple households within a single building behind a single meter, each individual customer's share of the total meter charge would be less than it would be if they were in the home where water service was only serving them.

With respect to the average bill calculation not including revenues associated with public and private fire protection charges, Mr. Rea responded that private fire service charges are not charged to residential customers. As for public fire protection, Mr. Rea explained that it is only when the unit of local government so elects that the costs of public fire service are recovered directly from water customers through public fire surcharges. Mr. Rea also stated the charges are not large enough to fundamentally change the trend of improving affordability over time that Petitioner's Enterprise-Level analysis shows.

Mr. Rea agreed with Mr. Compton that there are differences between the ACS five-year data set and one-year data sets, but he rejected the suggestion that the five-year data is somehow biased because it is older. Mr. Rea presented a comparison of household income estimates from the ACS one-year and five-year data sets, which showed that there is no significant difference between the two data sets regarding estimates of household income. Mr. Rea testified that use of the ACS five-year data set is appropriate because it provides current estimates of household income and provides that information for all communities in Indiana, which is important in developing a comprehensive affordability analysis across the entire service territory.

Mr. Rea disagreed with Mr. Bell's bill comparison and conclusions. He testified the comparison is of little practical use due to fundamental differences in water utility structure, ownership, operations, and customer bases. He stated there are significant differences that can help to explain in part the differences between Indiana American's typical bills and typical bills for other service providers, such as the existence of natural subsidies for customer rates of municipal

utilities through tax and other policies. Mr. Rea also listed a number of operational differences between Indiana American and other service providers that can lead to significant differences in bills, including the nature of Petitioner's service territory, significant differences in investment levels and strategies, and rate structures.

F. Discussion and Findings. Affordability is always an important consideration for the Commission when establishing just and reasonable rates. Affordability is an ongoing concern for all consumers in the State of Indiana. However, our role in addressing this concern is not to reach a conclusion as to whether the rates approved herein are "affordable" for each and every customer, particularly given the difficulty in defining affordability in general and for the many diverse customers and communities Indiana American serves.

Pursuant to Ind. Code § 8-1-2-46(c), Petitioner has proposed rate design solutions utilizing an allowance-based rate and a proposed Universal Affordability Tariff to address the issue of affordability of utility service for customers. While the OUCC took issue with various data and assumptions in Petitioner's affordability analysis, such as the appropriate affordability benchmark and INAWC's consideration of indirect utility customers, Petitioner's analysis does provide us with information in considering its proposals (each of which is discussed in greater detail below). Additionally, we note that despite the parties' disagreement with Petitioner's affordability analysis, the evidence also shows general agreement among the parties that Indiana American provides water service to customers for whom affordability of service is an issue. *See* Pub. Ex. 5 at 12; CAC Ex. 1 at 18-20, 25.

We also recognize that the OUCC and several Intervenors expressed concern with the general affordability of Indiana American's proposed rates and offered alternatives for lowering rates for certain classes of customers, low-income customers, and all customers. To the extent those suggestions include aspects of Petitioner's proposed rates, such as rate design, cost of service, and ROE, those suggestions are addressed in other sections of this Order.

15. Cost of Service Study and Rate Design.

A. Cost of Service Study.

1. INAWC Case-in-Chief. Mr. Rea presented Petitioner's COSS for water service. He testified Petitioner used the Base/Extra Capacity method outlined in the AWWA M1 Manual titled "Principles of Water Rates, Fees, and Charges" to allocate production and distribution costs to customer classes. The revenue requirement for various cost categories was allocated to the following customer classes: residential, commercial, industrial, public authorities, sales for resale, private fire service, and public fire service. Different cost categories were allocated to customer classes using a class allocation factor that differs depending on the nature of the costs. The cost categories Petitioner used to group individual accounts were variable cost, capacity cost (including source of supply, water pumping, water treatment, transmission mains, distribution mains, and storage), metering cost, service line costs, customer service costs, and fire hydrants.

2. OUCC. Mr. Mierzwa addressed Petitioner's water COSS. While he generally agreed with Petitioner's use of the Base/Extra Capacity methodology, he recommended adjustments to the maximum hour extra capacity factors developed for the industrial and SFR

customer class. He also recommended modifications to Petitioner's assignment of main costs to the transmission and distribution functions. Mr. Mierzwa presented a revised COSS for water that reflects his recommended adjustments and modifications. Mr. Mierzwa testified the extra capacity factors proposed by Petitioner for the industrial and SFR classes unrealistically assume that the usage of each of these classes is exactly the same in every hour of every day of the maximum month of usage. He stated it is unclear why Petitioner is able to use its AMI system to determine maximum hour extra capacity factors for the residential, commercial, and public authority classes but not for the industrial or SFR classes. Mr. Mierzwa recommended application of the AWWA M1 Manual estimated hourly ratios to the maximum day capacity factor developed by Petitioner for the industrial and SFR customers. This would increase the maximum hour capacity factor for the industrial class from the 1.20 to 1.60 and would result in a SFR maximum hour capacity factor of 2.32.

Mr. Mierzwa testified it is unreasonable to assign mains costs to the transmission and distribution functions based on mileage as Petitioner has done because it fails to recognize that the costs of purchasing and installing mains generally increase as the main diameter increases. He recommended that mains be assigned to the transmission and distribution functions based on the weighted installed costs of those mains.

3. Industrial Group. Ms. York identified numerous issues regarding Petitioner's COSS model, which led her to conclude that the COSS model is inaccurate and should not be relied on to guide revenue apportionment. Ms. York stated that INAWC has not conducted a reasonable comparison of the results of its new, pared down COSS model to the more detailed model that has been used in prior rate cases. She testified the new COSS model includes significant changes regarding the functionalization, classification, and allocation of costs, relative to how those steps were taken in the prior model, and that these changes have not been adequately explained or justified by INAWC. Specifically, Ms. York stated that INAWC's new COSS model fails to demonstrate the details of how each cost is classified before it is allocated across customer classes. Furthermore, she stated that regulators in other jurisdictions, such as Illinois and Missouri, have criticized similar COSS models set forth by American Water affiliates in those jurisdictions. Ms. York identified certain adjustments to the proposed COSS in an attempt to improve the accuracy of Petitioner's measurement of each class's cost of service. However, Ms. York stated that given that INAWC's COSS model obscures important information, even with her adjustments, there may be other functionalization, classification, and allocation issues that are not readily identifiable and could alter the outcome of the COSS. Because the COSS model cannot be adequately validated, Ms. York recommended the use of an across-the-board rate increase.

Ms. York further testified that even if INAWC's COSS model were found to be reliable, she has other concerns with the bases used to functionalize certain costs. For example, Ms. York emphasized Petitioner's failure to accurately functionalize transmission and distribution costs. She testified there is no evidence to support Petitioner's projected test year split of length of mains between transmission and distribution, or the associated split of costs to those functions in its COSS. She cited a lack of accurate information about the actual level of investment since the last rate case in support of her proposal that the split in calendar year 2022 as being the most reliable historical data available. Even then, without determinative evidence that the length of main is an accurate proxy for the allocation of transmission and distribution costs between the transmission function and distribution function, Ms. York characterized this split is, at best, an approximation.

Ms. York also objected to the manner in which certain costs were allocated to customer classes within Mr. Rea's COSS. In particular, she disagreed with Petitioner's use of Factor 1 to allocate purchased power expenses associated with source of supply and water treatment. She stated that purchased power costs are incurred to pump water to meet both the base and extra capacity demands of the rate classes. Therefore, Ms. York stated, Factor 1 does not accurately allocate purchased power costs to the customer classes that drive the electric demands for pumping, which in turn causes Petitioner to incur the purchased power costs. She stated Factor 2 is a more appropriate allocator because it reflects both average flow and maximum-day demand requirements.

Ms. York objected to the distribution multiplier for the industrial class of 0.50, recommending that INAWC should consider the length of distribution mains serving the industrial customers (in addition to the usage served by distribution mains), as it may only represent a small fraction of the total length of distribution mains on the system. Thus, she recommended an adjustment to the distribution multiplier to reflect the actual portion of industrial class usage that is served by distribution mains based on Petitioner's evidence.

Ms. York objected to Petitioner's approach of not allocating any source of supply or water treatment costs to private fire or public fire classes, which differs from INAWC's approach in its prior rate case COSS model. She recommended that a portion of source of supply and water treatment costs be allocated to the public and private fire classes, consistent with the methodology used in the prior rate case, because production capacity is in part based on the need to maintain adequate fire protection. As noted in the AWWA M-1 Manual, a significant portion of extra capacity costs can be allocated to fire protection when distributing costs to customer classes. Ms. York explained the service provided is principally of a standby nature—that is, readiness to deliver relatively large quantities of water for short periods of time at any of a large number of points in the water distribution system. In the absence of better estimates of test year annual usage for private and public fire service, Ms. York recommended using the same usage data for fire classes as was used in the COSS model in Cause No. 45142.

4. Wholesale Customers. Mr. Callocchia recommended rejection of INAWC's COSS based on a lack of justification or explanation for the change in methodology from INAWC's previous rate case and the inadequacy of supporting data for certain cost allocations. Mr. Callocchia stated the two-step COSS approach was significantly different from the single-step COSS approach used in Petitioner's previous rate case and produces radically different results without justification or explanation. He referenced challenges to the two-step COSS approach in cases brought by INAWC affiliates Illinois American Water and Missouri American Water. He testified that an alternative approach to cost allocation in this case would be to implement any approved increase in revenue requirements across-the-board to each customer class.

Mr. Callocchia also contended that the COSS does not properly recognize the unique characteristics and service demands of the SFR class and inappropriately allocates costs to SFR customers that are not incurred in the provision of service to SFR customers. Specifically, it does not adjust for system wide water loss, lacks proper justification for the allocation of transmission costs to SFR customers, and assigns revenue requirements to SFR customers that are not caused by or provide any benefit to SFR customers. He contended that it costs INAWC significantly less

to serve SFR customers because service to SFR customers involves delivering treated water to master meters connected to INAWC's transmission main and INAWC is not involved with, or responsible for, costs related to the distribution systems of SFR customers.

He raised issues related to how Petitioner distinguished between transmission and distribution costs in the COSS, which included $858,906,753 of costs listed as "TD Mains Not Classified." He stated all costs related to transmission and distribution that cannot be properly identified as either transmission or distribution are allocated 26.2% to transmission and 73.8% to distribution. He said, shockingly, 98.8% of Petitioner's transmission and distribution revenue requirement and 98.3% of its transmission and distribution plant in service is assigned based on this allocator. Mr. Callocchia testified the methodology used by Mr. Rea does not properly identify Petitioner's investment in the system's transmission and distribution facilities because the proper identification of system investments in transmission and distribution would be the result of an analysis of actual investment by pipe diameter.

Mr. Callocchia objected to recovery of costs related to COVID, the low-income program and credit card fees through SFR rates, stating these costs were neither caused by, nor provide any benefits to, the SFR class. He stated COVID related costs include foregone late fees, disconnect/reconnect expenses, uncollectible/bad debt expense, other direct costs, debt carrying costs, and Service Company expenses, offset by savings realized by Petitioner on forgone travel and conference expenses. Mr. Callocchia asserted that none of these costs should be allocated to the SFR class. In addition, he testified that under the proposed COSS methodology the SFR class would be unfairly subsidizing Petitioner's low-income program without their own low-income customers receiving the benefits. He stated members of the SFR class have customer assistance programs of their own and should not pay for costs of INAWC's low-income program, from which they receive no benefit. Finally, he contended that because SFR customers do not pay by credit card, they should not share in any costs absorbed by Petitioner related to credit card fees.

Mr. Callocchia also took issue with the COSS as not correctly reflecting the SFR class's average demand, specifically in Class Allocation Factor 1 (based on each class's projected average day demand on the system), which then flows through to other allocation factors based on Factor 1. He said Petitioner did not properly recognize distribution-level water losses in its system when developing Factor 1. He disagreed with Petitioner treating metered data from different service levels the same in the allocation of costs. Mr. Callocchia stated that the majority of water loss occurs within Petitioner's distribution system; because almost 74% of all water mains are categorized as distribution and given the vast size of the distribution system and the number of valves and connections within this system, the chances of line breaks, water leaks, and unauthorized usage are much more substantial at this service level. If metering data at the smaller, distribution-level is used in the same manner as transmission-level metering data in the allocation of costs for SFR classes, Mr. Callocchia stated it inappropriately allocates more cost to the SFR class in favor of the non-SFR classes. He stated all customer data would need to be adjusted back to the same service level, namely the transmission level of service, prior to the allocation of costs. After making this adjustment, he calculated a level of loss to be recognized for non-SFR customers to correct for what he deemed an over-allocation of demand to SFR customers in Factor 1. He then calculated average day demand factors that he said would result in a properly calculated Class Allocation Factor 1.

5. Crown Point. Mr. Guerrettaz objected to Petitioner's use of a COSS method different from what it used in its prior rate case. As described in detail by Mr. Callocchia, the new INAWC COSS method has been disallowed in Illinois and avoided within a settlement in the Missouri American Water Works rate cases. He recommended INAWC's proposed COSS be disallowed and accordingly any increase approved be applied across-the-board.

6. Whiteland. Ms. Young testified that Petitioner did not adequately consider the lower cost of providing wholesale water to SFR customers like Whiteland. She stated that the cost to serve SFR customers is lower than the cost of serving direct retail customers because SFR customers bear the burden of all costs related to the distribution of the water downstream from Petitioner's point of delivery of its wholesale water to the SFR customers. She also stated that Petitioner does not account for SFR customers having their own low-income customers and that Whiteland's customers, including those that are low-income customers, will have to subsidize Indiana American's low-income customers but will not receive any of the benefits under Petitioner's low-income proposal.

7. INAWC Rebuttal. Mr. Rea testified that his cost of service analysis, even as modified for changes upon which Petitioner agrees with other parties, indicates that an increase for industrial and SFR customers that is a significant multiple above the overall system average increase is appropriate. He noted that when Indiana American was asked in discovery whether it did any benchmarking to compare the results of the study prepared in Cause No. 45142, Petitioner responded that it had compared the subsidy analysis from that Cause to the subsidy analysis in this Cause. Every class that was subsidizing in Cause No. 45142 is subsidizing in the current Cause, and every class that was being subsidized in Cause No. 45142 is still being subsidized today. Moreover, Mr. Rea testified the subsidies for industrial and SFR customers have grown. Mr. Rea testified that there have been five different COSS prepared by three different cost of service professionals over a 14-year period and every one of those studies show that rates for industrial and SFR customers are being significantly subsidized.

With respect to the two-step COSS model, Mr. Rea explained that this approach simplifies the cost of service analysis and makes the resulting allocation to customer class more intuitive by unbundling the revenue requirement into business functions and allowing stakeholders to see what the cost of service is for each customer class by business function. He testified he has used this approach successfully and without objection for Iowa-American Water Company, West Virginia-American Water Company, and New Jersey-American Water Company. Mr. Rea provided Attachment CBR-4R, a one-step version of the cost of service analysis that has previously been used in Indiana American rate cases, the purpose of which is to compare results against the two-step model. Mr. Rea explained the only difference between the two models is the functionalization approach. All other cost allocators to function and customer class are the same. Mr. Rea concluded that the two approaches yield virtually identical results assuming the same allocators and allocation methodologies. From a cost allocation perspective, he characterized the two modeling approaches as identical.

Mr. Rea testified that Petitioner's cost of service analysis recognizes the unique circumstances SFR customers face. For example, SFR customers are allocated no costs associated with distribution mains (mains with less than 10" diameters). In addition, the SFR class is allocated

only a minimal amount of customer service-related expenses. Mr. Rea presented the volumetric rates for each major customer class coming from Petitioner's cost of service analysis for cost categories that are typically charged volumetric rates (all costs except for metering costs, service line costs, and customer service expenses), which shows that the SFR class has the lowest volumetric rate for any major customer class in the cost of service analysis.

With respect to the split between transmission and distribution, Mr. Rea accepted OUCC witness Mierzwa's proposal that mains be assigned to the transmission and distribution functions based on the weighted installed costs of those mains. The split between transmission costs and distribution costs under his proposal is 32.4% and 67.6% respectively.

While Mr. Rea generally agreed with Mr. Callocchia that it would be reasonable to account for water losses differently for different customer classes depending on how much of the transmission and distribution system they use, he disagreed with Mr. Callocchia's calculation for how losses should be accounted for.

Mr. Rea accepted OUCC witness Mierzwa's approach with respect to hourly capacity factors for industrial and SFR classes.

Mr. Rea testified that Ms. York has not provided any evidence to suggest that cost per kilowatt-hour ("kWh") that Petitioner incurs is significantly higher during periods of high demand than during periods of low demand. If the cost per kWh is roughly the same regardless of when Petitioner uses electricity, then there is no reason to allocate costs disproportionately to certain customer classes. Mr. Rea testified that given there has been no demonstration that the cost per kWh is different during different times of the year, allocating purchase power costs based on total consumption (Factor 1) is appropriate.

Mr. Rea disagreed that the distribution multiplier for the industrial class should be a product of both the usage served at the distribution level and the mileage associated with those customers. According to Mr. Rea, it is plausible to say that the allocator should be based on one or the other, but not a combination of both. He stated it is reasonable to allocate the cost of mains to customers based on a usage-based allocator like the Base/Extra allocator. It would also be reasonable, in Mr. Rea's opinion, to allocate the cost of mains to customers based on a direct assignment of assets to customers assuming that can be done for all customer groups. He testified it would not be reasonable, however, to carve out a set of assets to be allocated to the industrial class based on exclusive use but then allocate a portion of that cost to other classes using a general usage-based allocator.

Mr. Rea agreed with Ms. York that an allocation of source of supply and water treatment costs to private and public fire classes is appropriate. He did not agree that an allocation of meter costs to fire protection services is appropriate because fire protection service is generally not metered.

Mr. Rea agreed with Mr. Callocchia that the SFR class should not be allocated the $6,889 related to the COVID-related and low-income costs included in Other Amortization Expense.

8. Discussion and Findings. Petitioner's COSS is a significant source of disagreement among the parties, particularly regarding the methodology used and the assumptions made by Indiana American. As an initial matter, it is important to note that Petitioner has not designed its rates based upon its COSS. Petitioner's COSS showed the industrial and SFR customers are being heavily subsidized by residential customers. However, because of the significant subsidization, INAWC witness Rea proposed the increases for these two classes be held at 150% of the overall system average. In contrast, witnesses for the industrial and SFR customers ask for Mr. Rea's study to be ignored and that rates be increased in an across-the-board fashion. Thus, to the extent Mr. Rea's study meaningfully presents the costs of serving different customer classes, the industrial and SFR customers' position would leave that subsidy in place.

The subsidy identified by Mr. Rea is not new. We find compelling Mr. Rea's summary on rebuttal of the COSS results presented in Petitioner's prior four general rate cases. Five different studies prepared by three different professionals all reach the same conclusion: that industrial and SFR customers are being significantly subsidized. We understand that simply because a prior COSS identified a subsidy, it does not mean that the subsidy continues to exist today. However, Petitioner's evidence on rebuttal demonstrates that there is no material difference between the results of the COSS under the prior one-step method or the two-step model used in this case. Further, none of the industrial or SFR intervenors presented their own study proving otherwise. Thus, we decline to find Indiana American's COSS model to be inappropriate simply because it has not been accepted by other state utility commissions.

Accordingly, we find that, while a departure from past COSS models utilized by Petitioner, the two-step COSS used in this case is appropriate and is not flawed in the various ways suggested by some Intervenors. We accept the COSS set forth by Petitioner, as modified on rebuttal and find Petitioner has adequately addressed the concerns raised by the parties, described in more detail below.

Sale for Resale. The Wholesale Customers suggested that it is cheaper to serve their class than any other customer class. This suggestion is supported by Petitioner's cost of service analysis.

Transmission and Distribution Costs. In the COSS, as agreed by Petitioner and the OUCC, the total net plant split for mains between the transmission and distribution function is 32.4% for transmission and 67.6% for distribution. Allocation of costs based on line length is not appropriate because investment varies with line size, potentially under-allocating costs to large users. Petitioner's and the OUCC's approach eliminates the need to normalize pipe length by allocating based on original cost. In this rate case, more of the costs associated with mains is assigned to the distribution function than in the previous rate case. The growth in the distribution allocation appears reasonable based on the nature of investments made since the last rate case, which has been reflected in the DSIC mechanism. As a result, a bigger share of the total main investments is allocated to residential and commercial customers and away from industrial and SFR customers.

Losses. INAWC's rebuttal cost of service analysis incorporates a calculation for water losses which accounts for both the amount of mains (by footage or mileage) at different capacities and the relative capacities associated with each type of main.

Capacity Factors. INAWC's rebuttal cost of service analysis incorporates hourly capacity factors determined using OUCC witness Mierzwa's recommended approach of applying the AWWA M1 Manual estimated hourly ratios to the maximum day capacity factor developed by Petitioner for the industrial and SFR classes. We agree with Mr. Rea that the use of actual AMI data for the industrial and SFR classes is inappropriate because the classes are not sufficiently homogenous to provide a reasonable reflection of actual customer usage. In addition, while we also understand, and generally agree, that using examples from the AWWA M1 Manual is not ideal, we find it to be the most reasonable surrogate for the lack of actual data for these classes in this instance.

Purchased Power Costs. While we agree Petitioner will incur more costs to pump water at times when demands are higher than at times when demands are lower, the record is devoid of evidence that the cost per kilowatt-hour that Petitioner incurs is significantly higher during periods of high demand than during periods of low demand. Accordingly, we find that no change to the allocation factor for purchased power is warranted.

Distribution Multiplier. INAWC's rebuttal cost of service analysis incorporates updated distribution multipliers based upon data provided in discovery. We decline to adopt the Industrial Group's recommendation to base the distribution multiplier on both the usage served at the distribution level and the mileage associated with those customers for the reasons stated in Mr. Rea's rebuttal.

Fire Protection Costs. An allocation of source of supply and water treatment costs to private fire and public fire classes was incorporated into INAWC's rebuttal cost of service analysis, which we find to be reasonable and appropriate.

Low-Income and COVID Costs. On rebuttal, INAWC removed the allocation of these expenses to the SFR class from its COSS analysis, which we find to be appropriate.

In sum, we find that Mr. Rea's COSS, as modified on rebuttal, is reasonable and useful for purposes of reviewing Petitioner's proposed rate increase allocation.

B. Rate Design.

1. INAWC Case-in-Chief. Mr. Rea also sponsored Petitioner's proposed rate design. He discussed a number of important guiding principles associated with sound rate design, including cost causation, revenue stability, efficiency of use, gradualism, avoidance of discrimination, simplicity and feasibility, and affordability. He explained that Petitioner's current rate design for general service and SFR water service is a two-area declining block rate design with the separate rate designs for Area 1 (Statewide) and Area 2 (Mooresville & Winchester) for general service customers. Volumetric rates for general service are differentiated for Area 1 and Area 2 and both are declining block rate structures. Mr. Rea testified that all customers regardless of customer class (residential, commercial, industrial, public authorities) take service on the same rate structure. Monthly meter charges are differentiated between general service and SFR. Meter charges are not differentiated between Area 1 and Area 2. Mr. Rea explained that DSIC and SEI charges, while not a part of base rates, are collected on a fixed charge basis by meter size and will be rolled into base rates in this proceeding. Volumetric rates for SFR

are separate from general service rates and are also on a declining block rate structure. Volumetric rates for SFR are not differentiated between Area 1 and Area 2. Mr. Rea explained that private fire rates are on a monthly charge basis based on meter size and are the same for Area 1 and Area 2. Public fire surcharges are on a monthly charge basis based on meter size and are the same for Area 1 and Area 2, but separate rates apply to West Lafayette, Seymour, Summitville, and Lowell. Additional tariffs are in place to provide service to two newly acquired service territories, River's Edge and Lowell.

Mr. Rea testified that Petitioner is proposing a change to its water service rate design to include an allowance-based rate for all customers in Area 1 and Area 2. In addition, Petitioner is proposing to consolidate volumetric rates for Area 1 and Area 2 customers. He explained that an allowance-based rate is a rate design that features a level of usage offered to all customers at no additional charge above the fixed monthly meter service charge. Under Petitioner's proposal, instead of a volumetric rate that applies to all usage, there would be a level of usage provided to all customers (1,500 gallons of usage per month) at no additional charge beyond the monthly meter service charge. Mr. Rea testified that Petitioner is proposing an allowance-based rate to enhance affordability of Basic Water Service, especially for Petitioner's more economically vulnerable customers, without the need for these customers to directly apply for assistance through a discount tariff or some other type of customer-assistance program. He stated an allowance-based rate design reduces monthly bills for lower monthly usage amounts and increasing monthly bills for higher monthly usage amounts. He presented data from the National U.S. Census Bureau on the average size of household by income level, which shows a correlation between household income and the size of the household, with higher income households tending to have more occupants than lower income households.

Mr. Rea presented a comparison of bills under proposed rates for Basic Water Service for different household sizes under Indiana American's proposed allowance-based rate versus the current rate design. This comparison showed that the majority of Petitioner's customer base that may have issues of affordability of service would do better under the allowance-based rate than under Petitioner's standard rate design. He testified that from a cost causation perspective, it is cheaper on a per unit basis to provide Basic Water Service than it is to provide peakier seasonal service, and therefore appropriate from a cost of service perspective that Basic Water Service should be priced at a lower rate than seasonal water service. In addition, he stated data across the American Water footprint shows that there is a positive correlation between household income and the seasonal use of water. Mr. Rea stated that if: (1) seasonal water service is more expensive on a per unit basis to serve than Basic Water Service from a cost of service and cost causation perspective, (2) higher income customers are more likely to have significantly higher seasonal water use than lower income customers, and (3) a single volumetric rate applies to all service for all customers, the result is that lower income customers are actually subsidizing higher income customers under Petitioner's current rate design. He testified the biggest impact of the allowance-based rate will be seen by lower use residential customers regardless of their household income. He stated that while bills for Basic Water Service will increase for households of three or more (3,600 gallons per month or more), bills for two-person households (2,400 gallons per month) will be almost exactly the same as under present rates and bills for one-person households (1,200 gallons per month) will drop by more than $10 per month under Petitioner's proposed rates.

Mr. Rea further testified that Petitioner proposes to consolidate Area 1 and Area 2 rates and to increase the base rate monthly meter charge. He also described the treatment of recently acquired systems within Petitioner's proposed rate design.

Mr. Rea testified that Petitioner used the following general guidelines in allocating the proposed Step 3 revenue increase to customer classes as follows: (1) increases to industrial and SFR classes will be capped at 1.5 times the overall water service revenue increase requested in this case for Step 3 rates, (2) no increases are assigned to private and public fire, as cost of service indicates that decreases are in order for these classes, and (3) the remainder of the increase is allocated to residential and commercial classes in proportion to present rate revenues. With respect to industrial and SFR customers, Mr. Rea again noted that cost of service continues to indicate significant increases for those customers. While he recommended these subsidies be reduced, he also noted the need to mitigate the impact to these customers. Therefore, Mr. Rea concluded, it is appropriate to cap increases for these classes at 1.5 times the system average to maintain a gradual approach.

Mr. Rea also presented Petitioner's proposal to consolidate wastewater rates for all of its customers into a single rate design as well as to collect 65% of the proposed wastewater revenue requirement (Step 3) from its wastewater customers and to move 35% of the proposed wastewater revenue requirement (Step 3) to water service customers to be collected through water service rates. He explained this proposal was intended to dampen the impact on wastewater service customers, consistent with what has occurred in several recent cases but is even more necessary now. Without some movement of wastewater revenue requirement to water service customers, Mr. Rea stated wastewater service customers would generally see rate increases of 100% or more. Petitioner's objective with this proposal is to assist with the affordability of its wastewater service and keep wastewater bills for typical residential customers at approximately $100 per month. He noted the impacts on water service customers of this proposal is minimal, representing approximately $0.07 per hundred gallons for Petitioner's residential water service customers or a bill impact of approximately $0.27 per month for a residential customer with average usage. He said without this proposal, the average wastewater service bill would be approximately $150 per month.

2. **OUCC**. Mr. Mierzwa recommended a separate schedule of volumetric charges be established for the public authority class that would result in a Step 1 increase comparable to 2.0 times the system average increase proposed by Petitioner for the industrial and SFR classes. He also recommended the additional revenues realized in Step 1 from increasing the rates of the public authority customer class should be utilized to reduce the rate block 2 volumetric rate.

For Steps 2 and 3, Mr. Mierzwa recommended SFR rates should be proportionately increased to provide for an increase that is 2.0 times the system average increase. For the industrial and public authority classes, he recommended that the volumetric rates for these customers be proportionally increased until the increase assigned to one of these classes reaches 2.0 times the system average increase. The additional revenues realized in Steps 2 and 3 from increasing the rates of the SFR, industrial, and public authority customer class should be utilized to reduce the rate block 2 volumetric rate. He also recommended that any reduction to Petitioner's requested

wastewater revenue requirement first be applied to reducing the wastewater revenue requirement to be recovered from water service customers.

Mr. Mierzwa testified that at the conclusion of Step 3, under Petitioner's proposed revenue distribution, the residential and commercial customer classes will be contributing revenues in excess of the indicated cost of service, and the industrial, public authority, and SFR classes will be contributing revenues less than the indicated cost of service. He recommended reducing these differences to the extent possible while maintaining gradualism.

In cross-answering testimony, Mr. Mierzwa disagreed with Industrial Group witness York's proposal to recover the DSIC and SEI revenue requirement through monthly customer charges. He said such proposal would eventually result in recovery of all fixed costs through fixed monthly charges and only the recovery of variable costs through usage charges. He noted Crown Point witness Guerrettaz proposed a similar recommendation, referred to as a straight fixed variable rate design, which he said is inconsistent with cost causation principles. He said such a rate design would increase Petitioner's cost of providing service and is not in the best interest of customers.

3. Industrial Group. Ms. York objected to the proposed non-cost-based wastewater subsidy that INAWC recommends be assigned to water customers. Ms. York testified that INAWC's proposal to shift nearly $1.63 million of the cost of providing wastewater service to water service customers, who are already facing a sizable rate increase, is at odds with sound cost-causation and rate design principles. Ms. York also noted that INAWC's proposed subsidy is nearly 500% greater than the wastewater subsidy identified in its prior case and will continue to grow unless INAWC takes steps to bring wastewater customers toward cost of service. Thus, Ms. York recommended that the proposed wastewater subsidy be reduced by the greater of either 25% of Petitioner's proposed subsidy of $1.6 million, or by the amount of reduction in wastewater revenue requirement Mr. Gorman recommends, plus $100,000. Under Ms. York's proposal, wastewater rates would be set equal to those proposed by Petitioner, with any reduction to the wastewater utility's revenue requirement being reflected as a reduction in the amount of wastewater revenue requirement Petitioner has proposed to collect from water customers.

Ms. York also recommended that the Commission direct INAWC to move toward class-specific rates, rather than continue to apply a single rate structure to all customer classes except the SFR class. This will make it easier to develop rates to recover individual classes' cost of service, as well as improve the accuracy of cost allocation within classes. She recommended Petitioner begin this process by implementing an industrial rate schedule at the conclusion of this case. She testified that a separate industrial rate would allow INAWC to more accurately allocate costs within the class to reflect the distinction in infrastructure used to provide service. She stated it would also allow INAWC to recover costs from industrial customers in a manner consistent with cost of service principles, without materially impacting other rate classes.

Ms. York also recommended that the revenue requirements that are being rolled to base rates associated with the DSIC and the SEI charge continue to be recovered from customers on a per meter basis.

4. Wholesale Customers. Mr. Callocchia objected to the recovery of

DSIC and SEI costs in part from volumetric charges, which he stated is inconsistent with the plain language of Ind. Code § 8-1-31-8, Petitioner's previous testimony, and cost causation principles. He stated Petitioner is proposing to collect DSIC 12, 13, and 14 and SEI revenue requirements as part of base rates through both meter charges and volumetric rates in a proportion of approximately 50% each. Mr. Callocchia recommended Petitioner collect DSIC and SEI revenue requirements related to the currently effective charges 100% via meter charges.

Mr. Callocchia also recommended that INAWC be directed to develop a transmission tariff so SFR customers have the option to secure alternative potable water supply and pay a transmission tariff to Petitioner to wheel water through Petitioner's system.

In cross-answering testimony, Mr. Callocchia agreed with Industrial Group witness York that DSIC and SEI revenue requirements should be recovered through fixed monthly meter charges because it is consistent with cost of service principles.

5. Crown Point. Mr. Guerrettaz testified that INAWC's rate design in this case attempts, in part, to charge Crown Point for the renovation costs of distant unrelated acquired utilities by "arbitrarily rolling 50% of DSIC and SEI charges into volumetric rates." He testified that applying DSIC and SEI charges to volumetric rates is contrary to statute and INAWC's testimony in prior cases. He advocated for a transportation rate as an alternative for Crown Point to obtain Lake Michigan water at a more affordable cost.

6. CAC. Mr. Inskeep agreed with Indiana American that the proposed allowance-based rate design can help enhance affordability and is consistent with the rate design principle of simplicity and feasibility. He testified that a key benefit of this proposal is that there is no need for customers to take any action to benefit from the rate design change, unlike a utility program that requires customer enrollment. He also agreed that this rate design will help better align rate design with cost causation. He stated that although this rate design change will tend to benefit lower-income residential customers, it is being applied uniformly to all customers in a non-discriminatory manner.

Mr. Inskeep disagreed, however, with Indiana American's proposal to increase the base rate monthly meter charge. He testified that high residential fixed charges reduce customer control, disproportionately impact low-usage customers and low-income customers, reduce the financial viability of deploying water efficiency measures, and result in higher water system costs. He also recommended Petitioner use the total average bill (4,050 gallons per month) for defining Basic Water Service.

7. INAWC Rebuttal. Mr. Rea opposed the CAC's recommendation to use a total average bill for the community-level or customer level analysis of affordability, explaining that total average bill is a static calculation that applies equally to everyone. He stated that the definition of Basic Water Service needs to be flexible enough to accommodate households of different sizes and recognize the high degree of correlation between household water usage and the number of persons in the household. In addition, Mr. Rea testified that approximately 10% of the water that Petitioner sells to residential customers (and therefore approximately 10% of total average use) is for discretionary summertime usage, which is not appropriate to use as a basis for an affordability analysis specifically targeted at individual customers or lower income customers.

Moreover, lower income households tend to have fewer people in them which means that, all other things considered, lower income households will tend to have lower levels of water consumption than the residential population in total. Using an average water bill, as Mr. Inskeep suggests, therefore overstates the amount of water that lower income customers will use and overstates, on average, the total bill for these customers.

Mr. Rea testified that the proposed $20.00 meter charge is supported by Petitioner's cost of service analysis and results from a standard method for calculating meter charges based on the revenue requirements associated with meters and meter reading, service lines, and customer service functions. The calculated meter rate for a 5/8" meter in the cost of service analysis is $20.17 per month. Petitioner's proposed $20.00 charge is just under that calculated value.

With respect to DSIC and SEI related costs, Mr. Rea explained that DSIC and SEI related investments are not accounted for separately in Petitioner's revenue requirements and cost of service analysis. They are allocated to customer class not based on how they used to be recovered through the DSIC and SEI recovery clauses, but instead on how they would normally be allocated to customer class in a COSS.

Mr. Rea was generally supportive of the concept of separate volumetric rates for each customer class but did not support the piecemeal implementation of this type of rate design or a transition to this rate design as suggested by Ms. York or implied in part by Mr. Mierzwa. If it is to be done, Mr. Rea advised it is most efficient and appropriate to all customers to move to this type of rate design in one complete step once all the impacts to customers are well understood. He did, however, point out disadvantages to this type of rate design, namely that the definition of what constitutes a residential, commercial, industrial, and public authorities customer becomes much more important and the ability to assign and track customers to each class becomes much more important. He stated there will always be winners and losers in the process of changing rate design and these impacts need to be well understood.

Mr. Rea opposed the Wholesale Customers' recommendation to develop a transmission-only rate, citing lack of evidence that it would be in the public interest and that it would not be detrimental to non-transmission customers. He cited various other considerations if such a rate were to be adopted, including the application of appropriate exit fees or other charges attributable to those sunk costs that would need to be calculated to avoid harming the non-transportation customers. Mr. Rea stated that if the transportation customers desired Petitioner to serve as a back-up source of supply, then an appropriate back-up rate would need to be calculated.

Mr. Rea opposed the recommendations by the Industrial Group and SFR customers to increase rates on an across-the-board basis for the same reason already addressed regarding cost of service—that these classes are being heavily subsidized and that has been true for some time. That said, he disagreed with Mr. Mierzwa that these classes should receive an increase of two times the system average on the grounds that it was too extreme. As to the wastewater reallocation to water, he disagreed with both Ms. York's and Mr. Mierzwa's alternative proposals. He indicated that, in the event of a reduction to the wastewater revenue requirement, wastewater customers should receive some benefit. He proposed that a reasonable compromise would be to reduce the reallocation amount by double the percentage of any wastewater revenue requirement reduction. He testified that Ms. York's proposal was unacceptable because it would, in many cases, result in

higher wastewater bills and run counter to Petitioner's goal of keeping the average residential wastewater bill below $100 per month.

8. Discussion and Findings. We find that Petitioner's rate design proposals, as modified on rebuttal, satisfy the guiding principles of cost causation, revenue stability, efficiency of use, gradualism, avoidance of discrimination, simplicity and feasibility, and affordability. As the Commission has authorized an increase in water rates that is less than the requested increase, Petitioner shall reduce water service volumetric rates on a pro rata basis until the difference between the authorized increase and the requested increase is met. We further find that Petitioner's proposals achieve a rate design that is consistent with statute for all customer groups and is just and reasonable. Additionally, we find Petitioner's proposed allowance-based rate to be a reasonable means to address affordability issues for all customers while adhering to the other guiding principles noted above.

Single Tariff Pricing. We note that no party opposed Petitioner's proposal to consolidate the volumetric charges for Areas 1 and 2 over the three steps of the increase in this Cause and so we find it should be approved.

Revenue Allocation. The only difference among the parties concerning allocation of the revenue increase relates to the allocation to the SFR and industrial classes. Petitioner proposes that these classes receive an allocation of 150% of the overall system average. The OUCC proposes that they receive an increase of 200% of the overall system average. The industrial and SFR customers propose an across-the-board increase. Based on our prior findings regarding cost of service and the subsidies currently being provided to industrial and SFR customers, we decline to impose an across-the-board increase. As to the OUCC's proposed 200% allocation, we find approving an increase for a class so high in relation to the overall system average would be too aggressive of a move towards cost of service. Accordingly, we find Mr. Rea's proposal that the allocation to these classes should be 150% of the overall system average strikes the appropriate balance of moving these classes closer to cost of service, consistent with the need for gradualism. With its tariff filing, Petitioner shall provide the revenue proofs demonstrating the adjusted revenue allocations will recover the adjusted cost of service.

Wastewater Reallocation. It is generally undisputed that subsidies are contrary to cost causation principles and that utility rates should reflect the costs incurred to provide service, as reflected in our decision above concerning the allocation of costs to the industrial and SFR customers. However, we also recognize the role that reasonable and temporary subsidies can provide when necessary to address issues that arise, such as avoiding rate shock for a particular class of customers.

No party disputed that, absent a reallocation of wastewater costs to be recovered through water rates, the increase in wastewater rates would be significant. Given the relative sizes of the water utility and the wastewater utility, a reallocation such as that proposed by Petitioner can produce significant relief for the wastewater customers while having a minor impact on the overall water rates. While we remain concerned with allocating costs caused by one set of Petitioner's customers to another set of customers that are not receiving the same utility service (i.e., allocating wastewater costs to customers that do not receive wastewater service), we also recognize the

Indiana General Assembly's recent directive in Ind. Code § 8-1-30.3-6.5 concerning similar allocations. Accordingly, we find that a reallocation in this instance should be approved. However, we agree with the Industrial Group that movement towards cost of service for Petitioner's wastewater customers is essential and we encourage Petitioner to increase its efforts to move in that direction.

The only dispute among the parties that we must resolve centers on how the reallocation should change based upon any changes by the Commission in this Order to Petitioner's proposed revenue requirement. We agree with Mr. Rea that Ms. York's proposed modification to the reallocation could produce wastewater rates that are higher than those proposed by Petitioner and should therefore be rejected. We also agree that the OUCC's proposal that any reduction in the wastewater revenue requirement first being applied to the reallocation would provide wastewater customers no benefit from such reduction. As such, we approve Mr. Rea's proposal on rebuttal that the reduction be applied by reducing the reallocation amount by doubling the percentage of wastewater revenue requirement reduction as shown in Petitioner's Exhibit 18 at 66-70.

Meter Charge/Allowance Rate. No party opposed Petitioner's proposed Allowance Rate, whereby there would be no additional volumetric charge for consumption below 1,500 gallons per month. We find persuasive Mr. Rea's presentation of the usage characteristics of customers with different income levels. We further find that the use of this allowance rate will provide cost stability that will ameliorate affordability concerns in a fashion that adheres to cost of service concepts. We therefore find it should be approved.

The Industrial Group and SFR customers proposed that costs previously being recovered through the DSIC and SEI continue to be recovered through a fixed charge. We disagree with the suggestion by these customers that the General Assembly intended these costs to be recovered through a fixed charge in perpetuity. The statute is clear that the DSIC and SEI charges are to be a fixed charge by meter size while being recovered in the tracker but that these charges are reset in the context of a general rate case. Neither the DSIC nor the SEI statute indicate or require that the costs must continue to be recovered through a fixed charge when approved in base rates. Recovery of the entire DSIC and SEI revenue requirement through a fixed charge would eliminate all risk to Petitioner of under-recovery and remove any incentive for customers to better manage their water use. We recognize that the change in meter charge results in what equates to an approximate 50% consolidation of DSIC and SEI revenue and is not the result of any specific allocation of DSIC and SEI costs within the rate design. Accordingly, we find the DSIC and SEI costs, which are being rolled into base rates and allocated to customer class based on how they would normally be allocated through a COSS, is reasonable.

With respect to the allocation of source of supply and water treatment cost to private fire and public fire classes, the Commission agrees that fire protection service is generally not metered. Thus, we agree that a portion of the source of supply and water treatment costs should be allocated to the public fire and private fire protection classes but reject any allocation of meter costs to fire protection services as explained by Petitioner on rebuttal.

The CAC also objected to increasing the base rate monthly meter charge for 5/8 inch meters from $15.25 to $20.00 per month because of the disproportionate impact it will have on low-usage

and low-income customers. Based on the evidence, we find that Petitioner's proposal is consistent with the results of the COSS and the resulting monthly meter charge represents the cost to serve those customers.

Separate Rate Structures By Class. We find Petitioner has expressed sufficient interest in examining the potential impacts of a change in rate design to develop separate volumetric rates by customer class that a study of these impacts is warranted, and we authorize the costs of such analysis to be deferred for recovery in Petitioner's next general rate case.

Transportation Rate. The SFR customers did not cite to any prior occasion when the Commission has approved a transportation rate for a water utility. Nor do we believe the SFR customers provided evidence demonstrating such a rate would be in the public interest or that it would not harm other customer classes. Unlike the natural gas industry, where a federal policy exists to unbundle the sales of natural gas, in the water industry, there can be a multitude of reasons for why water from different suppliers cannot be comingled in the manner urged by the SFR customers. We are not persuaded that a transportation or transmission-only rate such as that proposed by the Wholesale Customers would be in the public interest. Because we lack sufficient evidence concerning the Wholesale Customers' proposal as to the potential impacts on non-transportation customers, we decline to require Petitioner to develop a transportation rate.

C. Universal Affordability Tariff.

1. INAWC Case-in-Chief. INAWC proposed a Universal Affordability Tariff for water service that includes multiple tiers of discounts based on different levels of household income stated as multiples of the federal poverty level. The tariff offers discounts on both the basic 5/8" meter charge and the volumetric charges for water service. Mr. Rea explained that the driving principle behind Petitioner's proposed Universal Affordability Tariff is to provide all participating customers discounts such that the expected bill for Basic Water Service (40 gallons of water per household member per day) will be no more than 2% of their annual household income. The impetus behind the proposal was a recognition that there will always be groups of customers that will have issues with the affordability of water and wastewater service. Mr. Rea stated Petitioner's proposed tiered discounts are designed to provide customers at each interval of the federal poverty level the opportunity to have Basic Water Service bills in the 1% to 2% range of household income.

2. OUCC. Mr. Bell recommended the Commission reject the proposed Universal Affordability Tariff because it is not in the public interest. He asserted it does not protect the affordability of utility services for present and future generations of Indiana citizens as required by Ind. Code § 8-1-2-0.5. Mr. Bell explained that neither Indiana American nor its parent company proposes to contribute any funds to providing bill discounts through the proposed Tariff. Rather, the bill discounts are to be funded solely and involuntarily by captive ratepayers. Additionally, Mr. Bell testified Indiana American has not shown it is able to administer a program of its own design, noting the lack of success in its administration of bill discounts to qualifying low-income customers in the Terre Haute, Muncie, and Northwest/Gary districts.

Mr. Bell explained Indiana American proposes to roll back into base rates the estimated total amount of discounts provided through the Universal Affordability Tariff (i.e., $1,274,901 for

Step 2 rates and $1,371,677 for Step 3 rates). He said because Petitioner's program includes regulatory accounting treatment to address under-recovery, the cost of the program to captive ratepayers may be even higher than Petitioner's proposed recovery. Mr. Bell stated that Indiana American may benefit by receiving more timely payments, reducing bad debt expense, and increasing customer retention at no expense to shareholders, reducing Indiana American's overall risk.

Mr. Bell explained that Ind. Code § 8-1-2-46(c) allows utilities to establish programs to charge customers lower rates or provide discounts based on something other than customer usage characteristics. He stated that while a lower rate or discount for certain customers is no longer considered discriminatory, it remains unreasonable to make captive customers pay higher rates to fund a customer assistance program with no utility contribution. Mr. Bell noted that nothing in the statute prohibits Indiana American from establishing a program relying on voluntary contributions or sources other than a revenue requirement included in rates, such as soliciting voluntary customer contributions through an opt-in roundup program or from an opt-in contribution. He also indicated that Indiana American is a for-profit company and is a wholly owned subsidiary of American Water Works Company, Inc., which has a market capitalization of over $27 billion. He concluded that Indiana American has significant resources that it could draw from to fund the proposed low-income rate if it chooses.

Mr. Bell asserted that Petitioner's proposed 10% level of customer participation in the bill discounts is unsupported by the evidence. Mr. Bell testified that this level of customer participation is not consistent with the extremely low level of low-income customer participation in the current LIPP, which was only 0.5%. Mr. Bell also pointed out that in Cause No. 45142, Mr. Rea testified that one of the reasons Indiana American was proposing its LIPP was to gauge low-income customer interest in such a program.

Mr. Bell also testified that Indiana American has administered only $90,885 out of $1.2 million of available assistance in the current LIPP to qualifying low-income customers. He said, in total, Indiana American administered only 7.6% of the available funds, leaving $1,109,115 or 92.4% of the available funds undistributed to its customers who qualify for LIPP assistance.

Mr. Bell recommended the Commission reject Petitioner's proposed Universal Affordability Tariff and remove $1,274,901 from Step 2 rates and $1,371,677 from Step 3 rates, which amounts he said were embedded in the proposed rate design.

3. CAC. Mr. Inskeep urged the Commission to approve the proposed Universal Affordability Tariff and to expand the discounts to the total bill (inclusive of public fire protection surcharge and other separate surcharges) and expand proposed eligibility and discounts under the tariff.

4. INAWC Rebuttal. Mr. Rea testified that more households and families in Indiana will have access to affordable water and wastewater service with Petitioner's proposed Universal Affordability Tariff than without it. In his opinion, this meets the definition of protecting the affordability of utility service for present and future generations of Indiana citizens. Mr. Rea stated that even after implementation of INAWC's proposed allowance-based rate, lower income customers will still be subsidizing higher income customers (albeit to a lesser extent).

Given that, Mr. Rea opined it does not make sense to ask Petitioner's shareholders to forego recovery of its cost of providing service to fund discounts for lower income customers and leave higher income customers still being subsidized. Mr. Rea explained that the LIPP and Universal Affordability Tariff are designed differently. He also noted the LIPP launched just prior to the COVID emergency, and therefore, the challenges of the LIPP should not be used to deny the Universal Affordability Tariff proposed here.

Mr. Rea disagreed with the CAC's recommendation to expand eligibility for the Universal Affordability Tariff. While Mr. Rea recognized that many Indiana families live every day under financial hardships, he stated there does need to be a balance between reducing bills in order to make them more affordable and the costs of the discounts that must be borne by others.

5. Discussion and Findings. For a water or wastewater utility, there is specific statutory authorization for the Commission to approve assistance for income-qualified water or wastewater customers. Ind. Code § 8-1-2-46(c) provides:

Upon request by a water or wastewater utility in a general rate case, the [C]ommission may allow, but may not require, a water or wastewater utility to establish a customer assistance program that:

(1) uses state or federal infrastructure funds; or

(2) provides financial relief to residential customers who qualify for income related assistance.

A customer assistance program established under this subsection that affects rates and charges for service is not discriminatory for purposes of this chapter or any other law regulating rates and charges for service. In considering whether to approve a water or wastewater utility's proposed customer assistance program, the commission shall determine that a customer assistance program established under this subsection furthers the interests set forth in [Ind. Code § 8-1-2-0.5] and is in the public interest.

Ind. Code § 8-1-2-0.5 provides:

. . . it is the continuing policy of the state . . . to use all practicable means and measures . . . in a manner calculated to create and maintain conditions under which utilities plan for and invest in infrastructure necessary for operation and maintenance while protecting the affordability of utility services for present and future generations of Indiana citizens.

Ind. Code § 8-1-2-46(c) provides that the Commission *may* approve requests by water or wastewater utilities to establish customer assistance programs that provide rate relief, such as through reduced rates or rate discounts, for utility service. And while this statute provides that a lower rate or discount for certain customers is not considered discriminatory, it does not address the cost recovery associated with such programs.

The Commission has previously approved two low-income customer assistance programs, both were pilot programs and approved as part of settlements. In *CWA Authority, Inc.,* Cause No. 45151 (IURC July 29, 2019), the Commission approved a customer assistance program wherein the utility's residential wastewater customers that qualified for assistance through Indiana's Energy Assistance Program received varying degrees of bill discounts and infrastructure

investment assistance based on customer income level. The program was funded via a $0.45 monthly charge per residential customer and a $200,000 annual utility contribution. The second approved customer assistance program was for Indiana American in its last base rate case, Cause No. 45142, wherein the Commission approved the three-year LIPP, which provided bill discounts to residential customers that qualified for assistance through Indiana's Energy Assistance Program. The LIPP was funded through both customer rates and matched contributions from the utility.

Since the approval of both of these programs, the Commission has also declined approval of a water and wastewater customer assistance program in *Community Utilities of Indiana, Inc.*, Cause No. 45651 (IURC Feb. 1, 2023). In that case, the utility proposed to provide discounts of $2.80 (water) and $2.90 (wastewater) per month for certain qualifying low-income residential customers using 5,000 gallons of water or wastewater, which was to be funded 100% by other residential customers and without any utility contribution. The Commission declined approval of the program, finding the proposed discounts to be paid by the other residential customers to be more than "minimal" and expressing disagreement with the utility that it would be confiscatory for it or its shareholders to voluntarily fund a portion of Petitioner's low-income program. *Id.* at 81-82.

As a general matter, the programs approved by the Commission shared common features, such as utility contributions and eligibility requirements tied to qualifying for Indiana's Energy Assistance Program. The customer assistance program most recently rejected by the Commission included neither of these attributes and imposed more than minimal cost on the funding ratepayers.

The Universal Affordability Tariff before us today includes no utility contributions and requires customers to submit documentation that is largely duplicative of documentation required for other assistance programs, such as Indiana's Energy Assistance Program. Petitioner also seeks regulatory accounting deferral treatment, without carrying costs, for expenses related to the implementation of the Universal Affordability Tariff. The design of the program, as well as the failure of Petitioner's LIPP, lead us to agree with the OUCC that the Universal Affordability Tariff is not in the public interest. We also agree with CAC witness Inskeep that there are simpler and more efficient ways to determine eligibility for a program like the Universal Affordability Tariff. We disagree with Indiana American witness Rea's assertion that the challenges of the LIPP, which was implemented immediately prior to and during the COVID pandemic, should not be used to deny the Universal Affordability Tariff. Additionally, Indiana American argued that lower income customers are subsidizing higher income customers because higher income customers use water differently and cost more to serve. However, the Universal Affordability Tariff does not address the cause of the subsidization, i.e., lower volume customers subsidizing higher volume customers, because *all* residential customers are charged the same rate and would be allocated the costs of the low-income program.

For these reasons, and as discussed further below, we deny approval of the Universal Affordability Tariff and encourage Petitioner to return to the drawing board and design a new Universal Affordability Tariff based on the following framework. However, Petitioner is also encouraged to consider other additional options that build upon this identified framework.

First, Indiana American should base eligibility for the Universal Affordability Tariff on enrollment in or qualification for one or more of the following assistance programs:

- Indiana Energy Assistance Program
- Low Income Water Assistance Program
- Supplemental Nutrition Assistance Program
- Other assistance programs identified by Indiana American that base eligibility on a percentage of the federal income poverty level

A combination of two or more programs likely would yield a larger pool of applicants and potentially result in increased participation by Petitioner's customers.

Second, Indiana American should evaluate the cost-effectiveness of using a third-party administrator to implement the Universal Affordability Tariff in comparison to implementing the program using its existing resources. Petitioner's administration of the LIPP was abysmal in many respects. Given this underperformance, combined with the fact that other American Water affiliates appear to be using a consultant to administer similar types of low-income programs, we agree that Petitioner's consideration, at least initially, to use a third-party administrator may be reasonable. Should Indiana American determine it is cost-effective to use a third-party administrator, the Commission strongly encourages Petitioner to learn from that third-party administrator, as well as from its peer utilities in Indiana and throughout the American Water enterprise, in order to remove this cost from future iterations of its low-income programs. A company of the caliber of Indiana American, particularly with its access to the shared services of its parent company American Water, should be capable of administering a program of this limited scope and size.

Next, the application for the Universal Affordability Tariff should be designed to be completed to the greatest extent practicable on a mobile device. Petitioner should evaluate the costs and benefits of such an application design and select the application design that provides the greatest access and ease of use to applicants at the most reasonable cost.

In addition, Indiana American should market the Universal Affordability Tariff to its customers by all means practicable and cost effective, including on bill and other direct communications and through community action agencies and Indiana 211. The Commission encourages Indiana American to consult with the OUCC and CAC in identifying the means of communication that best reaches Indiana American's customers.

As a final matter, the Commission is aware that it cannot mandate utility shareholder contribution to a low-income program such as the Universal Affordability Tariff. Nevertheless, as Indiana American redesigns and resubmits it Universal Affordability Tariff, the Commission recommends that Indiana American identify and keep track of recurring expenses that are reduced over time through the successful implementation of the Universal Affordability Tariff, such as receiving more timely payments, reducing bad debt expense, and increasing customer retention. As noted by OUCC witness Bell, these benefits accrue to Indiana American at no expense to its shareholders and reduce Indiana American's overall risk. The Commission further notes that if, in its redesigned Universal Affordability Tariff, Indiana American again seeks regulatory deferred accounting treatment for expenses related to implementation of the Universal Affordability Tariff, any eventual review of those expenses will evaluate the prudence of those expenses, including

their direct and indirect maximization of positive impacts and mitigation of adverse impacts.[27]

Accordingly, after consideration of the evidence and for the foregoing reasons, we find that approval of Indiana American's proposed Universal Affordability Tariff is not in the public interest and is denied.

D. Montgomery County Surcharge.

1. INAWC Case-in-Chief. Petitioner proposed a new surcharge that would apply to operations in Montgomery County based upon an ordinance adopted by the Montgomery County Board of Commissioners establishing an "Infrastructure Zone" and requesting Petitioner extend water mains pursuant to Ind. Code § 8-1-2-46.2.

Mr. Shimansky described Petitioner's investment project in Montgomery County where Phase 1 consisted of installation of water main to extend service east towards I-74 and Phase 2 consisted of installation of main, a booster station, and a water tower. Mr. Shimansky testified that this project supports the economic development efforts of Montgomery County and provides service to an industrial park and its first manufacturer. He explained that after completion of final punch list items in spring 2023, the total cost of Phase 1 and 2 is expected to be approximately $18,000,000 (before netting the contribution), and the primary funding is being provided by Montgomery County.

Mr. Shimansky further testified that $2,777,506 is included in the rate base actuals through September 2022 for this project. He explained that these costs are to be recovered through a surcharge on Montgomery County customers in the Crawfordsville District only. He testified there are 6,339 customers, not counting private fire protection meters, and, in order for these customers to reimburse Petitioner for these costs in compliance with the ordinance, Petitioner proposes to charge $3.54 per meter per month on their regular water bill. Mr. Shimansky testified this number has been reduced for revenues received from a large customer in the area. Mr. Shimansky sponsored a copy of the Montgomery County Ordinance and a workpaper calculating the per-meter monthly charge. Pet. Ex. 2, Attachment GDS-3 and GDS-4.

Mr. Shimansky testified that the extension satisfies Ind. Code § 8-1-2-46.2(c). He testified, however, that if the request under subsections (d) and (e) of that statute were denied, without the surcharge, Indiana American would recover Petitioner's costs of its portion of the investment from all customers across the State.

2. OUCC. Ms. Stull opposed Indiana American's proposed Montgomery County surcharge because: (1) Petitioner did not request approval of the project before completing it; (2) application of the surcharge throughout Montgomery County is contrary to Petitioner's agreement with the County and the County Redevelopment Commission; and (3) concerns with the overall calculation of the surcharge. Ms. Stull proposed that Petitioner include project costs in its rate base with cost recovery through its cost of service allocation to the

[27] We also expect any future request for regulatory accounting deferral treatment would continue to not include a request for carrying costs.

appropriate customer classes.

3. INAWC Rebuttal. Mr. Shimansky noted that Ms. Stull did not oppose the project underlying the proposed surcharge; instead, she only opposes the surcharge and proposes that Petitioner include the costs of the project in rate base and recover those costs through its cost of service allocation to the appropriate customer classes. In response to Ms. Stull's contention that project preapproval is needed, Mr. Shimansky testified that the statute only requires approval of the project and there is no objection to the underlying project. Mr. Shimansky testified that the question is one of rate design, which he believes the Commission can approve with or without a statute specifically directing it. Mr. Shimansky further testified that the Montgomery County Board of Commissioners specifically requested a main extension to support an economic development project, and they did so with full understanding that it would result in a surcharge imposed on the constituents who are customers of Indiana American. Mr. Shimansky did not understand why the OUCC would oppose the surcharge and instead request that the costs of the project be rolled into the calculation of the rates of all customers.

In response to Ms. Stull's contention that imposition of the surcharge is contrary to the agreement between Petitioner and the County and its Redevelopment Commission by imposing surcharges throughout the County (rather than just in the infrastructure zone), Mr. Shimansky explained that the County Commissioners adopted an ordinance after the agreement, which clearly states that the surcharge would be payable "by customers located in the geographic area within the jurisdiction of the Commissioners, including the geographic area established as an Infrastructure Development Zone." Pet. Ex. 2, Attachment GDS-3. Mr. Shimansky testified that between signing the agreement and adopting the ordinance, the County concluded it would be better for the surcharge to apply throughout Montgomery County.

Mr. Shimansky also responded to the OUCC's concerns regarding how the surcharge was calculated to show that the surcharge was correctly calculated. Mr. Shimansky testified Petitioner is accepting the OUCC's position that Petitioner's investment is exempt from property tax, and, as such, he recalculated the surcharge to reflect this issue and the revised calculation is set forth on Petitioner's Exhibit 15, Attachment GDS-3R.

4. Discussion and Findings. Ind. Code § 8-1-2-46.2(d) and (e) provides, in summary, that upon a county executive or municipal legislative body (in this case, Montgomery County Board of Commissioners) establishing an infrastructure development zone and requesting a utility (in this case, Indiana American) to extend service, the utility (again, Indiana American) may file a petition with the Commission seeking approval of the requested extension. If such request is approved, the Commission shall approve rate schedules that include a surcharge payable only by customers located in the geographic area within the jurisdiction of the requesting governmental entity, including the geographic area established as an infrastructure development zone. In accordance with Ind. Code ch. 6-1.1-12.5, Montgomery County executives adopted an ordinance designating a geographic territory as an Infrastructure Development Zone.

As summarized above, OUCC witness Stull opposed Indiana American's proposed surcharge for three reasons. She also raised questions about the overall calculation. Ultimately, the OUCC recommended that Indiana American instead include the costs of the project in rate base and recover these costs through its cost of service allocation to the appropriate customer classes.

In response to Ms. Stull's first contention that request for approval of the project should have been made prior to installation for Ind. Code § 8-1-2-42.6 to apply, Mr. Shimansky testified that the statute only requires approval of the project. The plain language of Ind. Code § 8-1-2-42.6(e) does state that a utility that "receives a request" for extension of service "may file a petition with the [C]ommission seeking approval of the requested extension of service." However, the OUCC did not take issue with the underlying project or the extension of service; rather, the OUCC took issue with the surcharge and how it was to be applied to Montgomery County customers. Thus, we agree with Indiana American that this is not an issue regarding the reasonableness of the underlying project, but rather an issue of rate design that the Commission has authority to approve with or without a statute. Nonetheless, we do believe the intent of the statute is for utilities to come in and seek approval of the extension of service project prior to filing for approval of a surcharge in a general rate case, and we would encourage utilities to follow this process in future cases.

In response to Ms. Stull's second contention that the application of the surcharge throughout Montgomery County is contrary to Petitioner's agreement with the County and the County Redevelopment Commission, we agree with Indiana American that it is the Montgomery County Commissioners' ordinance—not the agreement—that should control in this situation. *See* Pet. Ex. 2, Attachment GDS-3. This ordinance provides that the surcharge would be payable "by customers located in the geographic area within the jurisdiction of the Commissioners, including the geographic area established as an Infrastructure Development Zone." *Id.* at 2. The Commissioners adopted this ordinance after signing the agreement and we believe this ordinance represents the Commissioners' final word on the subject and their ultimate decision for the surcharge to apply throughout Montgomery County, which is consistent with Petitioner's filing in this Cause.

Finally, we disagree with the OUCC's third contention that the costs of this project should be reflected in Petitioner's rate base and recovered through Petitioner's cost of service allocation to the appropriate customer classes. Petitioner's Exhibit 2, Attachment GDS-3 clearly demonstrates the Montgomery County Board of Commissioners' desire for this main extension to support an economic development project for Montgomery County. Further, the ordinance clearly demonstrates that the Commissioners intended for this extension to be payable only by customers located within the jurisdiction of the Commissioners, including the geographic area established as an Infrastructure Development Zone. This extension of service is an economic development project that will create economic benefits for the County and benefit the health, safety, and welfare of Montgomery County citizens. Thus, this project will only directly benefit Montgomery County and its citizens, and we disagree with the OUCC that it is appropriate for Indiana American to recover these costs from all customers. Further, we believe that recovering the costs of this project via the surcharge as Petitioner has proposed, is consistent with the Montgomery County Commissioners' ordinance and will benefit all of Indiana American's customers, because it will only be recovered from those Indiana American customers in Montgomery County that are positioned to directly benefit from the project. As such, we find that the Montgomery County extension of service and surcharge are appropriate and should be approved.

With respect to the issues Ms. Stull raised regarding Indiana American's calculation, we find Indiana American appropriately calculated the surcharge. We also agree that it is appropriate

for Petitioner to accept the OUCC's position that Petitioner's investment is exempt from property tax, and thus we find the revised calculation of the surcharge set forth on Petitioner's Exhibit 15, Attachment GDS-3R to be appropriate and should be approved.

16. URT Repeal.

A. INAWC Case-in-Chief. Mr. Shimansky explained the URT over-collection. He described the repeal of the URT through House Enrolled Act 1002 effective May 1, 2022 and Petitioner's 30-Day filing to remove the URT from its revenue requirement effective July 1, 2022. Mr. Shimansky stated the OUCC filed an objection to that 30-Day filing leading to a subdocket being created in Cause No. 45734 S1. Indiana American filed its revised tariff on October 20, 2022 and on November 23, 2022, the new tariff was approved removing the URT. Mr. Shimansky explained that during the period of time from July 1, 2022 through November 23, 2022, the URT remained in the revenue requirement and was collected in rates, producing an over-collection of $1,356,008 that needs to be returned to customers. INAWC proposed returning this over-collected balance to customers during the Step 1 rate change on a special tariff that expires after four months. Mr. Shimansky stated this would mean the balance would be returned over approximately the same time frame it was collected. He stated that because the over-collection was collected through both volumetric and fixed rates for both water and wastewater customers, the correction should happen the same way.

B. OUCC. Ms. Sullivan testified that the OUCC recommends a direct refund of all URT revenue collected after June 30, 2022, including carrying costs, as a separate line-item credit on the customer bill. Ms. Sullivan proposed that Petitioner should pay customers for the use of the over-collected funds at Petitioner's WACC. She stated there is no reason for Petitioner to wait to refund the over-collection. She contended that Petitioner's proposed revenue adjustment would only incorporate URT collected through September 30, 2022 despite URT being included in rates through November 23, 2022.

C. Industrial Group. Mr. Gorman expressed concern that under INAWC's proposal, Petitioner will not have fully refunded customers until June 2024, roughly two years after it should have ceased collecting the URT from customers. Mr. Gorman testified that throughout that period of time Petitioner has had access to, and been able to use, those funds for its benefit. He testified that customers should be compensated for the use of these customer funds by Petitioner. Accordingly, Mr. Gorman recommended the URT balance be adjusted to include a carrying charge on the funds INAWC collected from customers, which should be included as part of the refund to customers. In support of his recommendation that the Commission include simple interest at a rate of 8% as a component of the refund calculated in this proceeding, Mr. Gorman cited the Indiana Supreme Court's holding in *N. Ind. Pub. Serv. Co. v. Citizens Action Coalition of Ind., Inc.*, 548 N.E.2d 153 (Ind. 1989), that customers were entitled to simple interest at the statutory rate of 8% in the context of a utility refund. He stated that similar to a customer deposit, the utility has had the use of those funds since it began collecting them. Therefore, according to Mr. Gorman, just as customer deposits carry interest, these funds should carry interest to properly compensate customers for Petitioner's ability to utilize the over-collection of the URT. He proposed to include a carrying charge on the customer held funds from the time the excess tax was collected until the refunds are completed in June 2024. He calculated this would increase the URT refund amount by approximately $184,000.

D. CAC. Mr. Inskeep testified Petitioner failed to follow directives and suggests Petitioner has held onto ill-gotten revenues. He recommended the entire balance in the over-collection along with an 8% interest be returned at once to customers. He further suggested that the approved ROE be reduced as a penalty for Petitioner not following state law.

E. INAWC Rebuttal. Mr. Shimansky opposed the OUCC's and intervenors' proposal to include carrying costs on a simple over-collecting, stating it is inconsistent with the other regulatory accounts included in the case, including the recovery of deferred COVID costs, Comprehensive Planning Studies, and Universal Affordability Tariff costs. In addition, Mr. Shimansky contended that if this over-collection is to be treated as a loan from customers that are due an 8% interest, it should be included in the capital structure with an 8% cost of financing.

Mr. Shimansky testified that Mr. Gorman's calculation of the additional refund amount to account for interest was incorrect. He said Mr. Gorman's proposed adjustment assumes the entire over-collection that has the 8% interest applied to it occurred on July 1, 2022. Mr. Shimansky clarified that it did not. Instead, it was a build-up of rates collected over time from July 1, 2022 while the URT calculation was being contested, until late November 2022 when rates were finally approved and implemented. Mr. Shimansky further stated that if carrying charges were to be applied, they should be no higher than the WACC approved in this case, because there was no wrongdoing on the part of Petitioner.

In response to the OUCC, Mr. Shimansky explained that the point of a revenue adjustment to the September 2022 revenue number is to "normalize" the revenues in the base year. Adjusting the revenues to reflect the URT repeal is one such adjustment. He stated the amount of refund Petitioner will put in rates is the actual over-collection from July 1, 2022 through the time period when the URT repeal was actually put into rates, which is beyond September 30, 2022. Mr. Shimansky also opined that a separate line item on the bill would only create confusion as the URT is no longer in rates and add unnecessary complexity to the bill.

Mr. Shimansky disagreed that Petitioner somehow acted improperly and should be penalized through the ROE as a result. He relayed how Petitioner followed the statute and Commission procedure. He stated it is clear from the copies of Petitioner's URT repeal submissions that Petitioner did nothing incorrectly and followed the established regulatory process.

F. Discussion and Findings. As noted by Petitioner, House Enrolled Act 1002 repealed the collection of URT in rates effective July 1, 2022. *See* Ind. Code § 8-1-2-4.2. On June 20, 2022, the Commission opened Cause No. 45734 to address compliance by jurisdictional utilities who were to remove the URT from their rates through the Commission's 30-Day filing process. Further any utilities continuing to collect the utility receipts tax on July 1, 2022, was required to apply regulatory accounting treatment, such as the use of regulatory liabilities, to account for the unlawful collection of the URT. Indiana American was the only jurisdictional utility with fixed monthly and volumetric charges to file a 30-Day filing that did not include a proposal to reduce both charges to remove the URT, resulting in an objection and requiring a subdocket.

The disagreement among the parties now concerns how the URT overcollection should be

returned and whether interest should be included. We agree with the OUCC and Intervenors that customers are entitled to interest on the over-collected URT amount. Once removal of the URT from Petitioner's rates was approved, Petitioner could have made another 30-Day filing to refund the overcollection of the URT, but it chose not to do so. *See* 170 IAC 1-6-3(7). Thus, because Indiana American has had use of the entirety of the URT overcollection (funds which belong to the customer) since at least November 23, 2022, we find it appropriate that the refund of the over-collected URT include interest from that date until the over-collection is refunded. Contrary to the Petitioner's assertions, interest is not a penalty. As explained in *N. Ind. Public Serv. Co. v. Citizens Action Coalition*, 548 N.E.2d 153, 159 (Ind. 1989), in reversing a Commission order that did not apply interest to a customer refund, "denying interest on the sum [would amount] to a double wrong by depriving the person owed of the increase to which he was justly entitled and by allowing the one holding the funds to profit from the use of funds that did not rightly belong to him."

Having determined interest is appropriate from November 23, 2022 until the refund is completed, we must now determine the appropriate interest rate. Because Indiana American had the choice to refund the over-collected URT earlier and chose not to do so, we find the statutory interest rate of 8% to be reasonable. Petitioner may refund the URT over-collection at one time or may refund it over four months following implementation of Step 1 rates as proposed.

The OUCC also recommended that the refund occur as a separate line-item credit on the customer bill. While we decline to require Indiana American include the credit as a separate line-item, we do require Petitioner to provide notice to its customers that the bill reflects a credit due to the repeal of the URT, consistent with the requirements of Ind. Code § 8-1-2-4.2(e).

Within 30 days of the issuance of this Order, Petitioner shall make a compliance filing under this Cause with the supporting calculation of the URT refund amount and applicable interest to be computed from November 23, 2022 through the anticipated refund date of the URT over-collection. Included in the compliance filing should be the methodology used to compute the interest, the total amount to be refunded by class and Group, a draft customer notice, and the proposed billing cycle(s) the over-collection will be returned. The other parties in this Cause shall have five business days to file any objection to Petitioner's calculation.

17. Non-Recurring Charges.

A. INAWC Case-in-Chief. Mr. Shimansky presented the proposed tariffs as Attachments GDS-1 and GDS-2 to Petitioner's Exhibit 2. Indiana American did not propose any changes to its non-recurring fees, including its reconnection charge, insufficient funds charge, and after hours service charge. Mr. Rea explained how revenue projections for these fees were developed. He said revenue projections for returned check charges, reconnect fees, after hours charges, and miscellaneous service revenues are all based on a three-year average for the calendar years 2018, 2019, and 2021. He added that revenue projections for late payment fees are based on the actual ratio of late payment fees to total revenue for the 12 months ended September 2022 base year projected to forecast test year revenue amounts.

B. OUCC. Ms. Sullivan explained that reconnection fees were last updated in 30-Day filing #3097, approved by the Commission on July 17, 2013. She said insufficient funds and after-hours service charges were last updated in Cause No. 43680 (May 2010). She opined

that Petitioner's non-recurring charges are out-of-date. She said that the costs of these services have certainly increased over the past ten to 13 years. She explained that the OUCC recommends Indiana American include a proposal to adjust its non-recurring charges in its next general rate case or submit a 30-Day filing just prior to its next general rate case to prevent over collection.

C. CAC. Mr. Inskeep recommended denying the continuation of Indiana American's late fees, reconnection fees, after-hours charges, and insufficient funds charges, asserting that they disproportionately harm vulnerable customers and significantly exacerbate affordability concerns, running counter to Petitioner's stated goals underlying its Utility Affordability Tariff.

D. INAWC Rebuttal. Mr. Shimansky explained he did not agree that all late fees, reconnection fees, after-hour charges, and insufficient fund charges should be eliminated. He said these charges have been approved by the Commission as part of Petitioner's tariff and there was no forecast created in this case to change those fees. He said the miscellaneous revenues created by those fees were used in the revenue determination. Mr. Shimansky explained that eliminating those fees would create a need to reassess the expenses forecasted for these programs as well as the revenue allocation amongst all customers. He said a proper study would need to be done before they were to be changed. He explained that Petitioner is not opposed to updating these rates prior to the next rate case, but because these fees and charges recover costs incurred by Petitioner, he concluded outright elimination of the fees would not be appropriate.

E. Discussion and Findings. As evidenced by Petitioner's case-in-chief filing and explained by Indiana American witness Shimansky, Petitioner is not proposing to change the non-recurring fees established in 30-Day filing #3097 or Cause No. 43680. Pet. Ex. 2, Attachment GDS-1, at 30, and GDS-2 at 12, Pet. Ex. 15 at 62, and Pub. Ex. 2 at 27. It is the OUCC and CAC that seek a change to what the Commission has previously approved.

The Commission is not persuaded that elimination of these fees is reasonable or appropriate at this time. While the Commission has suspended the collection of these fees in extenuating circumstances, providing these services comes at a cost to Petitioner and as such, should be reflected in rates. Further, without a study, which no party put forth, we lack evidence showing whether costs to provide these services have increased or decreased and what the effect on Petitioner's expenses might be if there were an elimination of these fees. As Mr. Shimansky explained, eliminating all non-recurring fees would need to be considered in the expense forecast and could affect the revenue allocation among all customers. The Commission, in this instance, declines to make a change that affects cost allocation without further information. However, based on Mr. Shimansky's rebuttal, it appears Petitioner is not opposed to the OUCC's recommendation to update these fees prior to or in its next rate case. Accordingly, we encourage Petitioner to evaluate whether the costs of these services have changed and as appropriate, adjust its non-recurring fees.

18. Tariff Matters.

A. INAWC Case-in-Chief. Mr. Shimansky presented the proposed tariffs as Attachments GDS-1 and GDS-2 to Petitioner's Exhibit 2, inclusive of redlined changes.

B. OUCC. Ms. Sullivan claimed Petitioner's current tariff is difficult to understand. She said moving Area 2 and Area 3 customers to Area 1 will eliminate some confusion. She further stated that the OUCC urges Indiana American to publish a tariff that is easier for a customer to understand so they can quickly discern how their bills are calculated.

C. CAC. Mr. Inskeep requested Indiana American be required to publish its entire tariffs, rules, and regulations on its website in an accessible manner. Mr. Inskeep states the lack of text-search functionality on some pages makes finding information not only difficult, but an accessibility issue. He said the public and all of Indiana American's customers, including individuals with disabilities, should be able to access all of Petitioner's tariffs.

D. INAWC Rebuttal. Mr. Shimansky testified that Petitioner appreciates the feedback on its tariffs and has since ensured that the tariffs and rules on Petitioner's website are fully searchable. Mr. Shimansky explained that Petitioner hopes this helps provide customers easier access to its tariffs.

E. Discussion and Findings. The OUCC and CAC expressed concern with Indiana American's tariff language and accessibility of the tariffs but made no specific recommendations for change other than those concerning tariff publication on Petitioner's website. As Mr. Shimansky testified, Indiana American has taken action to ensure that the tariffs and rules on its website are fully searchable. We encourage Indiana American to periodically review and revise its tariffs to be clearer and more understandable and to continue to be responsive to customer and stakeholder feedback about improving the presentation of, and ability to understand, Petitioner's tariff.

19. Customer Service.

A. Lowell Service Area. OUCC witness Seals highlighted and discussed certain of the customer comments received by the OUCC, with emphasis on comments received regarding the Lowell system, which Indiana American acquired in 2021. Mr. Seals noted that, based upon IDEM records, for the first six months of 2023, the Lowell operation experienced 28 boil advisories, with 12 caused by main breaks. He compared this level of boil advisories to Petitioner's larger Wabash operation, which experienced three boil advisories during the same period. Mr. Seals recommended Indiana American be required to evaluate the repeated main failures and resultant boil water orders in the Lowell district and provide the Commission with a report as to proposed solutions within 90 days.

Indiana American witness Britto, responding to Mr. Seals' concerns, stated "[s]ince acquiring the Lowell System, we have encountered a number of broken valves. Undertaking system improvements in such an environment will at times cause pressures to drop throughout the system. Pursuant to IDEM guidance regarding Boil Water Procedures, Indiana-American issued boil water advisories for each of these instances as required." Pet. Ex. 17 at 19. Ms. Britto disagreed with Mr. Seals' recommendation, stating Petitioner "is already evaluating the system and making capital investment to address the aging infrastructure." *Id.* at 20. We find Mr. Seals raises an important concern about the Lowell system. As it appears from Ms. Britto's rebuttal testimony that Petitioner is aware of the problems and is already evaluating the system, we find Indiana American

should prepare a report outlining the issues seen in the Lowell system and its proposed solutions within 90 days of the issuance of this Order.

B. Gary/Northwest Indiana Service Area. At the public field hearing held in Gary, Indiana, we heard from many customers expressing frustration because of Indiana American's lack of local corporate presence, ever increasing rates, operations resulting in basement flooding from lines being cut, and the closure of Indiana American's in-person payment center, which has been a hardship. At the evidentiary hearing, the Presiding Officers asked INAWC witness Britto about locations where customers can make in-person payments or ask questions in the Gary area. Hrg. Tr. at B-22 to B-25. INAWC witness Shimansky was able to provide some information at the hearing about the 12 payment locations in and around the Gary area (around zip code 46401). Hrg. Tr. at E-17. Mr. Shimansky testified that "more than half are Speedy Check cashiers, and there is a City of Hobart location where bills can be paid." *Id*. He said the hours are different at each location, with some open until 11:00 p.m. and others closing at 4:30 p.m. *Id*. We find it is important for customers to have access to locations where they can make payments, preferably without additional fees, and get questions about their accounts answered. We approved almost 30 years ago INAWC's decision to consolidate to a central location all customer service activities, and we did so due in part to the resulting efficiencies and cost savings. *Indiana-American Water Co.*, Cause No. 39595 at 19-21 (IURC Feb. 2, 1994). However, consolidation should not result in the loss of important customer services, including access to Petitioner within the communities it serves. Accordingly, we encourage INAWC to review the feasibility of offering in-person customer service option in light of financial, operational, and customer convenience cost-benefits. We also encourage Petitioner to ensure that each of its payment locations are provided with INAWC customer service contact information that can be provided to customers who may have questions or need additional information about their bills.

20. Non-Revenue Water.

A. INAWC Case-in-Chief. Ms. Britto testified regarding the steps Petitioner is taking to improve water and wastewater efficiency. She testified that Petitioner's efforts include supply side practices, such as improved pump efficiency, meter reading, leak detection, and repair programs, as well as demand-side strategies, such as customer efficiency and public education programs. From an operations perspective, Ms. Britto explained that improving water and wastewater efficiency requires achieving a cost-effective mix of prudent investments and improved O&M management capabilities targeting safety, customer satisfaction, sustainability, and system efficiency. She further testified Petitioner is planning to expand its efforts in improving apparent losses through large meter testing and profiling, conducting fire service audits, and improving Petitioner's billing process.

B. OUCC. Mr. Seals discussed the impact of non-revenue water, pointing out that total company non-revenue water has risen during the past five years, from 18.5% in 2018 to 21.2% in 2022. He stated that four districts experienced greater than 30% non-revenue water during the five-year period, causing IDEM to identify a significant deficiency for these districts. While noting that Indiana American has begun some effective first steps towards reducing non-revenue water, Mr. Seals recommended Petitioner place increased emphasis and resources on addressing the issue through leak detection, fire service audits, and consideration of district metering.

Mr. Seals testified that only 36% of Indiana American's private fire services are metered, making this problematic for non-revenue water. He said unmetered water may pass through the private fire system due to usage for testing, potential leaks on the internal system, or unintentional connections by the customer for non-fire purposes. Mr. Seals testified this potential source of non-revenue water can be mitigated and recommended that Indiana American begin a program to meter all private fire services over the next five years and perform inspections of private fire services once every five years.

C. INAWC Rebuttal. Ms. Britto testified that Petitioner is continuously analyzing and evaluating the amount of non-revenue water in its system to determine what cost-effective steps can be taken to reduce the amount even further. With respect to Mr. Seals' recommendation that Indiana American: (1) increase the emphasis and resources utilized on addressing non-revenue water, especially on leak detection and on fire service audits; (2) investigate other means of measuring and reducing non-revenue water, such as establishing district-metered areas, especially as Petitioner transitions towards AMI; and (3) act on the recommendations contained within the water audits for improvements to be achieved, Ms. Britto testified that Indiana American is doing these things and others to help reduce non-revenue water. She testified that Petitioner is also addressing any metering issues and analyzing its accounted for water losses, as well as analyzing already installed meters to ensure the right size of meters are installed and are representative of current services. She testified these steps will allow Indiana American to capture the flows more accurately for these services. Ms. Britto noted, however, that these activities have costs associated with them, and Petitioner cannot do everything without the increased dollars/headcount to do so.

As to Mr. Seals' recommendations regarding private fire services, Ms. Britto testified that what Mr. Seals recommends will be an expensive investment. She testified that for many customers this cost could run as much as $200,000, since the customer frequently owns the vault. She further testified there would also be significant impact in larger meters being added to these vaults. Ms. Britto testified that should the Commission order Indiana American to make these investments, Petitioner would commence doing so and would include the costs in future DSIC cases.

D. Discussion and Findings. The record shows that Indiana American has taken numerous significant steps to address non-revenue water in its system. The record further shows that the OUCC agrees with the steps Indiana American has taken to reduce non-revenue water and acknowledges that these steps are effective first steps. However, the OUCC also recommends that Indiana American place an increased emphasis on, and dedicate more resources to, addressing non-revenue water, in particular on leak detection and fire service audits.

Ms. Britto testified that Indiana American is already engaging in each of the activities the OUCC recommended to help reduce non-revenue water. However, the OUCC presented evidence that Indiana American's total company non-revenue water increased slightly over the five-year period from 2018-2022, from 18.5% in 2018 to 21.2% in 2022. Additionally, four districts experienced greater than 30% non-revenue water during the five-year period, causing IDEM to identify a significant deficiency for these districts. We note that three of these four districts are recent acquisitions and hence raise concern with the sufficiency of O&M prior to acquisition.

We believe the evidence shows that Indiana American is taking adequate first steps to manage water loss and address non-revenue water within its system. Ms. Britto testified regarding all the steps Petitioner is taking to reduce non-revenue water, explaining Indiana American is continuously analyzing and evaluating the amount of non-revenue water in its system to determine what cost-effective steps can be taken to reduce the amount even further.

Accordingly, we find Indiana American is taking appropriate steps to address non-revenue water within its system and the evidence shows Indiana American will continue engaging in these activities moving forward. While we decline, at this time, to require additional steps or resources beyond those already identified by Petitioner, we encourage Petitioner to continue its efforts to identify and implement cost-effective solutions for addressing its rising non-revenue water.

21. Regulatory Accounting Treatment.

A. INAWC Case-in-Chief. Mr. Shimansky described three proposals for regulatory accounting treatment. The first relates to pension and OPEB expense, the second relates to production expenses and the third relates to the proposed Universal Affordability Tariff. As to pension and OPEB expense, INAWC requests authority to record as a regulatory asset or liability amounts above or below the amount reflected in rates. He described the pension/OPEB balancing account that was proposed by Petitioner in Cause No. 43680, which was denied, and how, if it had been approved, pension and OPEB costs that had gone down in the subsequent years would have been returned to customers.

The production cost regulatory accounting would capture changes in chemical cost, purchased fuel and power, waste disposal, and purchased water. Production costs above and below the amount used to set rates would similarly be deferred to a regulatory asset or liability.

As to the Universal Affordability Tariff, which will provide discounts to participating and qualified customers, INAWC proposes an assumption that 10% will participate, and projected the level of discounts that would be provided as $1.3 million for Step 2 and $1.4 million for Step 3. To the extent the actual discounts vary from these amounts, the difference would be deferred as a regulatory asset or liability.

B. OUCC. Ms. Stull responded to Indiana American's proposed regulatory accounting deferral treatment for production costs and costs related to the Universal Affordability Tariff. As to production costs, she testified the OUCC opposes the proposal because it would remove any incentive for Petitioner to efficiently manage and operate its utility operations and otherwise negates basic regulatory principles. She explained that when a utility's rates are set, the utility is given the opportunity to earn its authorized return, which is not a guarantee. She noted that neither is a utility prevented from exceeding its authorized return. She explained this system promotes efficiency because it incents utilities to hone their operations through good management so it may retain more of its earnings. She said allowing a utility to track costs and recover the difference between the amount included in rates and the actual expense discourages efficient management and negates a basic principle of ratemaking.

Ms. Stull testified that Indiana American intends to track any and all differences between actual and projected production costs included in its revenue requirement without differentiating

between production cost increases due to increased demand versus increases in price, which she viewed as problematic. She testified Indiana American has not allowed for the fact there could be offsetting changes to operating revenues that would already compensate Indiana American for certain types of changes in production costs, such as higher than projected customer growth or customer consumption, which can be caused by such things as a drought. She explained both of these factors would create increased production costs that would be recovered through increased operating revenues and would allow Petitioner to potentially over-recover these cost increases. Moreover, Ms. Stull testified Indiana American already has the ability to track increases to its purchased water expense, noting that if an unprojected cost increase occurs, Indiana American has the option of submitting a purchased water tracker under 170 IAC 1-6 to recover the increased expense. Thus, she concluded, there is no need to provide another mechanism for Indiana American to recover these cost increases.

As for the Universal Affordability Tariff, Ms. Stull stated the OUCC recommends Petitioner's proposed tariff be rejected and therefore, no deferred accounting treatment would be warranted on that basis.

C. Industrial Group. Mr. Gorman recommended the Commission reject INAWC's three proposals to defer in regulatory assets. He testified that the three deferral mechanisms place too much risk on customers and do not include significant protections to customers from paying rates that are no more than a just and reasonable level. He testified that Petitioner has not shown these expenses limit the ability to earn its authorized return under the revenues generated during rate-effective periods in the past or are largely outside its control or more variable than they have been in the past.

D. INAWC Rebuttal. Mr. Shimansky testified that these accounts are not being proposed to provide a rate of return but to protect both customers and Petitioner from volatility. He testified that the variances in these costs are almost entirely outside the INAWC's control. For instance, variations in pension expense are driven by market pressures. In response to Ms. Stull's testimony that regulatory accounting would remove incentives to manage production costs, he indicated that since the deferred amounts would not bear carrying charges, there is still an incentive for Petitioner to do all it can do to manage costs.

E. Discussion and Findings. Indiana American requests regulatory accounting deferral treatment for: (1) pension and OPEB expense, (2) production costs, and (3) Universal Affordability Tariff discounts. Based on our decision above, we need not address Petitioner's request for regulatory accounting deferral treatment for the Universal Affordability Tariff discounts.

When determining whether costs should be tracked, we have generally considered whether the expenses are "collectively or potentially significant, whether they are potentially variable or volatile, and whether they are largely outside the utility's control." *Indianapolis Power & Light Co.*, Cause No. 44602 at 79 (IURC March 16, 2016). We also consider the utility's request from a broader perspective by reviewing "the utility's risks related to its operating costs and the other tracking mechanisms it has in place." *S. Ind. Gas and Elec. Co.*, Cause No. 43839 at 94 (IURC Apr. 27, 2011). We have generally found that revenue or cost trackers tend to make utilities less accountable for their actions and thus, should remain limited to ensure the utility is properly

incented to manage its overall operating costs. *Id.* at 94-95. Because, if utilities can "recover the majority of their variable costs through trackers, they have no incentive to come before the Commission and account for other, non-tracked, decreasing costs or increasing revenues." *Id.*

In 2010, the Commission rejected a proposal by Petitioner to create a "Pension and OPEB Balancing Account" that would have allowed the utility to "defer under- or over-recovery in Pension/OPEB expense as a regulatory asset/liability for future recovery or refund to customers." *Indiana-American Water Co.*, Cause No. 43680 at 111-112 (IURC April 30, 2010). In that case, we rejected the requested relief determining that if we were to authorize the creation of the balancing account and related regulatory accounting treatment, we would be shifting risks inherent to the prudent operation of the utility to ratepayers, thereby lessening the utility's incentive to manage its business properly and effectively. Accordingly, we ultimately concluded that it was "not in the public interest to require ratepayers to bear this risk." *Id.*

In the present case, Indiana American again seeks approval of balancing accounts and regulatory accounting treatment. This time, however, it seeks that treatment not just for its pension and OPEB expense, but also for its production costs. These three separate regulatory accounts would operate in the same manner. Specifically, beginning with the effective date of new rates established in this case, Indiana American would begin comparing its actual expenses in each of these categories to the amount approved for recovery and embedded in base rates with the total difference being treated as a regulatory asset or liability in the next rate case.

Petitioner requests this extraordinary relief because it claims the relief will protect itself, and customers, from volatility in those expenses. The proposed deferred regulatory treatment differs little, if at all, from the relief we denied in Cause No. 43680, which was based on substantially the same justification offered in this proceeding. Seeing the same problems with Petitioner's current proposal as we saw with its past proposal, we see no reason to alter or deviate from our prior decision.

We agree with the OUCC and other Intervenors that what Petitioner requests is to be shielded from volatility inherent to the operation of a utility. Some risk of volatility or uncertainty as to the performance of the market or, for example, as to the actual cost of chemicals, is not justification to authorize deferred accounting. While Petitioner speculated about the potential impact of market fluctuations and price volatility, the evidence does not show that the variability in costs will expose Petitioner to the risk of not meeting its service obligations or shareholders to not earning a reasonable return, or that the requested relief will fundamentally benefit ratepayers.

Our ability to balance those interests is essential as it lies at the heart of the regulatory compact. As part of that compact, in exchange for the dedication of its plant and equipment to the service of the public, a utility is given the opportunity to earn its authorized return, recovering both its reasonable and prudent costs and a reasonable return on its investment. As Ms. Stull points out, however, the opportunity for Indiana American to earn its authorized return is not a guarantee. The opportunity to earn its authorized return provides the incentive for the utility to operate efficiently, an incentive which we have previously found to be put at risk through risk shifting proposals, such as balancing accounts proposed by Petitioner. We also note that Petitioner has access to, and uses, several tracking mechanisms to recover costs associated with a range of investments. There is also

an established rule and standard practice in place that allows utilities to quickly amend their rates to cover increases in purchased water costs—one of the costs INAWC seeks to include in the balancing account.

In conclusion, we find Indiana American has failed to show that the balance struck between the utility and its ratepayers as a result of its proposed balancing accounts is in the public interest. Accordingly, we decline to approve Petitioner's requested accounting deferral treatment.

22. Future DSIC and SEI Cases. The only remaining dispute regarding future DSIC and SEI cases relates to how cost of removal is accounted for in the DSIC and SEI calculations. OUCC witness Stull explained cost of removal is recovered from customers before these costs are actually incurred by Petitioner because the cost is built into Indiana American's authorized depreciation rates. Indiana American continues to recover these costs because (a) it is embedded in the depreciation rates used to calculate depreciation and (b) DSIC and SEI additions are not reduced by the increase in applicable accumulated depreciation since the last rate case. She argued this treatment results in a level of double recovery that inequitably benefits shareholders at the expense of ratepayers. While recovery of the cost of removal results in a reduction to rate base, Ms. Stull stated she does not believe that the quid pro quo of this arrangement is evenly balanced between ratepayers and shareholders because the reduction in rate base only occurs when Indiana American files a rate case. Between rate case filings, Indiana American recovers additional costs of removal but there is no corresponding reduction to rate base that benefits ratepayers until Indiana American receives its next rate order.

As Mr. Shimansky noted in rebuttal, the Commission previously addressed this issue in its February 22, 2023 Order (at p. 8) in Cause No. 45609 SEI 1, wherein the Commission authorized the inclusion of costs of removal in the SEI calculation because it was consistent with the approach used in DSIC cases.[28] Although, Ms. Stull is correct about the costs of removal being embedded in depreciation rates, in the context of a tracker, it is necessary to include the costs of removal in the pretax return because the accounting entries to retire the assets are recorded on the utility's books and records, but these entries are not reflected in the tracker amounts. Thus, the costs of removal associated with retired assets must be included in the pretax return calculation of a tracker case.

When assets in a tracker filing are retired, the accounting entries to retire the assets will be recorded on the utility's books and records, including a debit to accumulated depreciation for the associated cost to remove the retired asset. When a debit entry is recorded to accumulated depreciation to account for the cost of removal, the effect is to increase rate base by the same amount. However, the effect of these accounting entries will not be reflected in base rates until the utility's next base rate case. Until that time, the utility's rate base is understated by the amount of removal cost recovered through depreciation expense and reflected in the accumulated depreciation account. Essentially, accumulated depreciation is overstated by the cost of removal which has not yet been incurred reducing rate base until the cost of removal takes place. In a tracker filing, the base rates do not include the debit to accumulated depreciation until the next base rate case. Thus, it is reasonable to provide a return on the cost of removal in a tracker filing to offset

[28] *See also*, *Indiana American Water*, Cause No. 45609 SEI 1 S1 at 9 (IURC March 8, 2023).

the lower rate base generated by the cost of removal reflected in accumulated depreciation on the utility's books and records. This permits the utility to earn a return on cost of removal associated with retired assets in a tracker, which will end when new rates are established. The cost of removal will be reflected in base rates and the tracker will be reset to zero. This issue is a matter of timing.

23. Confidentiality. On March 31, 2023, August 4, 2023, and August 8, 2023, Indiana American filed Motions for Protection and Nondisclosure of Confidential and Proprietary Information in this Cause, which were supported by affidavits showing that certain information to be submitted to the Commission was trade secret information as defined in Ind. Code § 24-2-3-2 and should be treated as confidential in accordance with Ind. Code §§ 5-14-3-4 and 8-1-2-29. On July 21, 2023, and July 25, 2023, the Industrial Group also filed Motions for Protection and Nondisclosure of Confidential and Proprietary Information in this Cause. In Docket Entries dated April 13, 2023, August 8, 2023, and August 14, 2023, the Presiding Officers found the information should be held confidential on a preliminary basis. After review of the information and consideration of the affidavits, we find the information is trade secret information as defined in Ind. Code § 24-2-3-2, is exempt from public access and disclosure pursuant to Ind. Code §§ 5-14-3-4 and 8-1-2-29, and shall be held as confidential and protected from public access and disclosure by the Commission.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. Petitioner is authorized to adjust and increase its rates and charges for water and wastewater service in three steps approved herein, ultimately calculated to produce total operating revenues of $350,524,090, which are calculated to provide the opportunity to earn net operating income of $118,092,625. Such rates and charges for each step shall take effect immediately upon submission, on an interim subject to refund basis subject to the process for review by the parties we have approved.

2. Petitioner shall file new schedules of rates and charges in three steps on the basis set forth in Finding Paragraph 12, which schedules shall be effective for water and wastewater service rendered upon submission on an interim subject to refund basis subject to the compliance filing process described in that same finding paragraph.

3. Within 30 days of the issuance of this Order, Petitioner shall make a compliance filing under this Cause concerning the URT refund consistent with Finding Paragraph 16.

4. Petitioner's proposed depreciation accrual rates are approved upon the submission of Step 1 rates.

5. Petitioner's requests for deferred accounting authority described in Finding Paragraph 21 are denied.

6. Petitioner's proposed Montgomery County surcharge is approved.

7. Petitioner's proposed Universal Affordability Tariff is denied.

8. Petitioner's plans to develop future water sources of supply are approved as set forth in Finding Paragraph 7.A.2.b.

9. The information filed by Petitioner, OUCC, and Intervenors in this Cause pursuant to the Motions for Protective Orders is deemed confidential pursuant to Ind. Code § 5-14-3-4, exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

10. This Order shall be effective on and after the date of its approval.

BENNETT, FREEMAN, VELETA, AND ZIEGNER CONCUR; HUSTON ABSENT:

APPROVED: FEB 14 2024

I hereby certify that the above is a true and correct copy of the Order as approved.

Dana Kosco
Digitally signed by Dana Kosco
Date: 2024.02.14 10:11:11 -05'00'

Dana Kosco
Secretary of the Commission

Attachment 7

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN WATER COMPANY, INC. FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER AND WASTEWATER UTILITY SERVICE THROUGH A THREE-STEP RATE IMPLEMENTATION, (2) APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE TO WATER AND WASTEWATER UTILITY SERVICE, INCLUDING A NEW UNIVERSAL AFFORDABILITY RATE, (3) APPROVAL OF REVISED DEPRECIATION RATES APPLICABLE TO WATER AND WASTEWATER PLANT IN SERVICE, (4) APPROVAL OF NECESSARY AND APPROPRIATE ACCOUNTING RELIEF, (5) APPROVAL OF THE EXTENSION OF SERVICE TO AN INFRASTRUCTURE DEVELOPMENT ZONE IN MONTGOMERY COUNTY, INDIANA AND AUTHORITY TO IMPLEMENT A SURCHARGE UNDER IND. CODE § 8-1-2-46.2, AND (6) APPROVAL OF PETITIONER'S PLANS TO DEVELOP FUTURE WATER SOURCES OF SUPPLY UNDER IND. CODE § 8-1-2-23.5.	**)** **)** **)** **)** **)** **)** **)** **)** **)** **)** **)** **)** **)** **)** **)** **)** **)** **)** **)**	**CAUSE NO. 45870** **APPROVED: FEB 14 2024**

CONCURRING OPINION OF COMMISSIONER SARAH E. FREEMAN

I concur in today's order and write separately to emphasize three issues of importance.

First, by encouraging and providing guidance to Petitioner to submit a redesigned Universal Affordability Tariff — rather than ordering and dictating the contents of a redesigned tariff — we acknowledge the permissive language enacted by the Indiana General Assembly in its authorization of customer assistance programs under Ind. Code § 8-1-2-46(c). I firmly believe that Petitioner is invested in improving affordability for its ratepayers and will be beyond shocked if Petitioner, in cooperation with the OUCC and CAC, does not submit a redesigned Universal Affordability Tariff in short order, and I eagerly await the opportunity to review.

Next, I write to amplify the concerns underlying our decision in Section 19.B. related to the dwindling opportunities for Indiana American ratepayers to engage in face-to-face communications with Indiana American customer service representatives. The original authority to consolidate in-person service locations and instead rely on robust shared services was logical

and supported by evidence of efficiencies and cost savings. However, this particular end game — with no in-person interactions between utility and ratepayer — was not an inevitable outcome; it was a choice. Many communities, with Gary being a leading example, suffer disproportionately when the opportunity for in-person engagement is removed. Petitioner regularly asserts its desire to be a model corporate citizen, yet it repeatedly squanders its chances to do so. As a first step, perhaps Indiana American could access the shared services of American Water to identify and develop creative uses of existing technology to connect ratepayers paying in person in physical locations directly with Indiana American customer service representatives to respond to immediate questions and concerns. A solution need not be overly complicated or require excessive resources to succeed.

Finally, I commend the relevant and useful testimony presented at the July 6, 2023 field hearing in Gary, Indiana. This field hearing stands out because the witnesses conveyed the reality of their situations within the framework of the issues presented in this proceeding and because of the constructive and practical solutions they offered Petitioner to increase and improve its presence and reputation as a corporate citizen. Of note was testimony highlighting apprenticeships as a way for Petitioner to demonstrate its commitment to its individual ratepayers and the larger community as well as a particularly elegant suggestion that Petitioner provide rain barrels to interested customers, simultaneously promoting conservation and the Indiana American brand.

Attachment 7

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN WATER COMPANY, INC. FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER AND WASTEWATER UTILITY SERVICE THROUGH A THREE-STEP RATE IMPLEMENTATION, (2) APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE TO WATER AND WASTEWATER UTILITY SERVICE, INCLUDING A NEW UNIVERSAL AFFORDABILITY RATE, (3) APPROVAL OF REVISED DEPRECIATION RATES APPLICABLE TO WATER AND WASTEWATER PLANT IN SERVICE, (4) APPROVAL OF NECESSARY AND APPROPRIATE ACCOUNTING RELIEF, (5) APPROVAL OF THE EXTENSION OF SERVICE TO AN INFRASTRUCTURE DEVELOPMENT ZONE IN MONTGOMERY COUNTY, INDIANA AND AUTHORITY TO IMPLEMENT A SURCHARGE UNDER IND. CODE § 8-1-2-46.2, AND (6) APPROVAL OF PETITIONER'S PLANS TO DEVELOP FUTURE WATER SOURCES OF SUPPLY UNDER IND. CODE § 8-1-2-23.5.	)	**CAUSE NO. 45870** **APPROVED: FEB 14 2024**

CONCURRING OPINION OF COMMISSIONER DAVID E. ZIEGNER

I concur in the Order but write to emphasize a concern I have regarding the absence of the availability for customers to have face to face communications with utility personnel. Indiana American should explore innovative ways to enhance direct communications with customers who have billing and service issues.

Attachment 7

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN WATER COMPANY, INC. FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER AND WASTEWATER UTILITY SERVICE THROUGH A THREE-STEP RATE IMPLEMENTATION, (2) APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE TO WATER AND WASTEWATER UTILITY SERVICE, INCLUDING A NEW UNIVERSAL AFFORDABILITY RATE, (3) APPROVAL OF REVISED DEPRECIATION RATES APPLICABLE TO WATER AND WASTEWATER PLANT IN SERVICE, (4) APPROVAL OF NECESSARY AND APPROPRIATE ACCOUNTING RELIEF, (5) APPROVAL OF THE EXTENSION OF SERVICE TO AN INFRASTRUCTURE DEVELOPMENT ZONE IN MONTGOMERY COUNTY, INDIANA AND AUTHORITY TO IMPLEMENT A SURCHARGE UNDER IND. CODE § 8-1-2-46.2, AND (6) APPROVAL OF PETITIONER'S PLANS TO DEVELOP FUTURE WATER SOURCES OF SUPPLY UNDER IND. CODE § 8-1-2-23.5.	)	**CAUSE NO. 45870** **APPROVED: FEB 14 2024**

CONCURRING OPINION OF COMMISSIONER WESLEY R. BENNETT

I concur in today's Order and the Concurring Opinion of Commissioner Freeman. In addition, I write separately to express my concern with Indiana American's compliance with Ind. Code § 13-18-26-2. This statute requires a utility applying for a wastewater treatment plant permit to certify that it has prepared and completed a LCCBA. However, the evidence demonstrates that Petitioner did not complete a full life cycle cost benefit analysis, as that term is generally understood in the engineering world. Therefore, it appears to me that Indiana American has not complied with Indiana law.

.

Attachment 8

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of	)	
	)	
HAWAII-AMERICAN WATER COMPANY	)	DOCKET NO. 2021-0063
	)	
For Approval of Rate Increases and	)	
Revised Rate Schedules and Rules.	)	
	)	

DECISION AND ORDER NO. 38424

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Attachment 8

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of HAWAII-AMERICAN WATER COMPANY For Approval of Rate Increases and Revised Rate Schedules and Rules.	)	DOCKET NO. 2021-0063
	)	DECISION AND ORDER NO. 38424

DECISION AND ORDER

By this Order,[1] the Public Utilities Commission ("Commission" or "PUC") approves an increase of $1,710,920, or approximately 17.17% over revenues at present rates for HAWC, based on a total revenue requirement of $11,739,120 for the 2022 calendar test year ("Test Year"). In so doing, the Commission, in response to HAWC's Application, filed on August 18, 2021,[2] approves the Parties' Stipulation of Settlement Agreement, filed on May 6, 2022.[3]

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[1]The Parties in this proceeding are HAWAII-AMERICAN WATER COMPANY ("HAWC," "Applicant," or "Company") and the DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate"), an ex officio party, pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules ("HAR") § 16-601-62(a).

[2]"Application; Exhibits 1 through 14; Attachments; Verification; and Certificate of Service," filed on August 18, 2021 ("Application").

[3]"Stipulation of Settlement Agreement; Exhibit A; Attachments HAWC S-1 to S-10; and Certificate of Service,"

The Commission, in approving the Stipulation: (1) authorizes an across-the-board, 17.17% increase in HAWC's monthly wastewater service charges, and (2) authorizes various changes to HAWC's tariff ("Tariff No. 1"), as described herein.

Accordingly, the Commission issues this Decision and Order in accordance with HRS § 269-16(d).

I.

BACKGROUND

A.

HAWC

HAWC is a Nevada corporation, operating as a public utility in the State, that provides wastewater collection, treatment, and disposal services "to the residences, condominiums, commercial and other establishments and facilities in the Hawaii Kai community on the island of Oahu[.]"[4] HAWC's sole shareholder is American Water Works Company, Inc. ("American Water"), a Delaware corporation.[5]

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filed on May 6, 2022 ("Stipulation"). Throughout the Stipulation, the Parties round amounts to the nearest ten dollars.

[4]Application at 2-3. HAWC also provides wastewater services to residential and commercial customers in the Mauna Lani Resort and Waimea areas on Hawaii Island; however, only the Hawaii Kai services are the subject of the instant proceeding. Id. at 2.

[5]Application at 3.

As described by HAWC in its Application:

> On Oahu, [HAWC's] collection system consists of more than 65 miles of sewer lines and seven pump stations. The system serves the community of Hawaii Kai on Oahu, an area extending from the eastern ridge of Kuliouou Valley to the Mauka side of Kalanianaole highway at Sandy Beach, up to and including the Hawaii Kai Golf Course.
>
> [HAWC's] East Honolulu Water Treatment Plant provides tertiary treatment to an average daily wastewater flow of 4.5 million gallons. The wastewater received is primarily domestic with a small component of commercial waste, largely from restaurants. The treated effluent is disinfected before it is discharged through an ocean outfall which extends one quarter mile offshore at a depth of 55 feet.[6]

HAWC's existing rate design consists of monthly service charges for: (1) Single-Family Residential Unit and Multi-Family Residential Unit classes, at a flat rate; (2) Commercial Food Service Operation, Commercial Non-Food Service Operation, and Public Authority-Other classes, based on the amount of water usage; and (3) Public Authority-Dwelling class, based on the amount of wastewater treated.[7]

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[6]Application, Exhibit No. 14-T-200, Attachment JL 202 at 14.

[7]As described in HAWC's existing rate schedule:

> The Public Authority—Other class refers to the sewerage services provided by HAWC to the City and County of Honolulu ("City"), the State of Hawaii and other facilities (including parks, schools, fire station, and Lunalilo Home). . . .
>
> The Public Authority—Dwelling class refers to the services provided by HAWC to the City for the

B.

Application

On August 18, 2021, HAWC timely filed its Application, seeking an increase in revenues of $2,111,230 or approximately 21.05% over total revenues at present rates.[8] Based on a net operating income of $1,790,970 and average rate base of $40,188,790, HAWC estimates a 4.460% rate of return.[9]

HAWC proposes to implement its requested increase in revenues by increasing its monthly service charge for: (1) the Single-Family Residential Unit and Multi-Family Residential Unit classes by approximately 21.18%; (2) the Commercial Food Service Operation class by approximately 21.21%; and (3) Commercial Non-Food Service Operation, the Public Authority-Other, and Public Authority-Dwelling classes by approximately 21.18%.[10] The requested increase is based on an

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> City's residential customers in Hawaii Kai, including Kuliouou Valley, Portlock, Paiko, and other areas, which fall outside of HAWC's service territory, but which are served directly by the City's sewerage system and then connected to HAWC's wastewater system for distribution and processing.

Application at 5 n.8 and n.9.

[8]Application at 4.

[9]Application at 3-4.

[10]Application at 5.

estimated total revenue requirement of $12,139,430 for the January 1, 2022, to December 31, 2022 Test Year, and an 8.05% rate of return on HAWC's average Test Year rate base of $40,188,790.[11]

Additionally, pursuant to HRS § 269-16(b) and HAR § 16-601-86, HAWC is requesting approval of proposed revisions/modifications to its Rules and Regulations, set forth in HAWC Tariff No. 1, as described in the Application and the supporting testimonies and exhibits, as follows:[12]

> (a) Amend and replace Revised Sheet 1A to reflect updated definitions to the terms "Building sewer"/"building sewer" and "Service Connection"/"service connection" in light of the proposed changes to Rule V Connections and Cut-Offs.
>
> (b) Amend and replace Revised Sheets 5 and 6 to reflect changes to Rule V Connections and Cut-Offs to more clearly delineate the customer's responsibility for the building sewer (including to install and maintain a readily accessible sewer clean-out) and HAWC's responsibility for the service connection and its sewer lines (i.e., referred to in HAWC Tariff No. 1 as the "Company's sewer").
>
> (c) Insert a new Original Sheet 15C to add a new Rule XVII for an Automatic Power Cost Adjustment Clause to address power cost recovery.
>
> (d) Amend and replace Sheet 18 with a revised Schedule of Wastewater Rates for residential, commercial and public authority customers to reflect the rates and rate structure proposed by

[11]Application, Exhibit 7 at 1.

[12]Application at 8.

> Applicant in this proceeding (Exhibit 4) to reflect HAWC's requested revenue requirement.
>
> (e) Insert a new Original Exhibit A to include a service area map to clarify and depict Applicant's authorized service area.[13]

HAWC states that, while operating costs have increased, the customer base and operating revenues have remained constant.[14] Accordingly, HAWC requests a general rate increase "to provide Applicant with a reasonable opportunity to receive sufficient revenues to cover expenses and taxes, and provide a fair rate of return on utility property that are deemed used or useful for public utility purposes."[15]

C.

Public Hearing

On November 17, 2021, a virtual public hearing was held on the requests set forth in HAWC's Application, pursuant to HRS §§ 269-12(c) and 269-16(b). At the public hearing, HAWC's representative, the Consumer Advocate, and ratepayers appeared and testified.[16] The Commission also received written

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[13]Application at 8-9 (citation omitted).

[14]Application at 3.

[15]Application at 3.

[16]See Public Hearing held on November 17, 2021, located at: https://www.youtube.com/watch?v=Q_l_7wU8xx8.

comments from ratepayers.[17] In general, the ratepayers who testified or submitted written comments objected to or expressed concerns with the proposed increases in HAWC's wastewater utility rates and charges.[18]

D.

Consumer Advocate's Written Testimonies and
the Parties' Stipulation of Settlement Agreement
In Lieu of Evidentiary Hearing and Post-Hearing Briefs

On January 28, 2022, the Consumer Advocate filed a Motion for Enlargement of Time to file its direct testimonies and exhibits,[19] which the Commission granted.[20] On February 16, 2022, the Consumer Advocate filed a Motion for Second Enlargement of Time to file its direct testimonies and exhibits,[21]

[17] See, e.g., Public Comment transmittals dated November 4, 5, 16, and 24, 2021, and December 3, 2021.

[18] See Public Hearing held on November 17, 2021, located at: https://www.youtube.com/watch?v=Q_l_7wU8xx8; see also Public Comment transmittals dated November 4, 5, 16, and 24, 2021, and December 3, 2021.

[19] "Division of Consumer Advocacy's Motion for Enlargement of Time," filed on January 31, 2022.

[20] Order No. 38205, "Granting the Division of Consumer Advocacy's Motion for Enlargement of Time," filed on February 2, 2022.

[21] "Division of Consumer Advocacy's Motion for Second Enlargement of Time," filed on February 16, 2022.

which the Commission granted on February 22, 2022.[22] Hence, on February 22, 2022, the Consumer Advocate filed its direct testimonies and exhibits.[23] Thereafter, the Parties commenced settlement negotiations. On March 28, 2022, HAWC filed a request to enlarge procedural deadline dates in order to facilitate a settlement with the Consumer Advocate, which the Commission granted.[24] Then, on April 11, 2022, the Parties advised the Commission that they had reached a global settlement and also requested to remove and/or revise the remaining procedural deadlines,[25] which the Commission granted on April 14, 2022.[26] On May 6, 2022, the Parties filed their Stipulation of

[22]Order No. 38234, "Granting the Division of Consumer Advocacy's Motion for Second Enlargement of Time," filed on February 22, 2022.

[23]"Division of Consumer Advocacy's Direct Testimonies and Exhibits," filed on February 22, 2022 ("Consumer Advocate Direct Testimonies").

[24]Order No. 38291, "Granting the Hawaii-American Water Company's Request to Amend and Enlarge Procedural Deadlines," filed on March 31, 2022 ("Order No. 38291").

[25]Joint Letter From: K. Morihara and Consumer Advocate To: Commission Re: Docket No. 2021-0063: In the Matter of the Application of Hawaii-American Water Company ("HAWC") For Approval of Rate Increases and Revised Rate Schedules and Rules: "Notice of Settlement and Joint Request to Remove and/or Revise Remaining Procedural Steps," filed on April 11, 2022.

[26]Order No. 38321, "Granting the Hawaii-American Water Company's and Division and Consumer Advocacy's Request to Remove and/or Revise Remaining Procedural Steps," filed on April 14, 2022.

Settlement Agreement, therein agreeing to waive rights to an evidentiary hearing and filing of any post-hearing briefs.[27]

E.

Issues

As set forth in the Stipulated Procedural Order, the issues in this proceeding are:

1. Is HAWC's proposed general rate increase reasonable for its Hawaii Kai operations?

    a. Are the revenue forecasts for Test Year ending December 31, 2022 ("Test Year") at present rates and proposed rates reasonable?

    b. Are the projected operating expenses for Test Year reasonable?

    c. Is the projected rate base for Test Year reasonable?

    d. Is the rate of return requested fair?

2. Are HAWC's proposed tariff changes reasonable?

3. Whether any other relief (e.g. interim relief) as may be just and reasonable should be granted under the circumstances?[28]

[27] See Stipulation at 2.

[28] Order No. 38111, "Approving, with Modification, the Parties' Proposed Procedural Order," filed on December 10, 2021, Exhibit A ("Stipulated Procedural Order") at 1-2.

II.

DISCUSSION

HRS § 269-16 states in relevant part:

> **Regulation of utility rates; ratemaking procedures.** (a) All rates, fares, charges, classifications, schedules, rules, and practices made, charged, or observed by any public utility or by two or more public utilities jointly shall be just and reasonable and shall be filed with the [P]ublic [U]tilities [C]ommission. The rates, fares, classifications, charges, and rules of every public utility shall be published by the public utility in such manner as the [P]ublic [U]tilities [C]ommission may require, and copies shall be furnished to any person on request.
>
> To the extent the contested case proceedings referred to in chapter 91 are required in any rate proceeding to ensure fairness and to provide due process to parties that may be affected by rates approved by the [C]ommission, the evidentiary hearings shall be conducted expeditiously and shall be conducted as a part of the ratemaking proceeding.
>
> (b) No rate, fare, charge, classification, schedule, rule, or practice, other than one established pursuant to an automatic rate adjustment clause previously approved by the [C]ommission, shall be established, abandoned, modified, or departed from by any public utility, except after thirty days' notice to the [C]ommission as prescribed in section 269-12(b), and prior approval by the [C]ommission for any increases in rates, fares, or charges. . . . A contested case hearing shall be held in connection with any increase in rates, and the hearing shall be preceded by a public hearing as prescribed in section 269-12(c), at which the consumers or patrons of the public utility may present testimony to the [C]ommission concerning the increase. The [C]ommission, upon notice to the public utility, may:

(1) Suspend the operation of all or any part of the proposed rate, fare, charge, classification, schedule, rule, or practice or any proposed abandonment or modification thereof or departure therefrom;

(2) After a hearing, by order:

(A) Regulate, fix, and change all such rates, fares, charges, classifications, schedules, rules, and practices so that the same shall be just and reasonable;

(B) Prohibit rebates and unreasonable discrimination between localities or between users or consumers under substantially similar conditions;

(C) Regulate the manner in which the property of every public utility is operated with reference to the safety and accommodation of the public;

(D) Prescribe its form and method of keeping accounts, books, and records, and its accounting system;

(E) Regulate the return upon its public utility property;

(F) Regulate the incurring of indebtedness relating to its public utility business; and

(G) Regulate its financial transactions; and

(3) Do all things that are necessary and in the exercise of the [C]ommission's power and jurisdiction, all of which as so ordered, regulated, fixed, and changed are just and reasonable, and provide a fair return on the property of the

utility used and useful for public utility purposes.

. . . .

(d) The [C]ommission shall make every effort to complete its deliberations and issue its decision as expeditiously as possible and before nine months from the date the public utility filed its completed application; provided that in carrying out this mandate, the [C]ommission shall require all parties to a proceeding to comply strictly with procedural time schedules that it establishes. If a decision is rendered after the nine-month period, the [C]ommission shall report in writing, on paper or electronically, the reasons therefor to the legislature within thirty days after rendering the decision.

Notwithstanding subsection (c), if the [C]ommission has not issued its final decision on a public utility's rate application within the nine-month period stated in this section, the [C]ommission, within one month after the expiration of the nine-month period, shall render an interim decision allowing the increase in rates, fares and charges, if any, to which the [C]ommission, based on the evidentiary record before it, believes the public utility is probably entitled. The [C]ommission may postpone its interim rate decision for thirty days if the [C]ommission considers the evidentiary hearings incomplete. In the event interim rates are made effective, the [C]ommission shall require by order the public utility to return, in the form of an adjustment to rates, fares, or charges to be billed in the future, any amounts with interest, at a rate equal to the rate of return on the public utility's rate base found to be reasonable by the [C]ommission, received under the interim rates that are in excess of the rates, fares, or charges finally determined to be just and reasonable by the [C]ommission. Interest on any excess shall commence as of the date that any rate, fare, or charge goes into effect that results in the

> excess and shall continue to accrue on the balance of the excess until returned.[29]
>
> . . . .
>
> The Commission timely issues this final Decision and Order.[30]

A.

Parties' Stipulation of Settlement Agreement

1.

Terms and Conditions

The Parties' Stipulation represents the Parties' global settlement of all issues. In reaching their global settlement:

> The Parties agree that the following provisions of this Stipulation are binding between them with respect to the specific issues and matters to be resolved in the subject docket. In all respects, it is understood and agreed that the agreements evidenced in this Stipulation

[29]HRS § 269-16 (emphasis added).

[30]HRS § 269-16(d) requires the Commission to make every effort to complete its deliberations and issue a decision before the nine-month deadline, or in this proceeding May 18, 2022, which is calculated from the date of the completed Application, or August 18, 2022. Because the Parties did not reach a Settlement Agreement until May 6, 2022, the Parties are seeking an interim decision and order or, in lieu thereof, a final decision and order by June 17, 2022, also pursuant to HRS § 269-16(d), thereby effectively waiving the statutorily prescribed nine-month deadline. Stipulation at 87-88; see also Stipulated Procedural Order at 2 n.6 (noting that the Parties state they "will make every effort to provide the Commission with a sufficient and complete evidentiary record to render an interim decision within the ten (10) month period." Id.).

> represent compromises by the Parties to fully and finally resolve all issues in the subject docket on which they had differences, for the purpose of simplifying and expediting this proceeding, and are not meant to be an admission by any of the Parties as to the acceptability or permissibility of matters stipulated to herein. The Parties reserve their respective rights to proffer, use and defend different positions, arguments, methodologies, or claims regarding the matters stipulated to herein in other dockets or proceedings. Furthermore, the Parties agree that nothing contained in this Stipulation shall be deemed to, nor be interpreted to, set any type of precedent, or be used as evidence of a Party's position in any future proceeding, except as necessary to enforce this Stipulation.[31]

Ultimately, the Parties acknowledge that the Stipulation is subject to the Commission's review and approval, and that the Commission is not bound by the Stipulation.[32] In this regard, it is well-settled that an "agreement between the parties in a rate case cannot bind the [Commission], as the [Commission] has an independent obligation to set fair and just rates and arrive at its own conclusions."[33] With this mandate, the Commission proceeds in reviewing whether the Parties' Stipulation is just and reasonable, taken as a whole.

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[31]Stipulation at 10.

[32]Stipulation at 2.

[33]In re Hawaiian Elec. Co., Inc., 5 Haw. App. 445, 447, 698 P.2d 304, 307 (1985).

2.

Summary

The Parties first reached agreement on HAWC's Test Year Revenues and Expenses at present rates, Average Depreciated Rate Base, and Rate of Return.[34] As a result, the Parties stipulated to an increase of $1,710,920, or approximately 17.17% over revenues at present rates for HAWC, based on a Test Year revenue requirement of $11,739,120.[35]

Once the Parties reached agreement on HAWC's Test Year revenue requirement, they then agreed to implement the stipulated increase in revenues by an equal, across-the-board percentage increase in HAWC's monthly wastewater service charges.[36]

[34]Stipulation at 11.

[35]Stipulation at 11.

[36]Stipulation at 12.

B.

Revenues

The Parties stipulate to the following estimates of HAWC's revenues at present rates:[37]

Revenues	Present Rates
Residential (Domestic)	$8,581,480
Commercial	$670,840
Public Authority—Dwelling	$626,280
Public Authority—Other	$87,800
Miscellaneous	$39,820
Late Payment Fees	$21,980
Total:	$10,028,200

The Parties' stipulated amounts for revenues at present rates incorporate HAWC's estimates, which the Consumer Advocate accepts for settlement purposes.[38]

1.

Residential

For Single-Family Residential Units and Multi-Family Residential Units, HAWC assesses a monthly, flat rate charge for

[37]Stipulation at 12-20.

[38]Stipulation at 11; see Application, Exhibit 7-1; and Consumer Advocate Direct Testimonies, CA-T-1 at 21 and Exhibit CA-104.

wastewater service.[39] The Parties stipulate to $8,581,480 in Residential revenues at present rates, calculated as follows:[40]

Description	Customer Count	Monthly Charge	Residential Revenues at Present Rates
Single-Family	6,972	$67.08	$5,612,181
Multi-Family	4,335	$57.08	$2,969,302
			$8,581,480 (rounded)

HAWC's customer count for Single-Family Residential Units reflects the average number of residential customer units that received wastewater utility service in 2022, which takes into account projections for customer growth during the Test Year period due to the addition of Accessory Dwelling Units in the Hawaii Kai service area.[41] HAWC's customer counts for the Multi-Family Residential Units are based on the year-end number of residential customer units that received wastewater utility service in 2021, as there are no projections for the addition of multi-family homes during the Test Year period, based on a permit review conducted by HAWC's consultant.[42]

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[39] See Application at 5.

[40] See Stipulation at 13-14, and Exhibit 7-1. For the: (1) Single-Family Units: $67.08 monthly service charge x 12 months x 6,972 Single-Family Units = $5,612,121; and (2) Multi-Family Units: $57.08 monthly service charge x 12 months x 4,335 Multi-Family Units = $2,969,302.

[41] Stipulation, Exhibit A at 2 and 4; see Application, Exhibit No. 14-T-200 at 16; and Exhibit No. 14-T-400 at 62-64.

[42] Stipulation, Exhibit A at 2 and 4; see Application, Exhibit No. 14-T-400 at 62-63.

The Commission finds reasonable the Parties' stipulated amount of $8,851,480 (rounded) in Residential revenues at present rates.

2.

Commercial

For Commercial Food Service and Commercial Non-Food Service, HAWC assesses a monthly charge for wastewater service that is based on the customer's water volumetric rate per thousand gallons ("TG").[43] The Parties stipulate to $670,840 in Commercial revenues at present rates, calculated as follows:[44]

Description	Water Usage (gallons)	Water Volumetric Rate	Commercial Revenues at Present Rates
10 Food Service Operation	14,100,435	$16.08 per TG	$226,735
34 Non-Food Service Operation	44,995,370	$9.87 per TG	$444,104
			$670,840 (rounded)

HAWC's estimated water usage amounts for the Commercial classes (Food Service and Non-Food Service) are based on the

[43] See Application at 5.

[44] See Stipulation at 14-15 and Exhibit A at 2 and 4. For the: (1) food service operation class: 14,100,435 gallons x $16.08 per TG = $226,735; and (2) non-food service operation class: 44,995,370 gallons x $9.87 per TG = $444,104.

actual, historical water usage data for 2020.[45] HAWC utilized this 2020 water usage data, based on the assumption that the number of customers would not change from the number of customers served in 2020.[46] In addition, the Consumer Advocate, did not propose any adjustments to the present rates.[47]

The Commission finds reasonable the Parties' stipulated amount of $670,840 (rounded) in Commercial revenues at present rates.

3.

Public Authority

For the Public Authority classification, HAWC assesses a monthly charge for wastewater service that is based on the amount of water that is processed and treated by HAWC.[48] The Parties

[45]Application, Exhibit 14-T-200 at 16-17; see Stipulation at 15.

[46]See Application, Exhibit No. 14-T-100 at 16-17. In his testimony, Mr. Jeffrey T. Linam noted the difficulties in predicting the Test Year demand based on a decline in usage in 2021 due to restrictions imposed on restaurants resulting from an emergency declaration issued by Governor David Ige on March 4, 2020, in response to the COVID-19 pandemic. See generally Governor's Emergency Proclamation for COVID-19, issued on March 4, 2020, available at: https://governor.hawaii.gov/wp-content/uploads/2Q2Q/Q3/20Q302Q-GQV-Emergency-Proclamation COVID-19.pdf

[47]See Consumer Advocate Direct Testimonies, CA-T-1 at 21 and Exhibit CA-104.

[48]See Application at 5.

stipulate to $714,080 (rounded) in Public Authority revenues at present rates, calculated as follows:[49]

	Description	Treated Water (gallons)	Wastewater Treatment Rate	Commercial Revenues at Present Rates
1	Public Authority-Dwelling Customer	167,904,713	$3.73 per TG	$626,281
7	Public Authority-Other Customer	8,895,167	$9.87 per TG	$87,795
				$714,080 (rounded)

a.

Public Authority—Dwelling

The Public Authority-Dwelling customer refers to the wastewater treatment services HAWC provides to the City and County of Honolulu ("City") for the City's residential customers in Hawaii Kai, including Kuliouou Valley, Portlock, Paiko, and other areas that fall outside of HAWC's service area, but which are served directly by the City's sewerage system and then connected to HAWC's wastewater system for distribution and processing.[50]

[49]See Stipulation at 16-18, and Exhibit A at 2 and 4. For the: (1) Public Authority-Dwelling class: 167,904,713 gallons x $3.73 per TG = $626,281; and (2) Public Authority—Other class: 8,895,167 gallons x $9.87 per TG = $87,795.

[50]Stipulation at 16; Application at 5 n.10.

HAWC's estimated wastewater amount for the Public Authority-Dwelling customer is based on the actual water usage data for 2020.[51] The Consumer Advocate, in its direct testimonies, did not propose any adjustments to HAWC's projected revenues at present rates for the Public Authority-Dwelling customer.[52]

The Commission finds reasonable the Parties' stipulated amount of $626,280 (rounded) in Public Authority-Dwelling revenues at present rates.

b.

Public Authority-Other

The Public Authority-Other customers refer to the sewerage services HAWC provides to certain City and State facilities, such as parks, schools, a fire station, and Lunalilo Home.[53] HAWC's estimated wastewater amount for the Public Authority-Other customers is based on the actual water usage data for 2020.[54] The Consumer Advocate, in its direct

[51]Stipulation at 16; see Application, Exhibit 14-T-200 at 17-18 and Exhibit 1.

[52]See Consumer Advocate Direct Testimonies, CA-T-1 at 21 and Exhibit CA-104.

[53]Stipulation at 17; Application at 5 n.9.

[54]Stipulation at 18; Application, Exhibit 14-T-200 at 17-18.

testimonies, did not propose any adjustments to HAWC's projected revenues at present rates for Public Authority-Other customers.[55]

The Commission finds reasonable the Parties' stipulated amount of $87,800 (rounded) in Public Authority-Other revenues at present rates.

4.

Miscellaneous

Miscellaneous revenues represent revenues HAWC receives pursuant to a license agreement with Time Warner Entertainment Company, LP, dba Oceanic Cable, which was approved by the Commission in a Decision and Order dated December 9, 2010, in Docket No. 2010-0158.[56] The Parties stipulate to $39,820 in Miscellaneous revenues at present rates.[57]

The license fee agreement includes a four percent annual increase.[58] As such, HAWC forecasted the Test Year revenues by increasing the 2020 revenues by four percent.[59]

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[55]See Consumer Advocate Direct Testimonies, CA-T-1 at 21 and Exhibit CA-104.

[56]Stipulation at 18-19; see Application, Exhibit 14-T-200 at 13.

[57]Stipulation at 13 and Exhibit A at 4.

[58]Stipulation at 19.

[59]Stipulation at 19; see Application, Exhibit 14-T-200 at 13.

The Consumer Advocate, in its direct testimonies, did not propose any adjustments to HAWC's projected revenues at present rates for Miscellaneous revenues.[60]

The Commission finds reasonable the Parties' stipulated amount of $39,820 in revenues at present rates generated from Miscellaneous fees.

5.

Late Payment Fees

Late Payment Fees represent fees received by HAWC on delinquent account balances and revenues from insufficient funds charges assessed on returned checks rendered for payment of wastewater service provided to customers.[61] The Parties stipulate to $21,980 in Late Payment Fee revenues at present rates.[62]

HAWC used the two-year average historical amounts from 2018-2019, because in 2020, the Commission suspended termination or disconnection of regulated utility services, as well as the imposition of late payment fees, due to the impacts of the COVID-19 pandemic.[63] The Consumer Advocate, in its direct

[60]See Consumer Advocate Direct Testimonies, CA-T-1 at 21 and Exhibit CA-104.

[61]Stipulation at 19; Application, Exhibit T-14-200 at 13.

[62]Stipulation at 13 and Exhibit A at 4.

[63]Stipulation at 19; Application, Exhibit 14-T-200 at 13-14.

testimonies, did not propose any adjustments to HAWC's projected revenues at present rates for Late Payment Fee revenues.[64]

The Commission finds reasonable the Parties' stipulated amount of $21,980 in revenues at present rates generated from Late Payment Fees.

6.

Total Revenues at Present Rates

The Commission finds reasonable the Parties' stipulated amount of $10,028,200 (rounded) in revenues at present rates.

C.

Expenses

HAWC's Test Year expenses consist of the following categories: (1) Operating and Maintenance; (2) Depreciation; (3) Amortization; (4) Taxes Other Than Income Taxes; and (5) Federal and State Income Taxes.

[64] See Consumer Advocate Direct Testimonies, CA-T-1 at 21 and Exhibit CA-104.

1.

Operating and Maintenance

The Parties stipulate to the following Operating and Maintenance ("O&M") expense amounts at present rates:[65]

Description	Present Rates
Labor	$1,198,800
Purchased Power (Electricity)	$569,110
Chemicals	$264,710
Operating Expense	$215,350
Maintenance	$346,560
Waste Disposal	$342,470
Customer Accounting	$2,840
Uncollectible Expense	$68,190
Insurance (Other Than Group)	$163,160
Pensions and Benefits	$271,860
Regulatory Expense	$190,940
Rents	$56,340
Other Accounting and General and General Office Expenses	$367,980
Support Services	$584,500
	$4,642,810

In general, HAWC's O&M expense amounts (excluding the Regulatory expense) represent the normalized level of funds it will expend during the Test Year to operate and maintain its wastewater treatment system to provide collection, treatment, and disposal services to its customers in the Hawaii Kai area on the island of Oahu.[66] Regulatory expense, meanwhile, represents the reasonable amount of expenses incurred by HAWC to

[65]Stipulation, Exhibit A at 3.

[66]See Stipulation at 20-55.

process this rate case, as agreed-upon by the Parties, amortized over a three-year period.[67]

a.

Labor

For the Test Year period, HAWC has a total of 14 employees for its Hawaii Kai operations, comprised of ten union employees and four non-union employees, of which three are salaried and one is hourly.[68]

HAWC's Labor costs are comprised of base salaries and wages, Annual Performance Plan Compensation ("APPC"), and overtime, holiday pay, swing shift, Sunday premium, and standby compensation.[69] HAWC's Labor-related expenses are also affected by two allocations, which reduce the level of expenses incurred by HAWC for its Hawaii Kai operations: (1) an allocation to HAWC's Hawaii Island operations; and (2) an allocation to capitalized labor.[70]

[67]See Stipulation at 49-51.

[68]Stipulation at 22; Application, Exhibit No. 14-T-200 at 20.

[69]Stipulation at 20.

[70]Stipulation at 20-21.

The Parties stipulate to $1,198,800 (rounded) in Labor expense at present rates, comprised as follows:[71]

Base Salaries and Wages	$1,234,390
APPC	$34,453
Overtime, Holiday Pay, Swing Shift, Sunday Premium, and Standby Compensation	$160,900
Total Gross Labor Cost	$1,395,733
Allocation to Hawaii Island Operations	($34,010)
Capitalized Ratio (14.11%)	($196,938)
Total Net Salaries and Wages expense	$1,198,795

Base Salaries and Wages. HAWC's union employees Test Year salaries and wages were calculated by using the wage rates as of June 2021, applying a 2.5% increase, effective July 1, 2021, pursuant to the terms of the current collective bargaining agreement, and then applying an estimated prospective increase of 3.0%, to be effective July 1, 2022.[72] For non-union employees, the current salaries and wages as of June 2021 were increased by 3.1%, effective March 1, 2022.[73] A total of 2080 hours was used to calculate base pay for both union and non-union hourly employees.[74] The Consumer Advocate did not

[71]Stipulation at 20-30 and Exhibit A at 5.

[72]Stipulation at 23; Application, Exhibit No. 14-T-200 at 20-21.

[73]Stipulation at 23; Application, Exhibit No. 14-T-200 at 21.

[74]Stipulation at 23; Application, Exhibit No. 14-T-200 at 21.

propose any adjustments to the base salaries and wages expense proposed by HAWC.[75]

The Commission finds reasonable the stipulated base salaries and wages amount of $1,234,390.

Annual Performance Plan Compensation. HAWC explains that performance-based compensation, provided under its Annual Performance Plan ("APP"), is an integral part of an employee's total compensation that is necessary to attract and retain qualified employees.[76]

HAWC indicates that "[e]mployee compensation is a necessary cost of providing utility service. Therefore, it should be assessed through the same lens as other necessary operating costs: if it is prudently incurred and reasonable in amount, relative to what the industry pays for the same services, it should be recoverable through rates."[77] HAWC calculated the APP cost by multiplying each employee's APP rate, according to position and ranging from 3.0% to 20.0%, by their base annual wages.[78] HAWC explains that eligibility for the APP is limited to certain

[75]Stipulation at 24; Consumer Advocate Direct Testimonies, CA-T-1 at Exhibit CA-110.

[76]Application, Exhibit No. 14-T-200 at 24 and Exhibit No. 14-T-100 at 15-16.

[77]Application, Exhibit No. 14-T-100 at 16.

[78]Application, Exhibit No. 14-T-200 at 23.

exempt employees; however, HAWC is also requesting to extend this benefit to its union employees for the Test Year at a rate of 3.0%.[79] As a result, HAWC proposed a total APPC of $491,003 for the Test Year.[80]

The Consumer Advocate, however, proposed to adjust HAWC's projected APPC, noting that such cost should not be passed on to ratepayers because "utility employees should be responsible for fulfilling their duties at the highest level possible and bonuses or incentive compensation should not be required and that, if the estimated incentive compensation is included in test year revenue requirements and the performance levels are not met in any given year, the amount included in revenue requirements would simply increase the profit for the utility that year."[81] Thus, the Consumer Advocate sought to cap or limit the APPC to ten percent for all employees under the APPC that exceed that limit and remove costs related to the APPC goals for Financial Growth, which accounts for 50% of HAWC's total goals.[82]

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[79]Application, Exhibit No. 14-T-400 at 40 and Exhibit No. 14-T-200 at 23.

[80]Stipulation at 24; Application at Exhibit 7-2.

[81]Consumer Advocate Direct Testimonies, CA-T-1 at 26-28.

[82]Stipulation at 24; Consumer Advocate Direct Testimonies, CA-T-1 at 27-28.

For purposes of global settlement, the Parties stipulate to an APPC amount of $34,453 at present rates. The Commission finds reasonable the stipulated APPC amount of $34,453.

Overtime, Holiday Pay, Swing Shift, Sunday Premium, and Standby Compensation. The Parties' estimated overtime pay by using the three-year average number of overtime hours from 2018 to 2020 for each eligible overtime employee, multiplied by the applicable forecasted hourly Test Year overtime pay rate for each position.[83] The Parties estimate of $27,457.50 in standby pay for HAWC's union employees is calculated based on the same methodology, utilizing the average number of standby hours from 2018 to 2020, 6,656, plus an additional 666 hours, depending on the position, multiplied by the applicable standby rate of $3.75 per hour.[84] HAWC determined it to be prudent to include an additional 666 standby hours annually to cover situations where more than one staff member is assigned to such duty.[85] The Consumer Advocate proposed an adjustment to reduce the number of standby hours by 666 hours, which HAWC agreed to, for purposes of settlement.[86]

[83]Stipulation at 27; Application, Exhibit No. 14-T-200 at 22.

[84]Stipulation at 27-28; Application, Exhibit No. 14-T-200 at 22 and 14-T-400 at 37-38.

[85]Stipulation at 27-28; Application, Exhibit No. 14-T-200 at 22 and 14-T-400 at 37-38.

[86]Stipulation at 28; Consumer Advocate Direct Testimonies, CA-T-1 at 28-89.

The Parties stipulate to $160,900 for the Test Year for overtime, holiday pay, swing shift, Sunday premium, and standby compensation.[87] The Commission finds reasonable the stipulated Test Year overtime holiday pay, swing shift, Sunday premium, and standby compensation expense amount of $160,900.

Allocation to Hawaii Island Operations. Because two non-union employees, the Senior Manager of Operations and Operations Specialist, support HAWC's Hawaii Kai, Mauna Lani, and Waimea operations, an allocation is required to reflect the labor-related costs associated with the support these employees provide to HAWC's Hawaii Kai operations.[88] The Parties stipulate to a labor allocation of $34,010, based on the stipulated base salaries and wages and APPC for the Senior Manager of Operations and Operations Specialist.[89]

The Commission finds reasonable the Parties' stipulated amount for labor allocation for HAWC's Mauna Lani and Waimea operations.

Capitalized Ratio. The capitalization ratio represents the percentage of labor costs charged to capital improvement

[87]Stipulation at 28-29.

[88]Application, Exhibit No. 14-T-200 at 25-26; see Stipulation at 20-21 (noting HAWC's acquisition of Waimea Wastewater Company, Inc., in June 2020).

[89]Stipulation, at 26-27 and Exhibit A at 5.

projects in each year.[90] HAWC proposed use of the 2020 capitalization ratio of 14.11%, because it "provides a reasonable projection of the capitalized labor and related costs because the Company anticipates continued use of internal manpower to execute capital improvements consistent with capitalization in 2020."[91] The Consumer Advocate did not propose adjustments to HAWC's capitalization ratio.[92]

The Parties stipulate to normalized labor costs for the Test Year of $1,395,733 and a capitalization ratio of 14.11%, resulting in $196,938 being charged to capital in the Test Year.[93] The Commission finds the Parties' calculation of HAWC's labor capitalization allocation factor to be reasonable.

Total Net Labor. The Parties' estimate of gross Labor expense of $1,429,743, minus the amounts allocated to HAWC's Hawaii Island operations and capitalized labor, results in $1,198,800 (rounded) in net Labor expense at present rates.[94] Based on the overall settlement agreement, the Commission finds

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[90]Stipulation at 29.

[91]Stipulation at 20 n.24 (noting the capitalization ratio is computed as 14.11%, but also shown as 14.1% in the Application); Application, Exhibit No. 14-T-200 at 24.

[92]Stipulation at 29; Consumer Advocate Direct Testimonies, CA-T-1 at 29.

[93]Stipulation at 30.

[94]Stipulation at 21-22 and 30.

reasonable the Parties estimate of $1,198,800 (rounded) in net Labor expense at present rates.

b.

Purchased Power

Purchased Power is comprised of expenses for electricity to operate its wastewater treatment plant and seven pump stations.[95] HAWC proposed a Purchased Power expense of $472,923 for the Test Year, based on the total kilowatt hour ("kWh") usage and cost per kWh through March 2021 for the wastewater treatment plant, pump station #3, and the remaining pump stations, which was then adjusted by a CPI-U Index of 2.3% for 2022.[96] The Consumer Advocate proposed the removal of the 2.3% CPI-U increase (a reduction of $10,633), because it finds that such inflation adjustments are not known and measurable and should not be used for ratemaking purposes.[97]

HAWC indicated that it has been able to reduce the level of power needed for its operations through the addition of a

[95]Stipulation at 32; Application, Exhibit No. 14-T-200 at 32.

[96]Stipulation at 32; Application, Exhibit 7-3 and Exhibit No. 14-T-200 at 33-34. HAWC indicates that the use of the CPI-U inflation factor is based on HECO historically initiating a new rate case every few years. See Application, Exhibit T-14-200 at 33.

[97]Consumer Advocate Direct Testimonies, CA-T-1 at 31-32.

photovoltaic system, implementation of ultraviolet disinfection, and the addition of a more efficient aeration system for its secondary treatment process.[98] However, HAWC subsequently highlighted the availability of actual 2022 data for electricity expenses, which demonstrated an increase in the cost per kWh of electricity, due to increases in oil prices resulting from the situation between Russia and Ukraine.[99]

The Parties stipulate to a Purchased Power expense of $569,110 (rounded) for the Test Year period, which reflects: (1) the average kWh usage for the plant and pump stations using data from the electric bills through February 2022; and (2) the average cost per kWh using data from the January and February 2022 electric bills.[100]

The Commission finds reasonable the stipulated amount of $569,110 in Purchased Power expense at present rates.

[98]Application, Exhibit No. 14-T-200 at 33 and Exhibit No. 14-T-400 at 5 and 8-9.

[99]Stipulation at 33-34.

[100]Stipulation at 34 and Exhibit A at 3. The Parties also advise that inadvertent errors in the historical data were corrected to be consistent with copies of electric bills provided in HAWC response to CA-IR-4. See Stipulation at 34.

c.

Chemicals

The Chemicals expense includes "the costs of chemicals that are used to process and treat the wastewater generated by HAWC's customers."[101] HAWC utilizes three main chemicals as part of its wastewater treatment and processing operations: hypochlorite, polymer, and ferric chloride.[102] HAWC utilized the 52-month historical average for January 2017 through August 2021 for forecasting the annual average usage of ferric chloride and the 21-month historical average from August 2019 through April 2021 for forecasting the average annual usage for hypochlorite and polymer.[103] The total cost was then calculated by multiplying the average annual usage by the forecasted chemical rate for each chemical.[104]

HAWC also sought to increase the forecasted chemical expenses by inflating the current invoice price for each chemical by a CPI-U inflation factor of 2.3%,[105] which the Consumer Advocate proposed removing, thereby reducing the projected amount

[101]Application at Exhibit No. 14-T-200 at 35.

[102]Application, Exhibit No. 14-T-200 at 35.

[103]Application, Exhibit No. 14-T-200 at 35; see Stipulation at 34.

[104]Application, Exhibit 14-T-200 at 35-36.

[105]Stipulation at 34.

by $5,506.[106] Subsequently, HAWC provided actual 2022 information for each chemical purchased through December 2021, which had increased due to various impacts resulting from, among other things, the COVID-19 pandemic and the current situation between Russia and Ukraine.[107]

The Parties stipulate to $264,710 (rounded) in Chemicals expense at present rates, calculated based on the average quantity of each chemical purchased using data from the chemical invoices through December 2021 and the actual per unit cost for each type of chemical based on actual 2022 invoices and agreements with vendors.[108]

The Commission finds reasonable the Parties' stipulated amount of $264,710 (rounded) in Chemicals expense at present rates.

d.

Operations

Operations expense includes contracted services and building maintenance costs.[109] Contracted services are comprised of legal expenses, lab testing costs associated with water

[106]Consumer Advocate Direct Testimonies, CA-T-1 at 34.

[107]Stipulation at 35-37.

[108]Stipulation at 36-37 and Exhibit A at 3.

[109]Application, Exhibit No. 14-T-200 at 38.

treatment, and other contracted services that support wastewater operations, and building maintenance costs are comprised of trash removal, janitorial, and related expenses.[110]

HAWC proposed an Operations expense of $228,587 for the Test Year, based on a three-year average that was inflated by a 2.3% CPI-U factor.[111] The Consumer Advocate proposed the removal of the 2.3% CPI-U adjustment, as well as $323 for a non-recurring expense going forward for Contract Services – Temp – WT, reflecting a $13,234 reduction to the Operations expense.[112]

The Parties stipulate to $215,350 (rounded) in Operations expense at present rates, reflecting HAWC's acceptance of the Consumer Advocate's suggested adjustments.[113]

The Commission finds reasonable the Parties' stipulated amount of $215,350 (rounded) in Operations expense at present rates.

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[110]Application, Exhibit No. 14-T-200 at 38.

[111]Stipulation at 38; Application, Exhibit No. 14-T-200 at 38-39 (noting the following adjustments during the three-year period: (1) removal of employee costs for a one-time temporary employee in 2019, as that transaction was not expected to reoccur; (2) inclusion of higher water treatment costs from 2020 that were related to work on Hawaii Kai's permit renewal because such is expected to reoccur; and (3) removal of certain legal costs associated with non-Hawaii Kai operations).

[112]Stipulation at 38; Consumer Advocate Direct Testimonies, CA-T-1 at 35-36 and Exhibit CA-113.

[113]Stipulation at 39.

e.

Maintenance

The Maintenance expense includes costs for contract services and miscellaneous maintenance costs.[114] Contract services are comprised of water treatment and administrative and general costs, and miscellaneous maintenance costs are comprised of water treatment, administrative and general, transmission and distribution, and related services.[115]

HAWC proposed a Maintenance expense of $368,630 for the Test Year, which was calculated "by removing certain 2018 maintenance costs, taking a 3-year historical average of the resulting 2018 to 2020 costs, applying a 2.5% CPI-U to the average to determine the estimated 2021 expense and applying a 2.3% CPI-U to the estimated 2021 expense."[116] However, the Consumer Advocate proposed a reduction of $22,071, which reflects the normalized level of costs for each Maintenance expense after all CPI-U adjustments are removed and the costs are averaged out for the periods 2019-2020 and estimated for 2021.[117]

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[114]Stipulation at 39.

[115]Stipulation at 39.

[116]Stipulation at 39; see also Application, Exhibit No. 14-T-200 at 31.

[117]Consumer Advocate Direct Testimonies, CA-T-1 at 35 and Exhibit CA-114; Stipulation at 39-40.

The Parties stipulate to $346,560 (rounded) in Maintenance expense at present rates.[118]

The Commission finds reasonable the Parties' stipulated amount of $356,560 (rounded) in Maintenance expense at present rates.

f.

Waste Disposal

The Waste Disposal expense includes the costs associated with disposal, hauling, and an excise tax for waste disposal from the wastewater treatment process.[119]

HAWC proposed a Waste Disposal expense of $318,240 for the Test Year.[120] HAWC calculated the average annual load for hauling charges and the quantity in wet tons for disposal charges based on a 22-month average ending May 2021.[121] Then the actual

[118]Stipulation at 39-40 and Exhibit A at 9. The Parties notes that the stipulated Test Year total for 63110023 Contract Svc-Eng Maint - Water Treatment does not reflect the same 2019-2020 average used for the other Maintenance expenses but provides no explanation as to the reason for this deviation. The Commission expense accepts the total amount provided for the purposes of settlement.

[119]See Stipulation at 40; see also Application at Exhibit No. 14-T-200 at 37.

[120]Stipulation at 40.

[121]Stipulation at 40; Application at Exhibit No. 14-T-200 at 37.

current disposal rate was used and a 2.3% CPI-U increase was applied to the forecasted rate for hauling.[122] Finally, an excise tax of 4.71% was applied to the total cost for hauling charges to calculate the total Waste Disposal costs for the Test Year.[123] The Consumer Advocate proposed reducing the Waste Disposal expense by $2,060, to reflect the exclusion of the 2.3% CPI-U adjustment.[124]

During settlement negotiations, based on updated information, the Parties agreed to utilize the most current disposal volumes and prices.[125] Thus, the Parties stipulate to $342,470 (rounded) in Waste Disposal expense at present rates, based on data available through November 30, 2021, for the average number of loads and quantity of wet tons to be disposed, the actual 2022 costs from HAWC's January 2022 bill for hauling costs for wet ton disposal, and the actual 2022 cost to dispose of the wet ton, as noted in HAWC's Response to CA-IR-10.[126]

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[122]Stipulation at 40; Application at Exhibit No. 14-T-200 at 37.

[123]Stipulation at 40; Application at Exhibit No. 14-T-200 at 37.

[124]Stipulation at 41; Consumer Advocate Direct Testimonies, CA-T-1 at 36.

[125]Stipulation at 41.

[126]Stipulation at 41-42.

The Commission finds reasonable the Parties' stipulated amount of $342,470 (rounded) in Waste Disposal expense at present rates.

g.

Customer Accounting

HAWC's expenses for Customer Accounting includes the costs of customer education-bill inserts, collection agencies, forms, shipping, postage, and printing.[127] HAWC's Test Year estimate of $3,270 was based on: (1) the three-year historical average cost for 2018-2020, increased by a 2.5% CPI-U to estimate the 2021 costs, (2) a 2.3% CPI-U applied to the estimated 2021 expense to determine the Test Year expense, and (3) excluding the cost from collection agencies and forms and postage, as these components were moved to Support Services expense in 2020.[128]

The Consumer Advocate proposed reducing the Customer Accounting expense by $431, to reflect the exclusion of the 2.3% CPI-U adjustment. The Parties stipulate to removal of the CPI-U from HAWC's Test Year estimate for a Customer Accounting expense of $2,840 (rounded).

[127]Stipulation at 42.

[128]Stipulation at 42

The Commission finds reasonable the Parties' stipulated amount of $2,840 (rounded) in Customer Accounting expense at present rates.

h.

Uncollectible-Allowance for Bad Debt Expense

In determining the Test Year Bad Debt expense, HAWC multiplied the Test Year revenue requirement by an uncollectible factor of 1.00%.[129] The uncollectible rate is based on HAWC's 2020 Bad Debt expense divided by 2020 operating revenues, resulting in HAWC's estimated Bad Debt expense of $100,280 at present rates and $121,390 at proposed rates.[130]

However, the Consumer Advocate contended that 2020 expenses included $58,053 of COVID-19 pandemic related write-offs that should be considered non-recurring in nature and extraordinary.[131] As such, the Consumer Advocate removed the COVID-19 pandemic related write-offs and used a three-year average

[129]See Stipulation at 44; Application, Exhibit No. 14-T-200 at 30.

[130]Stipulation at 43; Application, Exhibit No. 14-T-200 at 30.

[131]Stipulation at 43.

of the uncollectible rate or 0.34%.[132] This results in the Consumer Advocate's Test Year estimate of $34,764.[133]

HAWC disagreed with the Consumer Advocate that its related write-offs of $75,797 are approximately $17,000 more than its 2020 write-offs and that it should be allowed to utilize the 1% rate.[134] For settlement purposes, the Parties agreed to the use of the full year 2021 Bad Debt expense percentage of 0.68%, resulting in a Test Year Bad Debt (i.e. Uncollectible) expense of $68,190 (rounded) at present rates and $79,820 (rounded) at proposed rates.[135]

The Commission finds the stipulated amounts for Test Year Bad Debt or Uncollectible expense of $68,190 (rounded) under present rates and $79,820 (rounded) under proposed rates reasonable.

[132]Stipulation at 44; Consumer Advocate Direct Testimonies, CA-T-1 at 38.

[133]Stipulation at 44; Consumer Advocate Direct Testimonies, CA-T-1 at 38.

[134]Stipulation at 44.

[135]Stipulation at 45.

i.

Insurance Other Than Group

Annual premiums for property, general liability, excess liability, auto liability, and workers' compensation comprises 96% of the Insurance Other Than Group ("IOTG") expense, with the remaining 4% comprised of other policy coverage for directors and officers, cybercrime, consult fee, employment practices, fiduciary, crime, travel, and special contingency risk policies.[136] HAWC proposed a Test Year IOTG expense of $153,630, calculated using premiums for 2021 inflated by the CPI-U factor of 2.3%.[137]

Consistent with adjustments made to other expenses, the Consumer Advocate proposed removal of the CPI-U factor from Test Year amount, thereby reducing HAWC's proposal by $2,719.[138] For settlement purposes, HAWC agreed to remove the 2.3% CPI-U factor for 2022 and the Parties stipulated to a Test Year amount of $163,160 (rounded).[139]

The Commission finds reasonable the Parties' stipulated amount of $163,160 (rounded) for IOTG expense at present rates.

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[136]Stipulation at 45; Application, Exhibit No. 14-T-200 at 26.

[137]Stipulation at 45.

[138]Stipulation at 46; Consumer Advocate Direct Testimonies, CA-T-1 at 39.

[139]Stipulation at 46-47.

j.

Pensions and Benefits

HAWC indicates that it forecasted the Pension and Benefits expense based on its allocated portion of American Water's total actual 2021 costs according to ASC 715.[140] American Water determines the pension costs to be allocated to HAWC for each year.[141] Further, HAWC explains that a capitalization rate of 14.1% was applied to the service cost portion of the pension and benefits, which resulted in HAWC's proposed Test Year Pensions and Benefits expense of $269,650.[142]

The Consumer Advocate proposed a Test Year estimate of $271,545, based on adjustments to: (1) reduce HAWC's Defined Compensation Plan Expense and Cap Credits to correspond to adjustments made in labor expenses (i.e., standby compensation and allocated a portion of the adjustment to capital using the 14.11% capitalization ratio); (2) reduce HAWC's Employee Stock Purchase Plan expense by the composite payroll tax rate of 7.3339%; (3) remove the 2.3% CPI-U on Other Welfare – Natural Account; and (4) correct an error in the Post-Employment Benefits Other

[140]Stipulation at 47; Application, Exhibit No. 14-T-200 at 29.

[141]See Application, Exhibit 7-11 and Exhibit No. 14-T-200 at 29.

[142]See Stipulation at 47; and Application, Exhibit No. 14-T-200 at 24-25 and 29.

than Pensions ("PBOP") expense and PBOP capitalized expense portions.[143]

The Parties stipulated to a Test Year Pension and Benefits expense of $271,860 (rounded), after HAWC agreed not to oppose the 2.3% CPI-U for settlement purposes and explained that the Defined Compensation Plan is based on an employee's base compensation, which does not include Standby Pay, and the Employee Stock Purchase Plan is not subject to payroll tax but is based on an employee's base compensation, which was not adjusted by the Consumer Advocate.[144]

The Commission finds reasonable the Parties' stipulated amount of $271,860 (rounded) for the Pension and Benefits expense at present rates.

k.

Regulatory Expense

The Regulatory expense represents the amortized Test Year costs associated with consultant and legal services, as well as labor costs for American Water personnel assisting with this rate case.[145] HAWC proposed a Regulatory expense of $765,705,

[143]Stipulation at 47-48; Consumer Advocate Direct Testimonies, CA-T-1 at 41-42.

[144]Stipulation at 48.

[145]Stipulation at 49.

amortized over a three-year period, or $255,240 (rounded) for the Test Year.[146] HAWC stated that the proposed three-year amortization period reflects the expected period before filing of its next rate case, as it anticipates more regular and frequent filings in the future.[147] HAWC's Regulatory expense is comprised of the following:[148]

Preparation and Filing	$275,772
Discovery and Settlement	$331,148
Hearings and Briefing	$158,785
Total Rate Case Expense	$765,705

The Consumer Advocate proposed to reduce consultant fees by $100,000, claiming American Water personnel could provide such services instead, and to amortize the expense over a five-year period.[149] HAWC initially disagreed with the Consumer Advocate's adjustments; however, the Parties ultimately agreed to (1) utilize a three-year amortization period; (2) a surrogate amount of $168,250 for work to be performed by consultants and

[146]Stipulation at 49; Application, Exhibit No. 14-T-100 at 19-20.

[147]Stipulation at 49; Application, Exhibit No. 14-T-100 at 22-23.

[148]Stipulation at 49; Application, Exhibit No. 14-T-100 at 19-20.

[149]Stipulation at 49; Consumer Advocate Direct Testimonies, Exhibit CA-T-1 at 41-42.

American Water personnel; and (3) a total of $153,785 for Hearings and Briefings.[150]

The Parties stipulate to a total Regulatory expense of $572,817 amortized over a three-year period, resulting in a Test Year expense of $190,940 (rounded).[151] The Commission finds reasonable the Parties' stipulated amount of $190,940 (rounded) for the Test Year period, based on a total Regulatory expense amount of $572,817, amortized over a three-year period.[152]

l.

Rents

The Rents expense includes a base rate for office lease, electricity charges, and various taxes.[153] HAWC proposed a Rents expense of $57,860, based on the actual recorded expense for 2018-2020, year-to-date through June 30, 2021, and the projection for 2021 and the Test Year, which utilized actual contract costs for its lease with the Hawaii Kai Town Center, and actual 2021 tax rates to calculate various taxes.[154] HAWC also used the

[150]Stipulation at 49-51.

[151]Stipulation at 51.

[152]Stipulation at 51 and Exhibit A at 3 and 15.

[153]Application, Exhibit No. 14-T-200 at 31.

[154]Stipulation at 51; Application, Exhibit No. 14-T-200 at 31.

12-month average of actual costs ending December 31, 2020, to forecast electricity charges.[155]

HAWC subsequently adjusted the Rent expense to correct an error in previous calculations regarding tax for electricity.[156] The Consumer Advocate accepted HAWC's revised position, which reflected the total amount of $56,432, and the Parties stipulate to a Rents expense of $56,340 (rounded), which accurately reflected the additional reduction of $90 associated with an electricity tax calculation error.[157]

The Commission finds reasonable the Parties' stipulated amount of $56,340 (rounded) in Rents expense at present rates.

m.

Other Accounting and General and General Office Expenses

The Other Accounting and General ("A&G") and General Office expenses consist generally of telephone and cell phone costs, employee expenses, software licenses, lab supplies, transportation, contract services, and other A&G expenses.[158]

[155]Stipulation at 51; Application, Exhibit No. 14-T-200 at 31-32.

[156]Stipulation at 51; HAWC Response to CA-IR-15(b) and Attachment CA-IR-15(b) (Part 3).

[157]Stipulation at 52; see also HAWC Response to CA-IR-15(b) and Attachment CA-IR-15(b) (Part 3).

[158]Stipulation at 52; Application, Exhibit No. 14-T-200 at 39.

HAWC proposed a Test Year A&G and General Office expense of $381,270, which was based on a three-year average for 2018 to 2020, adjusted for inflation using the CPI data for most of the expense items.[159]

The Consumer Advocate proposed to adjust HAWC's request by $13,291, using a three-year (actual 2019 and 2020 and estimated 2021) and two-year (actual 2020 and estimated 2021) average, varying based on the type of expense, as well as reductions relating to Community Relations and Company Dues.[160] HAWC did not oppose the Consumer Advocate's adjustments for the purposes of settlement.[161]

The Parties stipulate to $367,980 (rounded) in A&G and General Office expense at present rates.[162] In support thereto, the Parties explain that the respective amounts for each of the general office accounts are based on HAWC's 2010 historical, actual costs, as adjusted by the Honolulu CPI-U inflationary factor of 2.3%.

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[159]Application, Exhibit No. 14-T-200 at 39; see Stipulation at 52.

[160]Stipulation at 52-53; Consumer Advocate Direct Testimonies at 44-45.

[161]Stipulation at 53.

[162]Stipulation at 53.

The Commission finds reasonable the Parties stipulated amount of $367,980 (rounded) in A&G and General Office expense.

n.

Support Services

The Support Services expense is comprised of costs:

> [A]llocated to HAWC by American Water for services that are provided to the State related to general operational functions such as finance, technology and innovation, customer service, human resources, engineering, supply chain and regulatory services, and include certain specific functions such as environmental compliance, communications, accounting, internal audits, treasury, legal and governance, health and safety, and risk management services. Access to these services allows HAWC to achieve efficiencies and economies of scale that would not otherwise be available. HAWC has access to the full range of Service Company resources but, as discussed below, HAWC is allocated only 0.31% of Service Company's allocated costs.[163]

HAWC proposed a Support Services expense of $595,070 for the Test Year.[164] The Consumer Advocate proposed a reduction of $10,567, recommending the removal of CPI-U inflation costs of 2.40% for certain expenses and utilization of a three-year average for all other expenses.[165]

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[163]Application, Exhibit No. 14-T-100 at 23; Stipulation at 54.

[164]Stipulation at 54.

[165]Consumer Advocate Direct Testimonies, CA-T-1 at 47 and Exhibit CA-123; Stipulation at 55.

While the Parties stipulate to a Test Year Support Services expense amount of $584,500 (rounded) at present rates, HAWC maintains that its non-opposition to the Consumer Advocate's position "is not to be construed as HAWC agreeing to the justification for the Consumer Advocate's proposed disallowance or calculations."[166]

Noting HAWC's representations, the Commission finds reasonable the Parties' stipulated amount of $584,500 (rounded) for the Support Services expense at present rates.

2.

Depreciation

> Test year depreciation expense represents the annual depreciation of Utility Plant-In-Service ("UPIS") less the annual amortization of the contributions in aid of construction ("CIAC") received to fund the cost of certain utility plant. Applicant's depreciation expense is comprised of district general depreciation, corporate general depreciation less allocation of corporate depreciation to the Hawaii [I]sland operations and the amortization related to the CIAC.[167]

HAWC proposed a Test Year Depreciation expense of $2,685,740 (rounded).[168] In determining this amount, HAWC hired Alliance Consulting Group to review a prior depreciation study and

[166]Stipulation at 55.

[167]Stipulation at 55-56.

[168]Stipulation at 56.

determine if, based on the plant addition activity, retirement activity, the cost of removal, net of salvage activity, and any other considerations occurring since the prior study was completed, any depreciation rates required adjustment.[169] The Consumer Advocate recommended reducing the Depreciation expense total by $23,351, which represents the adjusted UPIS total of $709,753 multiplied by the composite depreciation rate of 3.29%.[170]

The Parties stipulate to a Test Year Depreciation expense amount of $2,644,430 (rounded) at present rates.[171] Based on the Parties' agreed-upon average Net Plant-in-Service balance for the Test Year (see Section II.D.1, Net Plant-in-Service), the Commission finds reasonable the Parties' estimate for the Depreciation expense.

[169]Stipulation at 56; Application, Exhibit No. 14-T-200 at 42-43.

[170]Consumer Advocate Direct Testimonies, CA-T-1 at 12 and 49.

[171]See Stipulation at 57 and Exhibit A at 19. The Commission notes an error in the amount stated in the Stipulation at page 57 ($2,664,430), which does not accurately reflect the calculated total of $2,644,430 (rounded), in Stipulation, Exhibit A at page 19.

3.

Amortization

HAWC's proposed Amortization expense of $70,000 (rounded) includes amortization of the costs of: (1) the Zone of Mixing ("ZOM") Dilution Analysis Study ($58,417 annually) and the Allowance of Funds Used During Construction ("AFUDC") Equity Gross-up ($11,582 annually).[172] In Decision and Order No. 37522, in Docket No. 2020-0188, the Commission approved HAWC's request to amortize the cost of the ZOM Dilution Analysis Study, which was required by the State of Hawaii Department of Health in order to renew its National Pollutant Discharge Elimination System ("NPDES") permit, over a five-year period, from 2020 to 2025, while the current NPDES permit is effective.[173] Regarding the AFUDC Equity Gross-up, HAWC explains:

> When the Financial Accounting Standards Board (FASB) adopted FAS 109 to [implement a] new reporting standard for the effects of income taxes, HAWC established a regulatory asset on its balance sheet to amortize the tax gross up associated with AFUDC equity. The amortization of the regulatory asset represents the amount of income taxes that used to result from the permanent difference before the adoption of FAS 109. FAS 109 required AFUDC Equity to be a temporary difference for tax purposes. Prior to FAS 109, there was no tax impact associated with AFUDC equity. However,

[172]Stipulation at 57; Application, Exhibit No. 14-T-200 at 43.

[173]Stipulation at 57-58 (citing Decision and Order No. 37522, Docket No. 2020-0188, filed on December 31, 2020 ("D&O No. 37522")); Application, Exhibit 14-T-200 at 43.

> with FAS 109, HAWC requests recovery of the amortization in rates, which results in the same net utility operating income that would have occurred before the adoption of FAS 109. This is a new component of the revenue requirement because HAWC failed to request it in the last general rate case.[174]

The Consumer Advocate did not propose any adjustments to HAWC's proposed Amortization expense.[175]

Based on the Commission's approval in D&O No. 37522 to amortize the costs of the ZOM Dilution Analysis Study and the record provided regarding the AFUDC Gross-Up, the Commission approves as reasonable the Amortization expense of $70,000 (rounded).

4.

Taxes Other Than Income Taxes

HAWC's Taxes Other Than Income Taxes consist of the following categories: (1) Hawaii PUC fee of 0.5% that is applied to present and proposed revenues, excluding uncollectible expenses; (2) payroll taxes, calculated based on the forecasted payroll cost; and (3) Public Service Company Tax ("PSCT") that is calculated by multiplying present and proposed revenues by the

[174]Application, Exhibit No. 14-T-200 at 43-44; see also Stipulation at 58.

[175]Consumer Advocate Direct Testimonies, CA-T-1 at 50.

current rate of 5.885%.[176] HAWC proposed a total of $856,950 (rounded) for Test Year Taxes Other Than Income Taxes at present rates.[177]

The Consumer Advocate's adjustment included use of the same PUC fee and PSCT rates as HAWC, but applied its own calculation for revenues at present and proposed rates and the composite payroll tax rate of 5.6823%, applied to the Consumer Advocate's projected APPC and standby compensation calculations.[178] Based on the settlement reached on the APPC and standby compensation, as well as other revenue requirement differences, the Parties stipulate to the Taxes Other Than Income Taxes under present rates of $720,640 (rounded) and $829,820 (rounded) under proposed rates.[179]

[176]Stipulation at 58-59; Application, Exhibit No. 14-T-200 at 44-45.

[177]Stipulation at 58; Application at Exhibit 7-18.

[178]Stipulation at 59; Consumer Advocate Direct Testimonies, CA-T-1 at 51.

[179]Stipulation at 59.

The Commission finds reasonable the Parties' stipulated amounts for the PSCT and the PUC Fee, calculated as follows:[180]

Present Rates

PSCT:	5.885% x $10,028,200	= $590,160
PUC Fee:	0.50% x $9,960,010*	= $49,800
		$639,960

*Excludes the Allowance For Bad Debt.

Proposed Rates

PSCT:	5.885% x $11,739,120	= $690,847
PUC Fee:	0.500% x $11,659,300*	= $58,297
		$749,144

*Excludes the Allowance For Bad Debt.

The Parties also stipulate to payroll taxes in the total amount of $80,683.[181] The Commission finds reasonable the Parties estimate for payroll taxes.

In sum, the total amounts for Taxes Other Than Income Taxes are as follows:[182]

Present Rates		Proposed Rates	
PSCT:	$590,160	PSCT:	$690,847
PUC Fee:	$49,800	PUC Fee:	$58,297
Payroll taxes:	$80,683	Payroll taxes:	$80,683
	$720,640 (rounded)		$829,820 (rounded)

[180]Stipulation, Exhibit A at 21.

[181]Stipulation, Exhibit A at 21.

[182]Stipulation, Exhibit A at 21.

5.

Income Taxes

The Parties calculated Income Taxes using the current statutory corporate income tax for Federal of 21.00% and State of 6.40%, respectively.[183] To that amount, the Parties included Deferred Income Taxes and HAWC's Amortization of the Excess Accumulated Deferred Income Taxes ("ADIT") for the Stub Period and the On-Going balances, which were the result of the Tax Cuts and Jobs Act of 2017 ("TCJA") and the corresponding reduction to the Federal income tax rate.[184]

While the Parties agreed on the tax rates and methodology used to compute income taxes, different outcomes were the result of differing revenue and expense projections.[185] Pursuant to the agreement reached on revenue requirements, there are no differences in the projected Income Taxes at present and proposed rates for the Test Year, and the Parties stipulate to a Test Year Income Tax expense of $103,210 (rounded) under present rates and $517,530 (rounded) under proposed rates.[186]

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[183]Stipulation at 60.

[184]Stipulation at 60-61 and Exhibit A at 22-23; see Application, Exhibit No. 14-T-500 at 6-10.

[185]Stipulation at 62.

[186]Stipulation at 62.

The Commission finds reasonable the Parties' stipulated amounts for Income Taxes at present and proposed rates.

6.

Total Expenses

The Commission finds reasonable the Parties' total estimates of $8,077,880 in expenses at present rates, and $8,198,690 in expenses at proposed rates.

D.

Rate Base

The Parties stipulate to the use of an average Test Year rate base, which is consistent with the Commission's past practice.[187] The Parties set forth the agreed-upon calculations for HAWC's Average Depreciated Rate Base of $38,409,740 (rounded), comprised of the following:[188]

[187]See, e.g., Docket No. 2010-0313, Decision and Order, filed on November 21, 2011 (the use of an average test year rate base is consistent with the Commission's past practice).

[188]Stipulation at 64 and Exhibit A at 24.

Description	Amount
Plant-in-Service	$83,120,114
Accumulated Depreciation	($40,577,501)
Net Plant-in-Service	$42,542,613
Net CIAC	($174,818)
Accumulated Deferred Income Taxes: Federal	($3,822,303)
Accumulated Deferred Income Taxes: State	($380,548)
Unamortized Hawaii General Excise Tax Credit	($107,136)
Working Capital	$351,930
Average Depreciated Rate Base	$38,409,738

1.

Net Plant-in-Service

In general, HAWC's net Plant-in-Service (i.e., HAWC's UPIS less accumulated depreciation) comprises its share of investments in its wastewater treatment, processing, and disposal operations.[189]

The Parties' agreement on HAWC's average net Plant-in-Service balance of $42,542,613, in effect, reflects the net investment in utility property utilized by HAWC in providing wastewater utility service during the Test Year.[190] In determining HAWC's average net Plant-in-Service balance, the Parties began with the amount of HAWC's Plant-in-Service balance as of

[189]See Application, Exhibits 8 and 81 and Exhibit No. 14-T-200 at 8.

[190]See Stipulation at 69 and Exhibit A at 24.

December 31, 2020.[191] Then, as a result of settlement discussions, the Parties included the amounts for utility plant that were added by HAWC for 2021, as well as those projects HAWC anticipates will be completed by the end of the Test Year, which included the following adjustments:

(1) Using the actual 2021 plant additions for Corporate and Hawaii Kai divisions (excluding the Consumer Advocate's adjustment of $574,752 for 2021 plant additions);[192]

(2) Removing Project No. I30-020033-02 HI-Hawaii Kai Pump Station 2 Rehabilitation ($2,922,000) and Project No. I30-020039 for the Second Clarifier 1 and 2 ($135,000), as such will not be completed in 2022;[193]

(3) Increasing the cost of Project No. I30-020038-01 Hawaii Kai SCADA Improvements to $474,000 and Project No. I30-020033-02 to $2,009,000, based on updated cost information;[194] and

[191]Stipulation at 64-66; see Application, Exhibit No. 14-T-200 at 9.

[192]Stipulation at 66-67.

[193]Stipulation at 68; Consumer Advocate Direct Testimonies, CA-T-1 at 11 (citing HAWC Response to CA-IR-8).

[194]Stipulation at 68-69; HAWC Response to CA-IR-8 and CA-IR-22(c).

(4) Applying the total 2022 plant addition adjustment to the average Plant-in-Service balance instead of applying it to the end of year Plant-in-Service balance.[195]

The Commission also inquired as to the status of the pending Test Year plant additions and HAWC provided updated information to support the anticipated completion dates of the projects, while also noting some changes to pricing and schedules that occurred since the date of the Stipulation.[196] Notwithstanding the modifications noted by HAWC, the Commission notes the Parties' global settlement of all matters in this proceeding and, based on the totality of circumstances, finds the Test Year plant additions to be reasonable.

Lastly, the Parties have stipulated to an end of year 2021 accumulated depreciation reserve amount of $38,315,349 and an end of year 2022 accumulated depreciation reserve amount of $41,830,654.[197] Accordingly, the Parties stipulate to a Test Year average accumulated depreciation balance of $40,577,501,

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[195]Stipulation at 69 (noting that "for average plant in service balance purposes . . . only 50% of the 2022 plant adjustment balance should have been included. As a result, the Consumer Advocate should decrease its average plant in service balance by one-half (1/2) of the cost of the 2022 plant additions that will not be in service by December 31, 2022." Id.).

[196]See "Hawaii-American Water Company's Response to the Public Utilities Commission's Information Request (PUC-HAWC-IR-03); and Certificate of Service," filed on May 23, 2022.

[197]See Stipulation at 70 and Exhibit A at 24.

and deducted this amount from HAWC's Plant-in-Service balance of $83,120,114, to derive HAWC's average net Plant-in-Service balance of $42,542,613.[198]

The Commission, based on its review of the Parties' methodology and corresponding calculations, in this specific instance, finds reasonable HAWC's average net Plant-in-Service balance of $42,542,613, as agreed-upon by the Parties.

2.

Net CIAC

The Parties' agreed on HAWC's proposed Test Year average CIAC of $174,818, which the Consumer Advocate accepted.[199] In support thereto, HAWC explains:

> The balances in this category represent cost-free capital that was contributed by others to fund capital projects as shown on Exhibit 8-3. Because these capital projects are not funded by investors, these amounts are being deducted from rate base, so the Company's customers do not pay through rates a return on the assets funded by others. The calculation for CIAC started with the actual recorded balance at the end of December 2020 and then the annual amortization of CIAC was deducted from it to forecast CIAC balances for 2021 through 2022.[200]

[198]Stipulation at 69-70 and Exhibit A at 24.

[199]Stipulation at 71 and Exhibit A at 24.

[200]Application, Exhibit No. 14-T-200 at 50.

The Commission finds reasonable the Parties' estimate of $174,818 in average net CIAC balance.

3.

Accumulated Deferred Income Taxes

In Order No. 23714, in Docket No. 2006-0396, the Commission noted:

> ADIT represents the difference between the amount of income tax expense reported for book (i.e., ratemaking) and for tax purposes. In general, a regulated entity calculates and reports book depreciation expenses on a straight-line basis (i.e., straight-line depreciation), but for tax purposes, the regulated entity may write-off the same asset on an accelerated basis, i.e., accelerated depreciation. The difference in tax liabilities calculated for book and tax purposes, respectively, generates deferred income taxes. Thus, the regulated entity must pass onto its ratepayers the tax benefits received as a result of the accelerated tax depreciation practices. For ratemaking purposes, the ADIT is reflected as a reduction to rate base.[201]

The Parties calculated HAWC's Federal and State ADIT balance using the actual balance of deferred taxes as of December 31, 2020, and estimated deferred tax activity in 2021 and 2022.[202] The Consumer Advocate proposed adjustments to the ADIT

[201]Docket No. 2006-0396, Decision and Order No. 23714, filed on October 12, 2007, at 50.

[202]Stipulation at 71.

balance, based on the removal of certain 2021 and 2022 projects, as noted above.[203]

The Parties stipulated to a Test Year average ADIT of $4,202,851.[204] The Commission finds reasonable the stipulated average balances of $3,822,303 and $380,548 for Federal and State ADIT, respectively, for a total average ADIT of $4,202,851.[205]

4.

Hawaii Capital Goods Excise Tax Credit

The Parties state that the amortization of the Hawaii Capital Goods Excise Tax Credit ("HCGETC") "reflects actual credits taken by Applicant and estimated credits for the tax years 2020 through 2022, based on the plant additions for each year."[206] HAWC proposed an unamortized HCGETC of $135,982, which the Consumer Advocate accepted.[207]

Based on adjustments to stipulated plant additions for 2021 and 2022, the Parties stipulate to a Test Year average HCGETC

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[203]Stipulation at 71; Consumer Advocate Direct Testimonies, CA-T-1 at 14.

[204]Stipulation at 71 and Exhibit A at 24.

[205]See Stipulation, Exhibit A at 31.

[206]Stipulation at 71; see also Application, Exhibit No. 14-T-500 at 4.

[207]Stipulation at 71; Consumer Advocate Direct Testimonies, CA-T-1 at 15.

of $107,136.[208] The Commission finds reasonable the stipulated average balance of $107,136 for the unamortized HCGETC.

5.

Working Capital

As explained by HAWC, "[w]orking capital allowance is a component of rate base. Its inclusion in rate base is to compensate investors for the funds invested by them[,] which are used in the business to pay expenses prior to receipt of customer revenues to offset them."[209] To determine the Test Year Working Capital balance, HAWC performed a Lead Lag Study for 12 months ending September 30, 2020, to develop the Working Capital balance that is comprised of 31 expense categories.[210] HAWC further explains:

> If the difference between the average revenue lag and the average expense lag is positive, then investors have funded the working cash allowance which increases rate base. If the difference between the average revenue lag and the average expense lag is negative, then customers have funded the working cash allowance which results in a decrease to rate base.[211]

[208]Stipulation at 71-72.

[209]Application, Exhibit No. 14-T-200 at 51.

[210]Stipulation at 72; Application, Exhibit No. 14-T-200 at 51-52.

[211]Application, Exhibit 14-T-200 at 52.

HAWC calculated the proposed balance for Working Capital of $616,800, based on the sum of the following components:[212]

HAWC's average daily operating costs for each expense account	x	Corresponding net lead or lag day for each account
HAWC's average daily amounts incurred for taxes	x	Corresponding net lead or lag day for each account

The Consumer Advocate proposed to exclude Depreciation expense and Deferred Federal and State Income Taxes in the Working Capital computation, as well adjustments made to O&M expenses for a total reduction of $305,050.[213]

The Parties stipulated to the removal of Depreciation and Deferred Income Taxes expenses from the Working Capital computation.[214] As a result of this Stipulation as well as the aforementioned adjustments to O&M expenses, Taxes Other Than Income Taxes, and Income Taxes, the Parties agreed to an average Working Capital 2022 Test Year amount of $351,930 (rounded).[215] The Commission agrees with the Parties' methodology and finds reasonable the stipulated average Test Year amount of $351,930 (rounded) for Working Capital.

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[212]Stipulation at 72.

[213]Stipulation at 72; Consumer Advocate Direct Testimonies, CA-T-1 at 16-19.

[214]Stipulation at 73.

[215]Stipulation at 73.

6.

Average Depreciated Rate Base

The Commission finds reasonable the Parties' Average Depreciated Rate Base estimate of $38,409,740 (rounded).

E.

Rate of Return

As discussed by the Hawaii Supreme Court ("Court") in In re Hawaii Elec. Light Co., Inc., 60 Haw. 625, 594 P.2d 612 (1979):

> A fair return earnings on the rate making provision depreciation, taxes is the percentage rate of base allowed a utility after for operating expenses, and other direct operating costs. Out of such allowance the utility must pay interest and other fixed dividends on preferred and common stock. In determining a rate of return, the Commission must protect the interests of a utility's investors so as to induce them to provide the funds needed to purchase plant and equipment, and protect the interests of the utility's consumers so that they pay no more than is reasonable.
>
> To calculate the rate of return, the costs of each component of capital - debt, preferred equity and common equity - are weighted according to the ratio each bears to the total capital structure of the company and the resultant figures are added together to yield a sum which is the rate of return.
>
> The proper return to be accorded common equity is the most difficult and least exact calculation in the whole rate of return procedure since there is no contractual cost as in the case of debt or preferred stock[:]

> Equity capital does not always pay dividends; all profits after fixed charges accrue to it and it must withstand all losses. The cost of such capital cannot be read or computed directly from the company's books. Its determination involves a judgment of what return on equity is necessary to enable the utility to attract enough equity capital to satisfy its service obligations.
>
> . . . .
>
> Questions concerning a fair rate of return are particularly vexing as the reasonableness of rates is not determined by a fixed formula but is a fact question requiring the exercise of sound discretion by the Commission. It is often recognized that the ratemaking function involves the making of "pragmatic" adjustments and there is no single correct rate of return but that there is a "zone of reasonableness" within which the [C]ommission may exercise its judgment.[216]

The Parties agree that a Rate of Return of 7.87% is fair and reasonable, based on the following capital structure and cost rates:[217]

Capital Component	Amount	Ratio	Effective Rate	Weighted Average Cost
Long-Term Debt	$19,204,870	50.00%	5.81%	2.910%
Common Equity	$19,204,870	50.00%	9.92%	4.960%
	$38,409,740	**100.0%**		**7.87%**

[216] In Re HELCO, 60 Haw. at 632-33 and 636, 592 P.2d at 618-20 (citations omitted) (emphasis added).

[217] Stipulation at 74-75 and Exhibit A at 24.

HAWC's proposed capital structure of 50.00% debt and 50.00% equity is based on HAWC's capital structure for the year ending December 31, 2020, which was 50.22% long-term debt and 49.78% equity.[218] HAWC targeted the 50.00% long-term debt and 50.00% equity capital structure because it is significantly similar to the recorded capital structure.[219] HAWC's embedded cost of long-term debt of 5.81%, inclusive of debt issuance costs, is likewise based on HAWC's long-term debt rate for the year ending December 31, 2020.[220] While the Consumer Advocate accepted HAWC's proposed capital structure and cost of long-term debt, it recommended a lower return on equity ("ROE") of 9.65%, as opposed to HAWC's proposed ROE of 10.30%.[221]

HAWC argued that "the Consumer Advocate's ROE recommendation did not sufficiently take into consideration certain HAWC specific risks," and that after considering environmental compliance that HAWC faces as a wastewater utility operating in Hawaii, the challenges of increasing interest rates, and its lower-than-average equity percentage in comparison to the

[218]Application, Exhibit No. 14-T-100 at 9-10 and Attachment SWO-101.

[219]Application, Exhibit No. 14-T-100 at 9-10.

[220]Application, Exhibit No. 14-T-100 at 12 and Attachment SWO-103.

[221]Consumer Advocate Direct Testimonies, CA-T-2 at 56-57; Stipulation at 72-73.

average provided by the Consumer Advocate in its Testimony, "an ROE of at least 9.94% would be appropriate for HAWC."[222] Therefore, HAWC's return on common equity of 9.92% represents a compromise of the Parties, pursuant to their overall settlement negotiations.[223]

On balance, the Commission finds that the stipulated Rate of Return is within the range of reasonableness described by the Court in In re HELCO. Moreover, the stipulated Rate of Return, is 23 basis points less than HAWC's current authorized Rate of Return of 8.10%.[224] The Commission approves as fair the Parties' stipulated Rate of Return of 7.87%.

F.

Rate Design

HAWC, by its Application, initially proposed an across-the-board, approximately 21.05% increase in its monthly service charges for the Residential classes (Single-Family and Multi-Family), Commercial classes (Food Service and Non-Food Service Operations), and Public Authority classes (Other and

[222]Stipulation at 74.

[223]Stipulation at 74.

[224]See Docket No. 2010-0313, Decision and Order, filed on November 21, 2011 (authorizing an 8.10% rate of return for final relief purposes).

Dwelling).[225] The Consumer Advocate, in its direct testimonies, disagreed with HAWC's proposal, and proposed an increase of approximately 14.31% to be phased-in over a two-year period (reasoning that Miscellaneous Revenues of $39,820 and Late Payment Fees of $21,980 should be subtracted from present rate revenues.)[226]

Based on their agreed-upon Test Year revenue requirement of $10,028,200 (rounded) for HAWC,[227] the Parties stipulate to the following rate design:[228]

Monthly Service Charge

Customer Class	Present Rate	Stipulated Rate	Increase
Residential			
Single-Family Unit	$67.08	$78.60	17.17%
Multi-Family Unit	$57.08	$66.88	17.17%
Commercial			
Food Service Operation	$16.08 per TG	$18.83 per TG	17.17%
Non-Food Service Operation	$9.87 per TG	$11.56 per TG	17.17%
Public Authority			
Dwelling	$3.73 per TG	$4.37 per TG	17.17%
Other	$9.87 per TG	$11.56 per TG	17.17%

[225]Application at 4-5; Exhibit 4; Exhibit 14-T-100 at 5 and 60.

[226]Consumer Advocate Direct Testimonies, CA-T-1 at 6-7.

[227]Stipulation at 20.

[228]See Stipulation at 75-76 and Exhibit A at 2.

The Parties, in essence, stipulate to an across-the-board, approximately 17.17% increase in all of HAWC's monthly wastewater service charges.[229]

Regarding timing of the stipulated increase, the Consumer Advocate noted that, while in the past it has only recommended a phased-in approach for increases of greater than 25%, a two-year phased approach was recommended to diminish negative impacts of rate shock, particularly in light of the ongoing COVID-19 pandemic.[230] However, HAWC argued that the stipulated increase is below 25%, thereby not triggering the Consumer Advocate's threshold percentage amount, and that HAWC has already provided various options and services to assist customers who have been adversely impacted by the COVID-19 pandemic.[231] Consequently, the Consumer Advocate agreed to discontinue its pursuit of the phased approach, provided that:

> (1) starting upon the receipt of final rates in the subject proceeding, HAWC would provide a refund over a 3-year period of the additional revenues received as a result of the TCJA reduction in the corporate income tax rate; (2) HAWC would extend the availability of its existing payment plan arrangements for at least twelve (12) months to

[229] See Stipulation at 75-76.

[230] Stipulation at 76-77; Consumer Advocate Direct Testimonies, CA-T-1 at 7.

[231] Stipulation at 77. Additionally, HAWC argued that the Commission may also establish a program to assist customers who are experiencing difficulty in making payments using COVID-19 pandemic relief funds. Id.

> continue to assist its customers with difficulty in paying their sewer bills; and (3) the TCJA refund, to be provided in the manner further detailed below, would assist HAWC's customers during the on-going pandemic by providing a 3-year offset to the rate increase as stipulated to herein.[232]

Although HAWC initially pushed back on any requirement that it provide refunds for TCJA revenues, the Parties reached an agreement, as stated above.[233] Correspondingly, the Parties have agreed that HAWC will provide a refund over a three-year period of additional revenues resulting from the TCJA reduction in the income tax rate, commencing with the first billing period following receipt of final rates in this proceeding.[234] Hence, a total of $889,129 shall be refunded to HAWC's Hawaii Kai-area customers over a three-year period ($296,376 per year or $24,698 per month).[235] The Parties further detail the manner by which the refunds will be handled:

> This monthly amount will be equally divided amongst the number of total active and billed customers at that time and will be reflected as a separate line item on the customer bills as a "Surcredit" or such other term to be agreed upon by the Parties prior

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[232]Stipulation at 77-78.

[233]Stipulation at 78; see also "Hawaii-American Water Company's Responses to the Division of Consumer Advocacy's Second Submission of Information Requests (CA-IR-13 through CA-IR-36); Exhibit 1; and Certificate of Service," filed on January 24, 2022, ("HAWC Response to CA-IR-__"), at Attachment 7, HAWC Response to CA-IR-29(c).

[234]Stipulation at 79.

[235]Stipulation at 79.

> to the issuance of the first customer bill. HAWC will keep track of the amounts returned to customers and if at the end of the 3-year period there is any remaining balance due, the remaining balance will be distributed as a final credit on the customers' bills consistent with the above allocation methodology.[236]

The Commission finds this process to be reasonable and shall also require HAWC to submit a report to the Commission and Consumer Advocate when the overcollection from customers related to the TCJA has been fully refunded.

Additionally, the Consumer Advocate proposed that the Company continue investigating "the possibility of implementing rates that reflect both fixed and usage charges, especially for its residential customers."[237] The Consumer Advocate further explained that "[s]uch efforts could consider establishing a limited program if a customer is willing to provide 12 months of water usage, a fixed and usage rate could be developed based on that information."[238] HAWC concurred with this recommendation and clarified that the Consumer Advocate's inquiry into this matter and subsequent recommendation were presumably not intended to

[236]Stipulation at 79.

[237]Stipulation at 80; Consumer Advocate Direct Testimonies, CA-T-1 at 8.

[238]Stipulation at 80; Consumer Advocate Direct Testimonies, CA-T-1 at 8.

apply to the current proceeding.[239] Instead, the Parties agreed to HAWC's proposal that HAWC will:

> [F]urther investigate and consider whether developing a rate structure that reflects both fixed and usage charges, especially for HAWC's residential customers, is reasonable and feasible, and that HAWC will submit a report of the results of this analysis, including any technical, financial and operational challenges, as part of HAWC's next general rate case proceeding.[240]

The Commission notes the Consumer Advocate had inquired as to whether HAWC has conducted a study or analysis regarding establishing volumetric rates for wastewater consumption for residential customers, to which HAWC confirmed that it has not because HAWC lacks access to the water use data for its residential customers.[241] Thus, although the Stipulation did not specifically address any issues related to the absence of a Cost-of-Service Study ("COSS"), the Parties did discuss the recommendation of conducting an analysis to implement fixed and usage charges in the

[239]Stipulation at 80; "Hawaii-American Water Company's Responses to the Public Utilities Commission's Information Requests (PUC-HAWC-IR-01 and PUC-HAWC-IR-02)," filed on April 4, 2022 ("HAWC Response to PUC-HAWC-IR_"), at HAWC Response to PUC-HAWC-IR-2(a).

[240]Stipulation at 80.

[241]"Hawaii-American Water Company's Responses to the Division of Consumer Advocacy's Third Submission of Information Requests (CA-IR-37 through CA-IR-65); Exhibit 1; and Certificate of Service," filed on January 24, 2022 ("HAWC Response to CA-IR-__"), Attachment 12 at HAWC Response to CA-IR-64.

next rate case proceeding, as indicated above.[242] While the Stipulation maintains an across-the-board increase for all rate classes, which is consistent with past approved rate increases, the Commission recognizes that it would be difficult to justify a non-uniform increase across rate classes in the absence of a COSS. The Commission acknowledges that implementing usage charges may require new metering infrastructure or access to the Honolulu Board of Water Supply's potable water usage data, but at the same time finds that a COSS would help in multiple areas of approving the next general rate case. Consequently, the Commission shall require HAWC to submit a COSS in its next general rate case proceeding, as was provided in previous rate case applications.

Based on the Parties' representations, the Commission, in this specific instance, approves as just and reasonable the Parties' stipulated, across-the-board rate design, which includes a 17.17% rate increase for all rate classes, as well as the following conditions:

1. HAWC's rate increase shall not be subject to a two-year phase-in period;

2. HAWC shall refund additional revenues collected pursuant to the TCJA to customers over a three-year period or until such has been fully refunded and shall submit a report to the

[242]Stipulation at 79-80.

Commission and Consumer Advocate within 30 days after such overcollection has been fully refunded;

3. HAWC shall extend the availability of its existing payment plan arrangements for at least 12 months to continue to assist its customers with difficulty in paying their sewer bills;

4. HAWC shall continue to investigate the possibility of implementing rates that reflect both fixed and usage charges, particularly for residential customers and a submit a report on the results of its analysis as part of its next general rate case proceeding. Such efforts could consider establishing a limited program to develop fixed and rate usage charges for customers willing to provide 12 months of water usage data, utilizing such information; and

5. HAWC shall be required to submit a COSS in its next general rate case proceeding.

G.

Proposed Tariff Revisions

HAWC proposed to revise Tariff No. 1 as follows:

(a) Amend and replace Revised Sheet 1A to reflect updated definitions to the terms "Building sewer"/"building sewer" and "Service Connection"/"service connection" in light of the proposed changes to Rule V Connections and Cut-Offs.

(b) Amend and replace Revised Sheets 5 and 6 to reflect changes to Rule V Connections and

> Cut-Offs to more clearly delineate the customer's responsibility for the building sewer (including to install and maintain a readily accessible sewer clean-out) and HAWC's responsibility for the service connection and its sewer lines (i.e., referred to in HAWC Tariff No. 1 as the "Company's sewer").
>
> (c) Insert a new Original Sheet 15C to add a new Rule XVII for an Automatic Power Cost Adjustment Clause to address power cost recovery.
>
> (d) Amend and replace Sheet 18 with a revised Schedule of Wastewater Rates for residential, commercial and public authority customers to reflect the rates and rate structure proposed by Applicant in this proceeding (Exhibit 4) to reflect HAWC's requested revenue requirement.
>
> (e) Insert a new Original Exhibit A to include a service area map to clarify and depict Applicant's authorized service area.[243]

In its Direct Testimonies, the Consumer Advocate did not specifically address the proposed tariff revisions.[244] However, when discussing the Purchased Power expense, the Consumer Advocate did note that it "does not object to the establishment of the Company's [Automatic Power Cost Adjustment Clause ("APCAC")] at this time, with conditions that the Consumer Advocate's other proposed adjustments (e.g., disallowance of the inflation factor applied to electricity costs, a five-year amortization period for

[243]Application at 8-9.

[244]See Consumer Advocate Direct Testimonies.

regulatory expenses) are accepted."[245] During settlement negotiations, the Consumer Advocate confirmed that "it does not object to the other proposed rule changes."[246]

HAWC explains that it is seeking approval of an APCAC "due to the impacts that changes in the electricity expense resulting from changes in the kWh cost or use can have on the Company's ability to recover its operating expenses under the rates that are authorized in this proceeding."[247] HAWC highlights the current increases in electricity costs being imposed by Hawaiian Electric, as authorized under its Energy and Purchased Power Adjustor Clause, resulting from the current situation in Russian and Ukraine.[248] As electricity costs represent a significant portion of HAWC's total cost of operations, any changes made thereto could have a significant impact on HAWC's ability to recover operating costs under rates that are authorized in this proceeding.[249] HAWC contends that the APCAC would provide the Company "a reasonable opportunity to recover changes in the cost of electricity subsequent to the test year, without a need to file

[245]Consumer Advocate Direct Testimonies, CA-T-1 at 32-33; Stipulation at 82.

[246]Stipulation at 82.

[247]Stipulation at 82; Application, Exhibit No. 14-T-100 at 44.

[248]Stipulation at 82-83.

[249]Stipulation at 82; Application, Exhibit No. 14-T-100 at 44.

a rate application."[250] Furthermore, HAWC notes, and the Consumer Advocate acknowledges, that other utilities have established such mechanisms to capture adjustments to monthly electricity costs.[251]

Based on settlement discussion, the Parties stipulated to all revisions to HAWC's Rules and Regulations, without conditions, as reflected in Stipulation, Exhibit A, Attachment HAWC S-10.[252]

Based on its review of the entire record, including the Stipulation, the Commission approves as just and reasonable the Parties' stipulated revisions to HAWC's Tariff No. 1.

H.

Commission's Approval

On balance, the stipulated increase in revenue of $14,710,920, or approximately 17.17% over revenues at present rates, provides HAWC with the opportunity to recover its normalized, reasonable utility expenses and to earn a fair return on its average depreciated rate base, consistent with the ratepayers' attendant benefits of continuing to receive wastewater

[250]Application, Exhibit No. 14-T-100 at 44; Stipulation at 83.

[251]Stipulation at 83; Consumer Advocate Direct Testimonies, CA-1 at 32.

[252]Stipulation at 83.

utility service without interruption, at just and reasonable rates.[253]

The Commission finds that the Parties' Stipulation, taken as a whole, appears just and reasonable. For purposes of this proceeding, the Commission approves the Parties' Stipulation, consistent with the terms of this Decision and Order. That being said, the Commission's approval of the Parties' Stipulation, or of the methodologies used herein, may not be cited as precedent by the Parties in any future Commission proceeding.

III.

SUMMARY OF FINDINGS AND CONCLUSIONS

The Commission finds and concludes:

1. HAWC's Test Year Revenues, Expenses, and Average Depreciated Rate Base, as set forth in the attached schedules, are reasonable.

2. The stipulated Rate of Return of 7.87% is fair.

3. HAWC is entitled to an increase in revenues of $1,710,920, or approximately 17.17% over revenues at present

[253] See Stipulation at 11-12 (the results of the Stipulation provide HAWC with the opportunity to recover its projected normalized expenses and realize its projected net operating income for the Test Year).

rates, based on a total revenue requirement of $11,739,120, and a Rate of Return of 7.87%.

4. The stipulated rate design is just and reasonable and shall include the following conditions:

A. HAWC's rate increase shall not be subject to a two-year phase-in period;

B. HAWC shall refund additional revenues collected pursuant to the TCJA to customers over a three-year period or until such has been fully refunded and shall submit a report to the Commission and Consumer Advocate within 30 days after such overcollection has been fully refunded, as provided in Section II.F;

C. HAWC shall extend the availability of its existing payment plan arrangements for at least 12 months to continue to assist its customers with difficulty in paying their sewer bills;

D. HAWC shall continue to investigate the possibility of implementing rates that reflect both fixed and usage charges, particularly for residential customers, and submit a report on the results of its analysis as part of its next general rate case proceeding. Such efforts could consider establishing a limited program to develop fixed and rate usage charges for customers

willing to provide 12 months of water usage data, utilizing such information; and

E. HAWC shall be required to submit a COSS in its next general rate case proceeding.

5. The Parties' agreed-upon revisions to Tariff No. 1 are just and reasonable and are, therefore, approved. HAWC shall promptly file its revised tariff sheets and rate schedules that implement the increases in rates and charges, as well as tariff revisions, authorized by this Decision and Order for the Commission's review and with copies served upon the Consumer Advocate.

6. The nine-month deadline for the Commission to make every effort to issue its Decision and Order was May 17, 2022. Pursuant to agreement of the Parties and HRS § 269-16(d), the Commission issued a timely Decision and Order by June 17, 2022.

IV.

ORDERS

THE COMMISSION ORDERS:

1. The Parties Stipulation, filed on May 6, 2022, is approved, consistent with the terms of this Decision and Order.

2. HAWC may increase its wastewater service charges to produce an increase in revenues of $1,710,920, or approximately

17.17%, as reflected in the attached schedules, representing an increase in HAWC's total revenue requirement to $11,739,120.

3. HAWC shall promptly file its revised tariff sheets and rates schedules for the Commission's review and approval, consistent with the terms of this Decision and Order, with copies served on the Consumer Advocate. HAWC's shall file its revised tariff sheets in black-lined and clean formats.

4. HAWC's revised tariff sheets and rates schedules shall not take effect until affirmatively approved by the Commission.

5. The failure to comply with the requirement set forth in Ordering Paragraph No. 3, above, may constitute cause to void this Decision and Order, and may result in further regulatory action as authorized by State law.

DONE at Honolulu, Hawaii June 16, 2022.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By_____
James P. Griffin, Chair

By_____
Jennifer M. Potter, Commissioner

APPROVED AS TO FORM:

_____
Keira Y. Kamiya
Commission Counsel

By_____
Leodoloff R. Asuncion, Jr., Commissioner

2021-0063.ljk

Attachment 8

HAWAII AMERICAN WATER COMPANY
HAWAII KAI DIVISION
RESULTS OF OPERATION SCHEDULE
TEST YEAR ENDING DECEMBER 31, 2022

	PRESENT RATES	ADDITIONAL AMOUNT	APPROVED RATES
REVENUES			
Domestic	$ 8,581,480	$ 1,473,610	$ 10,055,090
Commercial	$ 670,840	$ 114,820	$ 785,660
Public Authority Dwelling	$ 626,280	$ 107,460	$ 733,740
Public Authority Other	$ 87,800	$ 15,030	$ 102,830
Miscellaneous	$ 39,820	$ -	$ 39,820
Late Payment Charges	$ 21,980	$ -	$ 21,980
Rounding	$ -	$ -	$ -
TOTAL REVENUES	$ 10,028,200	$ 1,710,920	$ 11,739,120
OPERATING REVENUE DEDUCTIONS			
Salaries and Wages (Labor)	$ 1,198,800	$ -	$ 1,198,800
Purchased Power (Electricity)	$ 569,110	$ -	$ 569,110
Chemicals	$ 264,710	$ -	$ 264,710
Operation Expense	$ 215,350	$ -	$ 215,350
Maintenance	$ 346,560	$ -	$ 346,560
Waste Disposal	$ 342,470	$ -	$ 342,470
Customer Accounting	$ 2,840	$ -	$ 2,840
Uncollectible Expense	$ 68,190	$ 11,630	$ 79,820
Insurance Other Than Group	$ 163,160	$ -	$ 163,160
Pensions and Benefits	$ 271,860	$ -	$ 271,860
Regulatory Expense	$ 190,940	$ -	$ 190,940
Rents	$ 56,340	$ -	$ 56,340
Other A & G and General Office Expenses	$ 367,980	$ -	$ 367,980
Support Services	$ 584,500	$ -	$ 584,500
TOTAL O&M Expenses	$ 4,642,810	$ 11,630	$ 4,654,440
Depreciation	$ 2,644,430	$ -	$ 2,644,430
Amortization	$ 70,000	$ -	$ 70,000
Taxes Other Than Income	$ 720,640	$ 109,180	$ 829,820
TOTAL OPERATING REV. DEDUCT.	$ 8,077,880	$ 120,810	$ 8,198,690
OPERATING INCOME Before Income Taxes	$ 1,950,320	$ 1,590,110	$ 3,540,430
INCOME TAXES	$ 103,210	$ 414,320	$ 517,530
NET OPERATING INCOME	$ 1,847,110	$ 1,175,790	$ 3,022,850
AVERAGE RATE BASE	$ 38,409,740		$ 38,409,740
RETURN ON RATE BASE	4.81%		7.87%

HAWAII AMERICAN WATER COMPANY
HAWAII KAI DIVISION
STIPULATED TAXES OTHER THAN INCOME TAXES AT PRESENT AND PROPOSED RATES
TEST YEAR ENDING DECEMBER 31, 2022

	Revenues at Present Rates	Revenues at Proposed Rates	Tax Rates	Taxes at Present Rates	Taxes at Proposed Rates
Revenue Taxes					
Public Company Service Tax	$10,028,200	$11,739,120	5.885%	$590,160	$690,847
Public Utility Fee	$9,960,010	$11,659,300	0.500%	49,800	58,297
Total Revenue Taxes				$639,960	$749,144
Payroll Tax				$80,683	$80,683
Total Taxes Other Than Income Taxes				$720,643	$829,827
			Rounded	$720,640	$829,820

HAWAII AMERICAN WATER COMPANY
HAWAII KAI DIVISION
INCOME TAXES
TEST YEAR ENDING DECEMBER 31, 2022

	Present Rates	Proposed Rates
Operating Revenue	$ 10,028,200	$ 11,739,120
Expense Deductions	$ (8,077,880)	$ (8,198,690)
Ratemaking Interest	$ (1,105,200)	$ (1,105,200)
Total Revenue Deductions	$ (9,183,080)	$ (9,303,890)
Taxable Net Income	$ 845,120	$ 2,435,230
Total Current Income Taxes	$ 219,024	$ 633,341
Total Deferred Income Taxes	$ (9,563)	$ (9,563)
Amortization Excess ADIT - Stub Period	$ (10,631)	$ (10,631)
Amortization Excess ADIT - On Going	$ (95,616)	$ (95,616)
Total Net Income Taxes	$ 103,215	$ 517,532
Rounded	$ 103,210	$ 517,530

HAWAII AMERICAN WATER COMPANY
HAWAII KAI DIVISION
STIPULATED AVERAGE DEPRECIATED RATE BASE
TEST YEAR ENDING DECEMBER 31, 2022

	Balance at December 31, 2021	Balance at December 31, 2022	Average 2022
Utility Plant-in-Service	$ 81,503,994	$ 84,736,233	$ 83,120,114
Accumulated Depreciation Reserve	$ (39,315,349)	$ (41,839,654)	$ (40,577,501)
Net Plant-in-Service	$ 42,188,646	$ 42,896,580	$ 42,542,613
Deduct:			
Net Contributions in Aid of Construction	$ (184,815)	$ (164,821)	$ (174,818)
Accumulated Deferred Taxes: Federal	$ (3,903,150)	$ (3,789,304)	$ (3,822,303)
Accumulated Deferred Taxes: State	$ (365,346)	$ (386,753)	$ (380,548)
Unamortized Hawaii General Excise Tax Credit	(103,662)	(110,610)	$ (107,136)
Working Capital	$ 351,930	$ 351,930	$ 351,930
Subtotal	$ (4,205,043)	$ (4,099,557)	$ (4,132,875)
Test Year Rate Base	$ 37,983,602	$ 38,797,022	$ 38,409,738
		Rounded	$ 38,409,740

HAWAII AMERICAN WATER COMPANY
HAWAII KAI DIVISION
WORKING CAPITAL
TEST YEAR ENDING DECEMBER 31, 2022

	2022 Present Rates	Average Daily Amount	Expense (Lead)/Lag Days	Revenue Lag	Net (Lead)/Lag Days	Working Capital
Purchased Power (Electricity)	$ 569,110	$ 1,559	22.93	42.72	19.79	$ 30,856
Chemicals	$ 264,710	$ 725	55.49	42.72	(12.77)	$ (9,256)
Waste Disposal	$ 342,470	$ 938	46.76	42.72	(4.04)	$ (3,791)
Salaries and Wages	$ 1,198,800	$ 3,284	12.00	42.72	30.72	$ 100,880
Pension and Benefits	$ (7,665)	$ (21)	1.09	42.72	41.63	$ (874)
Group Insurance and OPEB	$ 192,919	$ 529	10.79	42.72	31.93	$ 16,889
Other Benefits	$ 86,611	$ 237	16.55	42.72	26.17	$ 6,202
Service Company	$ 584,500	$ 1,601	(4.79)	42.72	47.51	$ 76,064
Operations	$ 215,350	$ 590	71.61	42.72	(28.89)	$ (17,043)
Rents	$ 56,340	$ 154	(14.64)	42.72	57.36	$ 8,833
Transportation	$ 16,672	$ 46	(16.83)	42.72	59.55	$ 2,739
Uncollectible Accounts Expense	$ 68,190	$ 187	0.00	42.72	42.72	$ 7,988
Customer Accounting, Other	$ 2,840	$ 8	61.64	42.72	(18.92)	$ (151)
Regulatory Expense	$ 190,940	$ 523	150.45	42.72	(107.73)	$ (56,342)
Insurance Other Than Group	$ 163,160	$ 447	(74.56)	42.72	117.27	$ 52,422
Maintenance Supplies & Services	$ 346,560	$ 949	0.00	42.72	42.72	$ 40,540
~~Depreciation~~		$ -	0.00	42.72	42.72	$ -
Payroll Taxes	$ 80,683	$ 221	12.00	42.72	30.72	$ 6,789
Current SIT	$ 19,084	$ 52	50.25	42.72	(7.53)	$ (392)
Current FIT	$ 199,940	$ 548	37.00	42.72	5.72	$ 3,134
~~Deferred SIT~~		$ -	0.00	42.72	42.72	$ -
~~Deferred FIT~~		$ -	0.00	42.72	42.72	$ -
Other Goods and Services	$ 351,306	$ 962	50.47	42.72	(7.75)	$ (7,454)
General Office Allocation	$ -	$ -	0.00	42.72	42.72	$ -
PUC Fees	$ 639,960	$ 1,753	(10.85)	42.72	53.57	$ 93,901
						$ 351,934
WORKING CAPITAL FOR RATE BASE (Rounded)						$ 351,930

Attachment 8

CERTIFICATE OF SERVICE

The foregoing Order was served on the date it was uploaded to the Public Utilities Commission's Document Management System and served through the Document Management System's electronic Distribution List.

Attachment 8

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COMMISSION

The foregoing document was electronically filed with the State of Hawaii Public Utilities Commission's Document Management System (DMS).

Attachment 8

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of	)	
	)	
HAWAII-AMERICAN WATER COMPANY	)	DOCKET NO. 2021-0063
	)	
For Approval of Rate Increases and Revised Rate Schedules and Rules.	)	
	)	

ORDER NO. 38475

APPROVING HAWAII-AMERICAN WATER COMPANY'S REVISED TARIFF SHEETS

Attachment 8

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of	)	
	)	
HAWAII-AMERICAN WATER COMPANY	)	DOCKET NO. 2021-0063
	)	
For Approval of Rate Increases and Revised Rate Schedules and Rules.	)	ORDER NO. 38475
	)	

APPROVING HAWAII-AMERICAN WATER COMPANY'S REVISED TARIFF SHEETS

By this Order,[1] the Public Utilities Commission ("Commission") approves the revised tariff sheets and rates schedules filed by HAWC on June 17, 2022, to implement the tariff changes approved by the Commission in this proceeding.

I.

HAWC'S REVISED TARIFF SHEETS AND RATES SCHEDULES

On June 16, 2022, the Commission issued Decision and Order No. 38424, approving: (1) an approximately 17.17 percent increase in revenues over present rates for HAWC, based on a

[1]The Parties in this proceeding are HAWAII-AMERICAN WATER COMPANY ("HAWC") and the DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate"), an ex officio party, pursuant to Hawaii Revised Statutes § 269-51 and Hawaii Administrative Rules ("HAR") § 16-601-62(a).

2022 calendar test year; and (2) various changes to HAWC's tariff.[2] The Commission instructed HAWC to file its revised tariff sheets and rates schedules for the Commission's review and approval, consistent with the terms of D&O No. 38424.[3]

On June 17, 2022, HAWC filed its revised tariff sheets and rates schedules.

The deadline for the filing of any motions seeking to reconsider or clarify D&O No. 38424 expired on June 27, 2022, pursuant to HAR §§ 16-601-22 and 16-601-137. No such motions were filed.

Upon review, HAWC's revised tariff sheets and rates schedules reflect the changes approved by the Commission in D&O No. 38424. The Commission, therefore, approves HAWC's revised tariff sheets and rates schedules.

---

[2]Decision and Order No. 38424, filed on June 16, 2022 ("D&O No. 38424"), at 1-2.

[3]Letter From: K. Morihara To: Commission Re: Docket No. 2021-0063: In the Matter of the Application of Hawaii-American Water Company For Approval of Rate Increases and Revised Rate Schedules and Rules: "Revised Tariff Sheets and Rate Schedules for Commission Review and Approval Consistent With Decision and Order No. 38424," filed on June 17, 2022.

II.

ORDERS

THE COMMISSION ORDERS:

1. HAWC's revised tariff sheets and rates schedules, filed on June 17, 2022, are approved, and shall take effect on July 1, 2022. HAWC shall promptly file its Commission-approved tariff sheets with the applicable issued and effective dates. HAWC shall also notify customers of the tariff change, and include a copy of its current, approved tariff on its website.

2. The failure to comply with the requirements set forth in Ordering Paragraph No. 1, above, may constitute cause to void this Order, and may result in further regulatory action as authorized by State law.

3. This docket is closed, unless ordered otherwise by the Commission.

DONE at Honolulu, Hawaii JUNE 29, 2022.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By _____
James P. Griffin, Chair

By _____
Jennifer M. Potter, Commissioner

By _____
Leodoloff R. Asuncion, Jr., Commissioner

APPROVED AS TO FORM:

_____
Keira Y. Kamiya
Commission Counsel

2021-0063.ljk

Attachment 8

CERTIFICATE OF SERVICE

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COMMISSION

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ALJ/CS8/jnf **Date of Issuance 11/23/2021**

Decision 21-11-018 November 18, 2021

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by $25,999,900 or 10.60% in the year 2021, by $9,752,500 or 3.59% in the year 2022, and by $10,754,500 or 3.82% in the year 2023.	Application 19-07-004

DECISION APPROVING AND ADOPTING SETTLEMENT AGREEMENTS, RESOLVING THE REMAINDER OF DISPUTED ISSUES AND AUTHORIZING CALIFORNIA-AMERICAN WATER COMPANY'S GENERAL RATE INCREASES FOR 2021, 2022, AND 2023

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Appendix C – Settlement between California American Water and Las Palmas Wastewater Committee
Appendix D – Settlement between California American Water and the Monterey Peninsula Water Management District
Appendix E – Corrected Pages to Attachment E-1 and Attachment G-1 of the Settlement Agreement

DECISION APPROVING AND ADOPTING SETTLEMENT AGREEMENTS, RESOLVING THE REMAINDER OF DISPUTED ISSUES AND AUTHORIZING CALIFORNIA-AMERICAN WATER COMPANY'S GENERAL RATE INCREASES FOR 2021, 2022, AND 2023

Summary

This decision approves and adopts three settlement agreements, resolves the remaining disputed issues raised by California-American Water Company's General Rate Case Application 19-07-004, and authorizes the utility's general rate increases for 2021, 2022, and 2023. The Commission adopts a revenue requirement of $271,997,800 for Test Year 2021.[1] The table below illustrates the revenue requirement authorized for the 12 months beginning January 1, 2021, for each of California-American Water Company's Districts:

Ratemaking District	Adopted Revenue Requirement	Percent Change in Revenue Requirement
Northern	$72,718,400	8.74%
Central	$72,739,300	5.99%
Southern	$122,990,800	15.58%
Monterey Wastewater	$3,549,300	6.79%

This proceeding is closed.

1. Background

On July 1, 2019, California-American Water Company (Cal-Am) filed Application (A.) 19-07-004 to increase revenues in each of its service areas for water and wastewater service for the years 2021 through 2023.[2] In total,

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[1] The revenue requirement approved by this Decision is based on the results generated by Cal-Am's Results of Operations model.

[2] Cal-Am's divisions and/or districts are currently the Northern Division, Central Division, Monterey Wastewater, Los Angeles County, San Diego County and Ventura County. The

Footnote continued on next page.

A.19-07-004 sought approval to increase Cal-Am's revenue requirements as follows:

- $25,999,900 or 10.6% in 2021
- $9,752,500 or 3.59 % in 2022
- $10,754,500 or 3.82% in 2023

The Public Advocates' Office at the California Public Utilities Commission (Cal Advocates), the City of Duarte, the Central Coast Coalition of Communities for Wastewater Equity, and the Monterey Peninsula Water Management District (MPWMD) filed timely protests.[3]

The City of Thousand Oaks, the Coalition of Peninsula Businesses, the City of San Marino, the Butterfield-Riviera East Community Association (BRECA), the Pacific Institute for Studies in Development, Environment, and Security, the Las Palmas Wastewater Committee (Las Palmas), and Environment Now were subsequently granted party status.

On August 15, 2019, Cal-Am filed a consolidated reply to all protests. Cal-Am filed its Rule 3.2 Compliance filing on September 2, 2019.

A prehearing conference was held on September 19, 2019, to discuss the issues of law and fact and determine the need for hearing and schedule for resolving the matter. Assigned Commissioner Genevieve Shiroma issued the scoping memo and ruling (Scoping Memo) on November 8, 2019.

Application was filed pursuant to §454 of the Public Utilities Code, Rule 3.2 of the Commission's Rules of Practice and Procedure (Rules), and the Rate Case Plan for Class A Water Companies adopted by the Commission in Decision (D.) 07-05-062. All references to Code in this decision refer to Public Utilities Code unless otherwise noted.

[3] On July 29, 2019, Central Coast Coalition of Communities for Wastewater Equality filed a protest. On July 30, 2019, the City of Duarte filed a protest. On August 2, 2019, Monterey Peninsula Water Management District filed a protest. On August 5, 2019, the Public Advocates Office of the Commission filed a protest.

Numerous public participation hearings were held throughout Cal-Am's service territory from December 2019 through February 2020.

On April 6, 2020, Cal-Am filed a motion for interim rate relief, which was granted by an assigned Administrative Law Judge (ALJ) ruling on September 10, 2020.

From September to November of 2020, the parties actively engaged in the Commission's ADR process.[4] By Decision (D.) 20-12-046, the Commission extended the statutory deadline in this proceeding to September 30, 2021, largely due to COVID-19 related procedural delays.[5]

On December 16, 2020, MPWMD requested that evidentiary hearings in this proceeding be off-calendared, adding that any outstanding disputed issues between it and Cal-Am could be addressed through briefs. On December 21, 2020, the assigned ALJ issued a ruling off-calendaring the previously set evidentiary hearings and setting the schedule for the remainder of the proceeding.

Between January and February of 2021, the parties filed three separate motions for adoption of three separate partial settlements.

> ***Partial Settlement 1***: The joint settlement between Cal-Am, Cal Advocates, and the Cities of Duarte, San Marino, and Thousand Oaks (the Settlement);
>
> ***Partial Settlement 2***: The settlement between Cal-Am and MPWMD (Cal-Am-MPWMD Settlement); and
>
> ***Partial Settlement 3***: The settlement between Cal-Am and Las Palmas Wastewater Committee (Cal-Am-Las Palmas Settlement).

[4] Cal-Am Status Conference Statement dated November 16, 2020, at 1-2.

[5] D.20-12-046 at 2-3.

The *Partial Settlement 1* noted above, including the tariffs and rates provided in it, will collectively be referred to in this decision as the Settlement henceforth. The Settlement incorporates the terms of the other two settlements, *Partial Settlements 2 and 3* above.[6] The Settlement was updated on February 24, 2021, after the governing bodies for the Cities of Duarte and Thousand Oaks signed it.[7]

On February 18, 2021, MPWMD filed an opening brief as well as comments on the Settlement. Cal-Am filed a reply brief, followed by reply comments to MPWMD's opening comments.

On March 25, 2021, the assigned ALJ issued a ruling seeking additional information on the three settlements and directing Cal-Am to work with the parties to develop a set of joint exhibits and acronym list for the purpose of this proceeding. On April 7, 2021, MPWMD filed a response to the ALJ's ruling, as did the parties to the Settlement.[8] On April 16, 2021, Cal-Am filed reply comments to MPWMD's response to the ALJ's ruling, along with joint proposed acronym and exhibit lists.

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[6] The parties to the Settlement and Las Palmas clarified this on page 3 of the response to the March 25, 2021, email ruling, which was filed on April 7, 2021. "The schedules included in attachments to the [Settlement] reflect agreements included in the standalone settlement agreements with Las Palmas and Monterey Peninsula Water Management District (MPWMD). Specifically, impacts on revenue requirement and rate design from these standalone settlements are reflected in the summary of earnings comparisons provided in Attachments E-1 and F-1 of the Comprehensive Settlement. Additionally, rates reflecting these settlements are reflected in the exemplary tariffs provided in Attachment G-1 of the Comprehensive Settlement."

[7] The parties to the Settlement provided an updated signature page and refiled the same settlement terms on February 24, 2021, after the Cities of Duarte and Thousand Oaks formally signed on to the agreement.

[8] Las Palmas joined the response filed by the parties to the Settlement.

D.21-09-038 extended the statutory deadline in this proceeding to December 31, 2021, to provide additional time for the Commission to fully evaluate the three settlements.

2. Issues Before the Commission

The issues in this proceeding, as identified in the Scoping Memo, are:

1. Whether the Commission should authorize Cal-Am's request for a general rate increase for water and/or wastewater service in its consolidated divisions and/or individual districts;[9]
2. Whether the Commission should approve the 17 Special Requests in the Application;[10]
3. Whether the Commission should approve the Advanced Metering Infrastructure (AMI) for Ventura County and Central Division service areas with an estimated cost of $3.7 million;
4. Evaluate the adequacy of Cal-Am's Customer Service;
5. Evaluate whether Cal-Am follows all statutory and regulatory requirements;
6. Evaluate what impact these rate increases will have on low-income residents and how to best address the impact; and
7. Whether there are any safety issues which the Commission needs to address.

3. Standard of Review

There are three settlements being proposed for approval and adoption in this proceeding. They collectively, however, do not fully resolve all disputed issues in this proceeding. The two outstanding disputed issues are:

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[9] Included in this issue is the analysis of the reasonableness of Cal-Am's proposed rates and revenue requirements, capital investments, and whether the evidence supports these requests.

[10] Specific discussion of these special requests is provided in Section 14, *infra*.

1. The statewide-recovery of the Larkfield District wildfire recovery and future catastrophic event costs; and
2. The allocation of the utility plant acquisition adjustment (UPAA) for Cal-Am's acquisitions of Fruitridge Vista, Rio Plaza, and Hillview.

3.1. Standard of Review for Settlements

Pursuant to Rule 12.1(d), the Commission will only approve settlements that are reasonable in light of the whole record, consistent with the law, and in the public interest. Proponents of a settlement agreement have the burden of proof of demonstrating that the proposed settlement meets the requirements of Rule 12.1 and should be adopted by the Commission.[11]

3.2. Standard of Review for Two Outstanding Disputed Issues

As for the two outstanding disputed issues, Cal-Am bears the burden of proof to show that the regulatory relief it requests is just and reasonable and the related ratemaking mechanisms are fair.[12] The applicant, likewise, "has the burden of affirmatively establishing the reasonableness of all aspects of its application. Intervenors do not have the burden of proving the unreasonableness of [the utility's] showing."[13]

4. Discussion Overview

The following sections of this decision examine each of the settled and disputed issues in the scope of this proceeding. Our discussion concerning the

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[11] D.12-10-019 at 14-15; D.09-11-008 at 6.

[12] In the Rate Case Plan for Class A Water Utilities (D.04-06-018), the Commission stated that: "A utility's application for a rate increase must identify, explain, and justify the proposed increase." (D.04-06-018, Appendix at 5.) The application must be supported by testimony, with supporting analysis and documentation, describing the components of the utility's proposed increase. All significant changes from the last adopted and recorded amounts must be explained, and all forecasted amounts must include an explanation of the forecasting method.

[13] D.06-05-016 at 7.

two disputed issues can be found in Section 14.2, regarding the normalization of the Larkfield District wildfire recovery and related catastrophic event costs; and Section 14.12, regarding the allocation of the utility plant acquisition adjustment (UPAA) for Cal-Am's acquisitions of Fruitridge Vista, Rio Plaza, and Hillview.

5. Customers and Sales

Cal-Am made various requests in its application as it relates to forecasted customers and sales.[14] Cal Advocates reviewed Cal-Am's requests and proposed several recommended adjustments.[15] The Settlement ultimately reached compromises on these issues, as discussed below.

5.1. Forecasted Number of Customer Meters

Cal-Am's customer count forecast took into consideration that portions of Monterey County District have been and remain under a growth moratorium. Therefore, Cal-Am held customer counts for these areas flat to 2018 for this GRC. Additionally, Cal-Am included the acquisition of Rio Plaza, Fruitridge, Hillview and Bellflower in these forecasts, which created a one-time customer increase associated with its three recently-acquired service areas and its proposed acquisition of the Bellflower district.[16]

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[14] For specific details on customer meters see, *Cal-Am's Update to General Rate Case Application*, filed October 14, 2019 (Application 100-Day Update), Attachment 1, Ch. 3, at 1, Tables 3.1 – 3.6 at 86-93, 208-215, 312-319, 427-434, 564-571, 686-693, 799-806. For specific details on consumption see, Application 100-Day Update, Attachment 1, Ch. 3, at 1, Tables 3.1 – 3.6 at 86-93, 208-215, 312-319, 427-434, 564-571, 686-693, 799-806; also for specific details regarding forecasted number of customer meters *see* Exhibit CAW-2 at 4-15; Exhibit CAW-5 at 5-6; Exhibit CAW-7 at 2-3, Exhibit CAW-11 at 9-11, and Exhibit CAW-24 at 10-12. For forecasted consumption per connection see Exhibit CAW-6 at 101-109, Exhibit CAW-7 at 2-3, Exhibit CAW-11 at 11-12, Exhibit CAW-20 at 40-41, Exhibit CAW-21 at 1-4, Exhibit CAW-24 at 10-12, and Exhibit CAW-25 at 32-41.

[15] Exhibit CalPA-10 2-2 to 2-11, 2-11 to 2-22, and 3-12.

[16] Exhibit CAW-11 at 9-10.

Cal Advocates made several recommended changes,[17] to which Cal-Am did not agree.[18]

Rather than further litigating this issue, the Settlement provides as follows:

A. For the projected meter count, Cal-Am and Cal Advocates agree to utilize the meter count as of December 31, 2018, for the basis and Cal-Am's methodology in the Results of Operations Model (RO Model) to calculate total projected meter counts;

B. All residential meter growth will be in 5/8x3/4 to 1-inch residential fire protection services (RFPS) and non-residential meter growth will be allocated based on December 31, 2018, recorded meter allocation;

C. Residential Fire Protection Services (RFPS) will be projected by adding the average five years growth to the existing number of meters;[19]

D. Consistent with efforts to accurately reflect meter distribution in acquisition systems as identified in Cal-Am's rebuttal, and to incorporate impacts of flat-rate to metered-rate conversion efforts and length of service (LOS) meter changeouts in the newly acquired Fruitridge service territory, Cal-Am shall incorporate actual meter counts in step rate advice letter filings for escalation years 2022 and 2023; and

E. Cal-Am will incorporate meter counts for its Fruitridge Vista service territory based on actual number of meters by meter size as of September 30th of the filing year (*i.e.*, September 30th, 2021, for 2022 step filing and September 30th, 2022, for 2023 step filing). Pursuant to the standard escalation methodology adopted in the Rate Case Plan, incorporation of Fruitridge meter count will not impact

[17] Exhibit CalPA-2 at 6-10.

[18] Exhibit CAW-24 at 10-12.

[19] The projected number of customer meters by size are set forth in Attachment A-2 of the Settlement.

authorized revenue requirement in the step rate filings, but only allocation of that authorized revenue requirement.[20]

5.2. Forecasted Consumption per Connection

Cal-Am set forth its forecasted consumption per connection in its testimony and forecasted the number of customer meters by using the average of recorded meter counts for December 31, 2017, and December 31, 2018, then applying a 50% weighting factor to the annual meter growth in year 2019, and then adding the total annual projected growth to forecast years 2020 and 2021.[21]

Cal Advocates asserted that Cal-Am over-forecasted water consumption per connection for TY 2021, which resulted in over-forecasted revenue from variable charges. Cal Advocates noted this will result in Cal-Am collecting more of its revenue from surcharges, while providing notice of only a fraction of the bill impacts customers will likely experience during this GRC cycle.[22]

Cal Advocates stated that, in D.04-06-018, the Commission provided specific guidance for forecasting water consumption for the test year. For most districts, Cal Advocates asserts that Cal-Am utilizes a consultant-developed consumption forecast by customer class.[23] For Meadowbrook, Garrapata, Dunnigan, and the four acquired systems, however, Cal Advocates notes the consultant did not have enough historic data for its econometric model, so Cal-Am used other assumptions detailed in Exhibit CAW-11.

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[20] Per the transitional rate design for Fruitridge Vista, as included in the general rate case (GRC) filing, the pre-acquisition rate design will be maintained, and rates will be increased by 9% annually from 2019 through 2023. The transitional rate design was not opposed by Cal Advocates in the GRC proceeding.

[21] Exhibits CAW-6 at 108-109; Exhibit CAW-11 at 11-12.

[22] Exhibit CalPA-10 at 2-11 to 2-12.

[23] Exhibit CalPA-10 at 2-12 to 2-13.

Further, Cal Advocates stated that Cal-Am's sales forecast for TY 2021 generally utilizes an econometric model that takes into consideration numerous factors known to influence consumption.[24] Cal-Am contested the assertions made by Cal Advocates.[25]

The Settlement provides a compromise for Cal-Am's forecasted consumption per connections, as described below:

A. Cal-Am shall use a lower rebound percentage consistent with the direct testimony of Cal Advocates and rebuttal testimony of Cal-Am;

B. For all districts, the rebound percentages initially proposed by Cal-Am in forecasting 2021 consumption will be reduced by two percentage points. For example, the 9% rebound percentage for the Northern Districts will be reduced to 7% consistent with Cal Advocates' testimony. The rebound percentage in the Central District of 4% will be reduced to 2%, and the rebound percentage in the Southern Districts of 7% will be reduced to 5% consistent with Cal-Am's Rebuttal Testimony; and

C. Cal-Am and Cal Advocates agree to this approach for all districts and customer classes except for the residential customer class in the Duarte, Ventura, and Central Satellite districts, where demand will be set at the 50% drought rebound forecast provided in the rebuttal testimony of David Mitchell, and the Monterey district where residential demand will be set based on 2019 actual.[26]

For the Monterey District, Cal-Am reached a partial settlement with MPWMD related to sales forecasting. In that settlement, the two parties agreed

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[24] Exhibit CalPA-10 at 2-15 to 2-22.

[25] Exhibit CAW-20 at 40-41; Exhibit CAW-21 at 1-14; Exhibit CAW-24 at 10-12; and Exhibit CAW-25 at 32-41.

[26] Attachments A-3 and A-4 in the Settlement Agreement presents the consumption per connection and total consumption respectively for each service area.

the 2019 actual consumption should be used to determine the sales per connection forecast, and that the 2019 residential consumption by tier and non-residential consumption by division should be used to establish tariff rates in the final decision. Cal-Am and MPWMD further agreed that the utility's GRC implementation advice letter (AL) and tariff rates shall reflect consumption from the approved 2021 Annual Consumption Adjustment Mechanism (ACAM) advice letter.[27]

5.3. Discussion on Settled Issues Related to Customers and Sales

We have reviewed the record of this proceeding concerning forecasting number of customer meters and consumption per connection in each of Cal-Am's divisions and find that the Settlement reaches compromises on these issues that are reasonable in light of the whole record, consistent with law, and in the public interest. The agreements reached in the partial Cal-Am-MPWMD Settlement are incorporated in the Settlement's terms, and Cal-Am shall reflect the agreed-upon forecasts for number of customer meters and consumption per connection in its implementation AL for this GRC.[28] Cal-Am shall not recover any costs associated with its proposed acquisition of the Bellflower Municipal Water System until or unless that application is approved by the Commission.[29]

---

[27] Cal-Am-MPWMD Settlement at 13.

[28] Parties to the Settlement response to March 25, 2021 ALJ Ruling, filed on April 6, 2021, at 3. The parties that filed this response were the same as those that signed on to the Settlement agreement, and they collectively stated that the schedules included in the Settlement Agreement reflect the agreements reached in the Cal-Am-MPWMD and Cal-Am-Las Palmas settlements.

[29] Cal-Am's A.18-09-013 requests approval to purchase the Bellflower Municipal Water System and is still under Commission review.

6. Revenues and Rate Design

Rate design translates a company's approved revenue requirement into rates paid by customers. There are four main variables which determine commodity rates for each ratemaking area. They are 1) Usage; 2) Tier Breakpoints; 3) Number of Tiers; and 4) Step-Ups in Commodity Charges.[30] To determine how much revenue Cal-Am will collect at each tier, it is necessary to determine the percent of total water consumption for each district that is projected to happen at each tier. Cal-Am made various requests in its application as it relates to revenues and rate design,[31] and Cal Advocates proposed several changes to Cal-Am's proposed rate designs. The Settlement provides compromises on each of these issues, as discussed below.

6.1. Service Charge

Cal-Am proposed to eliminate the separate Residential Fire Protection Service (RFPS) meter charges and add a meter-based sur-credit to simplify its tariffs and charge an appropriate rate for customers that upsize due to fire code regulations.[32] Cal-Am also noted that RFPS rates have not been increased through rate design as its regular rates have been. In Special Request Number 15, Cal-Am requested to charge RFPS customers based on actual meter size and provide them with a meter-based sur-credit to simplify the bills. This issue is addressed in Section 14.15, *infra*.

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[30] Step-ups in commodity rates are the difference between the rates at each tier in the tiered-rate system.

[31] For specific details on Cal-Am's requests related to revenues and rate design, *see* its Application 100-Day Update Chapter 3 and Attachment 1, Chapter 10.

[32] Exhibit CAW-5 at 118-120; Exhibit CAW-7 at 5-13; Exhibit CAW-11 at 46-55; and Exhibit CAW-24 at 24-36.

Cal Advocates argued that Cal-Am failed to justify its proposed shift in the fixed/commodity revenue collection ratio and suggested several changes but agreed to Cal-Am's request to increase revenue collection from meter charges.[33]

Cal-Am disagreed with Cal Advocates recommendations, but instead of litigating these issues, the Settlement provides as follows:

A. Cal-Am will collect 30% of its revenue requirement from meter charges in the Northern and Central Divisions;

B. Cal-Am will collect 20% of its revenue requirement from meter charges in the Southern Division (San Diego and Ventura);

C. Cal-Am's proposed meter ratios for Monterey County, as set forth in the tables depicted in the Settlement Agreement, are agreed to by the settling parties;[34] and

D. Cal-Am's proposal to include RFPS in the meter charge calculation using the midpoint meter ratios is agreed to by the settling parties.[35]

D.16-12-026 provides guidance for rate design regarding the ratio of meters (fixed) to commodity (quantity-based, variable) charges. As the Commission noted in that decision, water utility fixed costs comprise about 70% of total costs, and that an increase in fixed charges could (1) reduce water utilities' reliance on quantity charges to collect authorized revenues; and (2) consequently decrease the amounts necessarily recovered from their Water Revenue Adjustment Mechanism (WRAM) or surcharges.[36] D.16-12-026

[33] Exhibit CalPA-10 at 1.3 to 1.4; 4.1 to 4.8; and 5.37.

[34] Settlement at 8.

[35] Settlement at 7-9.

[36] D.16-12-026 at 55-57.

directed all Class A and Class B water utilities to consider shifting up to 50% of their water rate collection to fixed charges.[37]

We have reviewed the record of this proceeding concerning meter charges and RFPS and find that the parties have made a fair and reasonable compromise on these issues. The Settlement's provisions related to the meter charges in Cal-Am's service territories align with a broader effort to gradually adjust service charges to recover an increased amount through fixed charges, which could reduce WRAM balances, result in cost-based rates, and improve bill predictability. We therefore find these terms reasonable in light of the whole record, consistent with law, and in the public interest.

6.2. Tier Breakpoints and SQR Rates

Cal-Am requested specific tier break points and Standard Quantity Rate (SQR) Ratios in the Northern, Southern, and Central Divisions based on parameters from a settlement with Cal Advocates in another proceeding, A.10-07-007.[38]

Cal Advocates proposed three different options for determining percentage of water use by tier across Cal-Am's service territory, by analyzing data from the following timeframes: 2015-2018; 2017-2018; and 2018 alone. Cal Advocates recommended a general methodology for setting tier breakpoints, with some different considerations for the Monterey, Duarte, and Central Satellite districts, and suggested a five-tiered rate structure for Monterey County and a four-tiered rate structure for all other districts.[39]

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[37] *Ibid.* at 8-9.

[38] Exhibits CAW-7 at 6-11, CAW-11 at 39-53 and Attachment 5 and CAW 21 at 25-27.

[39] Exhibit CalPA-10 at 4.12.

Cal-Am noted that a delay in a prior GRC decision prevented implementation of a new rate design for Sacramento customers until May 2019.[40] Cal-Am found the current rate design, as approved in D.18-12-021, is having the intended effect of reducing consumption and argued that the existing rate design for Northern Division is effective, based on customer feedback, and should remain in place for this GRC cycle.

Instead of litigating these issues further, the Settlement provides a compromise that reflects the rate design proposed in Cal-Am's Direct and Rebuttal Testimony with adjustments so that median usage customers (and below) experience no more than the average system wide increase in rates. The tables in the Settlement, Section 4.2, illustrate the agreed-upon tier break points and SQR Ratios for the Northern, Southern, and Central Divisions.[41]

We have reviewed the record of this proceeding concerning Cal-Am's SQR ratios and tier break points and find that the Settlement's terms are reasonable in light of the whole record, consistent with law, and in the public interest. Cal-Am shall provide information regarding the new rate design on its website and provide bill inserts explaining the new rate design for high-usage customers that may experience higher rates under the new tier structures.

6.3. Monterey Rate Design

MPWMD supported Cal-Am's proposed removal of the 5th tier of rates and asserted that water usage in the upper tiers has dropped by nearly 70% over the past 10 years, thereby attaining the goal of reducing consumption from the highest users. The Settlement proposes no changes to the non-residential rate

[40] Exhibit CAW-24 Section 6 at Attachment 5.

[41] Settlement at 11-12.

design in the Monterey District but provides the following agreements on residential rate design:

A. Elimination of the fifth tier for residential single- and multi-family tariffs;

B. Maintenance of the existing single-family block widths for both Tier 1 and Tier 2 at 4.0 centum cubic feet (ccf) or 29.9 100-gallon increments (CGLs);

C. Maintenance of the existing multi-family block widths for both Tier 1 and Tier 2 at 2.5 ccf or 18.7 CGLs;

D. The Tier 4 break point for single and multi-family tariffs shall be set to ensure approximately 5% of the consumption for the respective rate classes;

E. The Tier 3 break point aligns with keeping 5% of the consumption in Tier 4;

F. Tier rate ratios for Tiers 1 through 4 shall be set at 1.0, 1.5, 4.0, and 6.0, respectively;

G. The gap between the current ratio used to develop the meter rates and the standard meter ratios shall be closed by 50%; and

H. The meter charge shall recover 30% of Cal-Am's revenue requirement in the Monterey District.

We have reviewed the record of this proceeding concerning the tier break points and SQR ratios for the Monterey District and find that the parties have made fair and reasonable compromises on this issue. We further find these terms reasonable in light of the whole record, consistent with law, and in the public interest. Cal-Am shall provide information on its website and outreach through billing inserts that explain the new rate design to high-usage customers in the Monterey District that may experience higher rates under the new tier structures.

6.4. Southern Division Purchased Water Cost Consolidation

Cal-Am testified that it is time to move away from considering water as a local issue and view it from a higher, more consolidated level to better provide its customers water for basic needs at a reasonable price. Cal-Am also stated that it must be able to signal the need to conserve to those that use large quantities of water for non-essential uses. Cal-Am argued that creating a larger Southern tariff area will help provide reasonable pricing for all customers while encouraging conservation.[42]

In conjunction with the broader Southern Division tariff area consolidation proposal outlined in Special Request #1, which is discussed in detail in Section 14.1, *infra*, Cal-Am proposed to consolidate purchased water costs of the Southern Division with any non-consolidated purchased water costs remaining in the identified district.

Cal Advocates outlined various scenarios including consolidating more than 50% of purchased water into the Southern Division's revenue requirement for Baldwin Hills and/or San Diego.[43] Cal-Am offered no rebuttal on Cal Advocates' proposals.

The Settlement adopts Cal-Am's request for partial purchased water cost consolidation in the Southern Division with minor adjustments and recommends that the same methodology should be used in filing any purchased water offsets for the Southern Division.[44]

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[42] Exhibit CAW-6 at 13-38 and Attachment 4 and Exhibit CAW-20 at 42-56. Further discussion of Special Request #1 is included in Section 13.1 below.

[43] Exhibit CalPA-10 at 5.3-5.20 and Attachments 2 and 6.

[44] Settlement at 12-13.

We have reviewed the record in this proceeding and find that the parties have made compromises on this issue that are reasonable in light of the whole record, consistent with law, and in the public interest. Cal-Am is authorized to partially consolidate purchased water costs in its Southern Division, as agreed to in Section 4.3 of the Settlement.

6.5. Low Income Ratepayer Assistance Program

Cal-Am's Low Income Ratepayer Assistance (LIRA) Program provides a 20% discount on the service charge as well as the quantity rate for Tier 1 and Tier 2 in all service areas except for Monterey.[45] For Monterey, the discount is 30% and is applicable to Tiers 1 through 2.[46] Cal Advocates recommends that the Commission authorize Cal-Am to continue its LIRA, or Customer Assistance Program (CAP).[47]

Under the Settlement, Cal-Am would be authorized to continue its existing CAP program, which provides a 20% discount on the meter charge and tier 1 and 2 volumetric charges for all districts except the Monterey District. For the Monterey District, a discount of 30% would be applied on the meter charge and volumetric charges for customers in tiers 1, 2, and 3. Previously, the Monterey District's CAP discount applied to the meter charge and the volumetric charges for tiers 1 through 4. The Settlement provides that, with the recommended elimination of the 5th tier, it is appropriate to apply the discount to the first three tiers, because consumption in the 4th tier under the proposed rate

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[45] The Commission directed Cal-Am to change the name of the LIRA program to Customer Assistance Program, or CAP, to align with the United States Environmental Protection Agency nomenclature. (D.20-08-047 at 79-80 and Ordering Paragraph 4.)

[46] Exhibit CAW-10 at 20.

[47] Exhibit CalPA-10 at 4.27 and 4.29.

design would be similar to the to-be-eliminated 5th tier. Thus, it would be appropriate to apply the CAP discount only to the first three Monterey District tiers in this GRC cycle.

The Cal-Am-Las Palmas Settlement provided that the low-income discount for Monterey active wastewater customers should be increased to 35% of a customer's monthly bill, and that Cal-Am should provide informational letters and CAP application materials to all active and passive wastewater customers.[48] The Cal-Am-MPWMD Settlement and MPWMD's comments on the Settlement were silent on the issues related to the CAP.

The Settlement separately addresses the Hardship Assistance Program, which Cal-Am has administered in the Monterey District at no cost to ratepayers in the past.[49] Cal-Am proposed to expand its Hardship Assistance Program, which has been administered with shareholder funds in cooperation with a local United Way office in Monterey, to a statewide program. Cal-Am proposed to expand the Hardship Assistance Program to other service territories, working with other local United Way offices and to recover 50% of the statewide program's cost. The Settlement adopts this proposal as described further in Exhibit CAW-10.[50]

MPWMD argued that it is opposed to subsidies between customers and service regions, in general, and suggested the impacts of Cal-Am's proposed CAP expansion cannot be evaluated with the information Cal-Am provided in

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[48] *See* Appendix C to the instant decision, at 7.

[49] Monterey's Hardship Assistance Program was initially grant-funded with $50,000 and provides up to $1,000 per customer if they face a water service shut-off due to non-payment, based largely on income related criteria. The program costs have not previously been recovered from ratepayers.

[50] Exhibit CAW-10 at 21-22.

testimony.[51] MPWMD raised concerns about the potential rate impacts to customers in the Monterey District if Cal-Am is authorized to recover up to 50% of the costs of the statewide Hardship Assistance Program from ratepayers. MPWMD stated that while it does not oppose the program in concept, Cal-Am's proposal would be a new burden to ratepayers, because the program has historically been provided through grants and shareholder funding. MPWMD requested relief from any increased ratepayer impacts associated with offering the Hardship Assistance Program in its district and/or other Cal-Am California service districts.[52]

Cal-Am clarified that the total ratepayer-funded portion of the Hardship Assistance Program for this GRC cycle is $37,300 per year for the Central Division.[53]

The costs the Central Division will see in 2021-2023, related to the Hardship Assistance Program, are reflected in the Settlement Agreement in the Operation Expense line item under Operation & Maintenance Expense as provided in the Comparative Summary of Earnings tables provided in Attachments E-1 (for statewide) and F-1 (by division).[54]

We are not persuaded by MPWMD's request to exclude customers in the Monterey District from contributing to the CAP and Hardship Assistance Program, because Monterey District customers receive benefits from the availability of Cal-Am's customer assistance programs.

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[51] Exhibit MPWMD-3 at 14-15.

[52] MPWMD response to March 25, 2021, ALJ Ruling at 10.

[53] Cal-Am response to MPWMD comments on the March 25, 2021, ALJ Ruling at 4.

[54] *Ibid*.

We have reviewed the record of this proceeding as it relates to these issues and find that the compromise reached in the Settlement related to the statewide expansion of the CAP, the extension and expansion of the Hardship Assistance Program, and the associated cost recovery are fair. The Settlement prudently considered the rate impacts and financial burdens the proposal would have on each of Cal-Am's service territories, including the Monterey Service District. We agree with Cal-Am that spreading the costs of the statewide program across a broader customer base will minimize the impact to each ratepayer, and that Monterey District customers can benefit from this cost-sharing effort if there is a catastrophic disaster or other unexpected service impacts to customers in that District.[55] We therefore find the Settlement's terms on Cal-Am's customer assistance programs reasonable in light of the whole record, consistent with law, and in the public interest. We further find that the agreement reached in the Cal-Am-Las Palmas Settlement related to increasing the CAP discount and providing additional outreach to active and passive wastewater customers is reasonable in light of the whole record, consistent with law, and in the public interest.

Accordingly, Cal-Am should expand its Hardship Assistance Program to its service territories across California, may recover up to 50% of the costs associated with it from ratepayers, and shall modify its Hardship Assistance Program to align with the terms of the Settlement. Cal-Am should also ensure its expanded Hardship Assistance Program aligns with the criteria set forth in D.11-05-020, as modified by D.21-07-029.[56] D.21-07-029 requires Class A water

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[55] *Ibid.*

[56] D.11-05-020 permitted but did not require sharing low-income customer information among regulated water and municipal energy utilities; took notice of existing data sharing programs between Commission-regulated energy utilities and municipal irrigation and water districts;

Footnote continued on next page.

utilities to participate in a series of data reporting working sessions sponsored by the Commission's Water Division, to review and collaborate toward reconciling, refining and devising a consistent and clear set of requirements for reporting billing and collections data, which are being required pursuant to the decision and the ongoing evaluation of water affordability in Rulemaking (R.) 17-06-024.[57]

Further, D.21-06-015 directed the regulated energy utilities to identify whether "new water-related measures and technologies can be added to the [Energy Savings Assistance] program" and to "conduct no-cost/low-cost campaigns to include information about low income water programs in their existing ME&O efforts."[58] Similarly, D.21-07-029 requires Commission-regulated energy utilities to expand their exchange of low-income consumer data with water systems statewide in an effort to increase water affordability and move toward a unified statewide low-income water rate assistance program.[59]

Likewise, Cal-Am shall continue its collaboration with Commission-regulated energy utilities to ensure customers that have enrolled in low-income energy programs are aware of the CAP program, the Hardship Assistance Program, and any other assistance programs Cal-Am offers to support low- and moderate-income customers to reduce water consumption and otherwise lower their water bills.[60]

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and addressed data transfer methods, obtaining customer authorization, and methods to ensure the security and privacy of customer information. (At 10-11; Finding of Fact 7 and 8; and Attachment #1.)

[57] D.21-07-029 at 68-70.

[58] D.21-06-015 at 441.

[59] D.21-07-029 at 31-32.

[60] D.20-08-047 directs all Class A water utilities to share data with electric investor-owned utilities related to customer enrollment in low-income programs. In its Advice Letter 1333, filed on April 1, 2021, CAW proposed to conduct this data sharing effort quarterly starting in 2022.

6.6. Other Revenue

Other Revenue sources include, but are not limited to Method 5 Revenues, Contract Revenues, Miscellaneous Revenues, Rents, and Private Fire Protection Services.[61]

Cal Advocates asserted that Cal-Am should have used a five-year average of recorded data for Other Revenues, suggested that this miscellaneous revenue should be forecasted by increasing the 2018 recorded amount by the same percentage as Cal-Am's requested revenue requirement, and stated that Cal-Am failed to provide justification for its calculated Other Revenues.[62]

Cal-Am argued that it is inappropriate to use escalation factors intended for use on expenses to forecast revenue categories and an increase in revenue requirement does not necessarily lead to an increase in miscellaneous revenues.[63] Cal-Am agreed that the revenues from the unmetered Sacramento customer should be included in Other Revenues, but that the contract provides for a set monthly amount that will not increase over the life of the contract.

The Settlement proposes to forecast Other Revenues (excluding Method 5 revenues) based on recorded 2018 revenue for antenna leases, a three-year recorded average (2016-2018) for Miscellaneous Revenue, and inclusion of $62,771 per year to account for Cal-Am's contractual agreement with the Sacramento unmetered customer.[64]

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[61] D.87-09-026 requires Class A water utilities to use what is called Method 5 to account for the applicable tax on contributions and advances; Application 100-Day Update, Ch. 3, Tables 3.16 - 3.22, (PDF) pp. 12, 14, 16, 18, 20, 22, 24, 86-87, 103-128, 208-209, 225-239, 312-313, 329-353, 427-428, 446-468, 564-565, 581-604, 686-687, 706-729, 799-800, 817-841 and also CAW Exhibit 11 at 16 and 24 at 15-20.

[62] Exhibit CalPA-10 at 3.9.

[63] Exhibit CAW-24 at 15-20.

[64] Settlement at 14.

We have reviewed the record of this proceeding concerning Cal-Am's Other Revenues forecasts and find that the parties reached compromises on these issues that are reasonable in light of the whole record, consistent with law, and in the public interest. Cal-Am shall forecast its other revenues based on recorded revenues pursuant to the agreements reached in the Settlement. Method 5 revenues associated with new developments shall be forecasted as described in Section 14.11, *infra*.

7. Expenses

Cal-Am estimated TY 2021 Operations and Maintenance (O&M) and Administrative and General (A&G) expenses at $109,451,588.[65] In the last five years (2014-2018), Cal-Am recorded an average increase of 1.36% annually in total O&M and A&G expenses.[66] Cal-Am's proposed budget of $109,451,588 results in an average increase of approximately 5.45% annually from the last recorded year (2018).[67] Cal Advocates proposed several changes to Cal-Am's proposed expenses to be recovered in this GRC cycle. The Settlement provides compromises on these issues, as discussed below.

7.1. Purchased Water (Acct 704)

Cal-Am's purchased water forecast for 2021 and 2022 is based on estimated total water production, district operations, assessments of sources and uses of produced and purchase water, the current prices and assessments from

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[65] CAW workpaper "ALL_CH04_O&M_RO" under sheet titled "Summary of Costs – NARUC WS11" in row: 103.

[66] CAW workpaper ALL_CH04_O&M_RO" sheet titled "Summary of Costs - NARUC WS11" in row 103. Average of percentage increase each year from 2014 to 2018.

[67] CAW workpaper "ALL_CH04_O&M_RO" under sheet titled "Summary of Costs - NARUCWS11" in row: 103, where year 2018 is $94,068,954 and TY 2021 is $109,451,588. Percentage increase is ($109,451,588-$94,068,954)/ $94,068,954 which is 16.35% for three years (2018-2021). Forecasted percentage increase per year is 16.35%/3 years= 5.45%.

water provider agencies, except for the Central Division, for which Cal-Am has historically recorded Seaside Basin Wastewater costs in the purchased water account.[68] The costs projected for TY 2021 were calculated by multiplying either 2018 or 2019 water rates with total forecasted water production for each water wholesaler in all districts except Monterey, which utilizes a recorded five-year inflated adjusted average. [69]

Cal Advocates suggested Cal-Am's TY 2021 purchased water forecast is unreasonable, because it does not account for increases in water rates during the period between the time the initial Application was filed and the TY, which under-forecasts purchased water rates. Cal Advocates suggested this methodology may result in the illusion of a smaller increase in rates in the GRC, while customers ultimately experience surcharges which increase their bills.[70]

To provide a more accurate forecast of purchased water costs, Cal Advocates recommended the Commission raise Cal-Am water rates by the average annual

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[68] Application 100-Day Update, Attachment 1, Ch. 4, Table 4.3 (PDF) at 32-33, 137-138, 249-250, 362-363, 478-479, 614-615, 739-740, and 852-853; Exhibit CAW-11 at 17-18; and Exhibit CAW-22 at 7-12.

[69] Water rates refers to purchased water rate Cal Am pays to its water wholesalers. This is identified in CAW's workpaper "ALL_CH04_O&M_WP_Purchased Water" for TY 2021; *see also* Attachment 02: Cal-Am's response to Data Request ("DR") ANU 001 Q005b, Cal Am provides corrected numbers for total purchased water for Monterey/central division. Cal-Am changed forecast from $1,159,958 to $1,147,505 (decrease of $12,453) in TY 2021 in workpaper "Cal PA ANU 01 Sec 01 Q005 Attachment 1. The forecasted costs also reflect the Marina Coastal Wheeler fee, the five-year average of Watermaster assessment costs, and the purchased water contains costs related to the Sand City Desalination plant, as described in Exhibit CAW-11 at 17 and CAW Workpapers at Chapter 4.

[70] Exhibit CalPA-6E (Public) at 4. Cal Advocates noted that in 2014-2018, CAW customers have seen an average annual rate increase of 3.69%.

percentage increase in purchased water rates experienced over the past five years (2014-2018).[71]

Cal-Am argued that Cal Advocates' proposed methodology is not consistent with the Revised Rate Case Plan for Class A Water Utilities.[72]

Rather than litigating this issue, the Settlement provides as follows:

A. Cal-Am will adopt Cal Advocates' methodology to include projected wholesale purchased water rate increases in the estimated TY 2021 Purchased Water expense, with the exclusion of purchased water expenses related to the Pure Water Monterey Purchased Water Agreement;

B. Future purchased water offsets related to Pure Water Monterey Purchased Water Agreement in the Monterey Main service area will be implemented via purchased water offset with a separately identified surcharge;

C. No additional escalation shall be included for escalation years 2022 and 2023; and

D. Wholesale water offsets for 2022 and 2023 will be implemented via offset advice letters as authorized by Pub. Util. Code § 792.5 and General Order (GO) 96-B.

7.2. Purchased Power (Acct 726)

Cal-Am calculated its purchased power expenses forecast using an estimate of total kilowatt hour (kwh) usage multiplied by the cost per kwh for each district by the 2018 kwh usage data, divided by 2018 production to determine a kwh per ccf metric for each district. Cal-Am's calculated metric was then applied against the estimated water production quantities in 2021 and 2022

[71] Exhibit CalPA-6E (Public) at 5. Any year-on-year water rate increase of 100% and higher are excluded from the calculated five-year average. as being unlikely to be recurring and are considered as one-time increase.

[72] Exhibit CAW-22 at 7-12.

to develop total kwh usage in those years and costs were escalated for each year of the rate case cycle.[73]

Cal Advocates suggested that Cal-Am under-forecasted purchased power expenses, resulting in higher than necessary surcharges, and that the Commission should require Cal-Am to provide a more accurate and reasonable forecast.[74]

Cal-Am disagreed, arguing that Cal Advocates made a calculation error in its year-over-year percentage increases to the power rates.[75]

Rather than to litigate this dispute, the Settlement provides as follows:

A. Cal-Am will adopt Cal Advocates' forecasting methodology of escalating the 2018 power rates by the average annual percentage increase in power rates experienced over the past five years (2014 - 2018);

B. Cal-Am will incorporate the correction identified in Cal-Am's rebuttal testimony regarding the calculation of the year-over-year percentage increases to the power rates; and

C. The final Purchased Power expense forecast will be based on authorized production.[76]

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[73] Application 100-Day Update, Attachment 1, Ch. 4, Table 4.3 (PDF) pp. 32-33, 137-138, 249-250, 362-363, 478-479, 614-615, 739-740, 852-853; Exhibit CAW-11 at 18-19. 2018 data was used because it contained the most up to date pricing from power providers when CAW's exhibits were filed.

[74] Exhibit CalPA-6E (Public) at 2, 5-7, and Attachment 1.

[75] Exhibit CAW-22 at 12-13.

[76] Settlement at 16-17.

7.3. Outside Services (Acct 798)

Cal-Am calculated the forecasted Outside Services expense using a five-year (2014 - 2018) inflation adjusted average of recorded data.[77] Cal Advocates suggested that some of the historical expenses Cal-Am used to build its forecast are either no longer required, unlikely to be incurred in this GRC cycle, or were miscategorized, and should therefore be removed from Cal-Am's forecast.[78]

Cal-Am disagreed with each of Cal Advocates' assertions, except for the recommended removal of miscategorized recorded regulatory expense items, an adjustment for which was already reflected in Cal-Am's 100-Day Update.[79]

The Settlement provides as follows:

A. Cal-Am shall adopt Cal Advocates' recommendation to remove recorded costs for the Los Padres Dam Long Term Study;

B. Cal-Am shall retain the costs for arc-flash studies in the recorded expenses as originally proposed by Cal-Am;

C. Cal-Am shall remove the miscategorized recorded regulatory expense agreed to in Cal-Am's rebuttal testimony and incorporated into its 100-Day Update submittal; and

D. Cal-Am shall adopt a Temporary Employee expense forecast of $88,250 based on increased headcount, which represents a compromise between Cal-Am's forecast of $98,940 and Cal Advocates' forecast of $77,570.[80]

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[77] Application 100-Day Update, Attachment 1, Ch. 4, Table 4.5 (PDF) at 36-37, 141-142, 253-254, 366-367, 482-483, 618-619, 743-744, 856-857; Exhibit CAW-9 at 29-30; Exhibit CAW-22 at 14-15.

[78] Cal Advocates Exhibit 6E (Public) at 2, 7-11 for a complete list of expenses that Cal Advocates should be eliminated, and Attachment 1.

[79] CAW Exhibit 22 at 14-15.

[80] Settlement at 18-19. A table detailing the differences between CAW and Cal Advocates' positions and the compromises reached is included in Section 5.3 of Appendix B.)

7.4. Rents (Acct 811)

Cal-Am used a five-year inflation adjusted average (2014-2018) to estimate the rents in all of its districts, with exceptions for actual lease costs associated with (1) the corporate office in San Diego, (2) the legal office in San Francisco, and (3) the operations center in Imperial Beach. Lease agreements for the corporate office and Imperial Beach operations center are consistent with expenses included in the last GRC. The lease agreement for the legal office in San Francisco includes an expansion of 571 square feet, which Cal-Am contends is necessary to facilitate the increased workload for the legal department.[81] Rent expenses requested for Account 811 also include an adjustment of $231,000 related to Cal-Am's corporate headquarters interim transition plan and a forecasted rent expense of $48,000 for the administration and operations office building for Hillview Water Company.[82]

For TY 2021, Cal-Am's forecasted rents consist of office leases, equipment leases, and headquarter relocation costs that may not be incurred in 2021, and Cal-Am requested a total relocation budget of $553,600 in this GRC cycle although the current lease for its headquarters does not expire until 2024.[83]

Cal Advocates argued the Commission should deny this request because if Cal-Am's relocation budget is approved in this GRC cycle, ratepayers may fund rent for a redundant facility for four years. Cal Advocates proposed a rents

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[81] Application 100-Day Update, Attachment 1, Ch. 4, Table 4.5 (PDF) at 36-37, 141-142, 253-254, 366-367, 482-483, 618-619, 743-744, 856-857; Exhibit CAW-3 at 243-245; Exhibit CAW-9 at 31-32, Exhibit CAW-14 at 11; Exhibit CAW-17 at 34; and Exhibit CAW-22 at 15-16.

[82] Cal-Am desires to conduct a study on relocation of its corporate headquarters from San Diego to Sacramento (Exhibit CAW-14 at 11 and CAW-17 at 34 include additional information on the headquarter move proposal.)

[83] Exhibit CalPA-6E (Public) at 2 and 11-15.

account forecast of $1,942,108 in TY 2021, which removes Cal-Am's proposed headquarters relocation costs of $411,600 and one-time equipment leases from recorded years, which would reduce the TY 2021 forecast by $7,494.[84]

Cal-Am described progress on the proposed corporate headquarters relocation and described the need for relocation of employees in the Sacramento Beloit facility.[85] Cal-Am further disagreed with the removal of single-entry equipment leases.[86]

The Settlement provides several compromises regarding the Rents Account 811, as follows:

A. Cal-Am will not include lease expenses and capitalized tenant improvements relating to the proposed corporate headquarters relocation plan in the forecasted Rents expense for TY 2021, but instead will include such expenses, if such are incurred, in a future GRC;

B. Cal-Am shall retain recorded single-entry lease expenses in the recorded expenses used for the forecast; and

C. Cal-Am shall remove the miscategorized recorded regulatory expense agreed to in Cal-Am's rebuttal testimony and incorporated into Cal-Am's 100-Day Update submittal.[87]

7.5. Regulatory Commission Expenses (Acct 797)

Account 797 includes all expenses incurred by Cal-Am for formal cases before regulatory commissions, other regulatory bodies, or cases where Cal-Am

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[84] Exhibit CalPA-6E (Public) at 11-15

[85] Exhibit CAW-17 at 34.

[86] Exhibit CAW-22 at 15-16.

[87] Settlement at 19-20. A table detailing Cal-Am's request, Cal Advocates' initial recommendations, and the settlement amounts for Rents is included in Section 5.4 of the Appendix B.

is a party.[88] In this GRC, Cal-Am initially sought a total Account 797 expense budget of $5,192,979 for three years (2021-2023), or $1,730,993 per year if amortized equally, based on an evaluation of historical proceedings, rates for outside counsel and consultants, and costs associated with printing and mailing customer notices.[89]

Cal Advocates noted that Cal-Am's request would amortize its proposed budget over 27 months rather than the standard 36 months, that Cal-Am's recorded five-year average of similar expenses in 2014-2018 is 40% lower than its TY 2021 forecast, and that Cal-Am's forecast is approximately three times higher than other Class A water utilities.

Cal-Am disagreed with Cal Advocates.[90] However, rather than litigate these issues, the Settlement provides the following compromises:

A. Cal-Am shall use the three-year recorded inflation adjusted average from the last completed GRC cycle (2015-2017) as the baseline for the forecasted TY Regulatory Commission expense;

B. From this baseline figure, Cal-Am will add an additional incremental expense for consulting expenses incurred in the current GRC cycle (2018-2020) that were not incurred in the last completed GRC cycle; and

C. Based on this methodology, Cal-Am and Cal Advocates agree to adopt a total forecasted Test Year 2021 Regulatory Commission expense of $1,500,060.[91]

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[88] Cal-Am noted that some of the proceedings it is involved in include many intervenors such as environmental groups, governmental agencies, and other groups, and that outside counsel and regulatory consultants are sometimes hired by Cal-Am.

[89] Application 100-Day Update, Attachment 1, Ch. 4, Table 4.5 (PDF) at 36-37, 141-142, 253-254, 366-367, 482-483, 618-619, 743-744, 856-857; Exhibit CAW-9 at 24-29; Exhibit CAW-22 at 16-27.

[90] Exhibit CAW-22 at 16-27.

[91] Settlement at 20-22.

7.6. CA Uncollectible Accounts (Acct 775) [Excluding Leak Adjustments]

Cal-Am forecasted the uncollectible expenses to be tracked in Account 775 by using a five-year (2014 - 2018) average of the annual uncollectible rate and multiplying the calculated historical uncollectible rate by forecasted revenues. Further modifications to this calculation were made to account for the removal of leak adjustments as part of Special Request #4, which is discussed in detail in Section 14.4, *infra*.[92]

Cal Advocates argued that the calculations in Cal-Am's RO Model did not match the methodology identified by Cal-Am in its direct testimony, and instead recommended an uncollectible rate of 0.5117%.[93]

The Settlement adopts Cal Advocates' proposed uncollectible rate of 0.5117%.[94]

7.7. Other Administrative & General (A&G) (Accts 792-805)

To develop its forecasted costs for Other Administrative & General (A&G) Accounts (Accts 792-805), Cal-Am used an inflation adjusted five-year average (2014 - 2018), adjusted for costs relating to sampling and monitoring system (SAMS) modules, transportation leases, and incremental expenses related to acquisitions of the Rio Plaza, Fruitridge Vista, Hillview Water, and Bellflower Municipal Water systems.[95]

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[92] Application 100-Day Update, Attachment 1, Ch. 4, Table 4.3 (PDF) at 32-33, 137-138, 249-250, 362-363, 478-479, 614-615, 739-740, 852-853 and CAW Exhibits 9 at 12-13 and 22 at 27; Exhibit CAW-9 at 13.

[93] Cal Advocates Exhibit 6E at 3, 21 and Attachment 1.

[94] Exhibit CAW-9 at 13; Settlement at 22-23.

[95] Application 100-Day Update, Attachment 1, Ch. 4, Table 4.5 (PDF) at 36-37, 141-142, 253-254, 366-367, 482-483, 618-619, 743-744, 856-857; Exhibit CAW-9 at 12-13 and 29-30; and Exhibit CAW-22 at 27.

Cal Advocates recommended certain reductions to the A&G Miscellaneous General expenses relating to: (1) transportation leases based on new annual leases; (2) certain recorded SAMS costs to avoid double recovery of those costs; and (3) removal of customer satisfaction radio expenses from the recorded costs including a reduction of the recorded California Public Radio expenses by 50%. Finally, Cal Advocates suggested certain State Water Resources Control Board (SWRCB) drinking water fees should have been recorded at Account 766 and should therefore be removed from this A&G request for Accounts 792-805.[96]

Cal-Am largely disagreed with Cal Advocates' contentions but agreed to remove the identified SAMS costs and to re-categorize the recorded SWRCB drinking water fees expenses.[97] Instead of litigating these issues, the Settlement provides as follows:

A. $2,623,000 for transportation leases, based approximately on a sum of (1) anticipated future 2021 commitments of $2,375,000 related to leases effective as of December 31, 2018, and (2) 2.5 years (2019, 2020, and half of 2021) of new commitments at a rate of $99,387 per year;

B. Recorded SAMS expenses identified above should be removed from recorded costs and the recorded SWRCB fees should be re-categorized to Account 766;

C. 50% of customer satisfaction radio expenses and 50% of recorded California Public Radio expenses should be removed from Cal-Am's request; and

D. Incremental expenses related to the Bellflower acquisition should only be included if that acquisition is ultimately approved by the Commission.[98]

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[96] Exhibit CalPA-6E at 3, 21, 22-23, and Attachment 1.

[97] Exhibit CAW-22 at 27-34, 37, and Confidential Attachments 1 and 2.

[98] Settlement at 23-24.

7.8. Transmission and Distribution (Accts 752-766)

Cal-Am forecasted Transmission and Distribution expenses using a recorded five-year (2014 - 2018) inflation-adjusted average with deviations from this methodology for estimated SWRCB drinking water fees.[99] Deviations from the five-year average methodology for SWRCB expenses were based on new fee schedules adopted in September of 2017.[100]

Cal Advocates testified that the methodology used in Cal-Am's RO Model to forecast SWRCB drinking water fees does not match Cal-Am's testimony and that the modeling results disproportionately increase the forecast. Cal Advocates suggested that certain recorded costs for global positioning system (GPS) equipment should be removed as an expense and instead capitalized, and that any recorded expenses beyond one standard deviation should be fully removed from the requested costs. Additionally, Cal Advocates alleged that some SWRCB drinking water fees were wrongly recorded and should be reclassified to Account 766.[101]

Cal-Am argued that Cal Advocates' five-year average methodology for the SWRCB drinking water fees would diminish the impact of the fee structure change that occurred in late 2017. Cal-Am also disagreed with Cal Advocates' methodology to exclude expense outliers that lie outside one standard deviation. However, Cal-Am agreed with Cal Advocates that certain GPS expenses should

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[99] Excludes Planning Studies and System Maps expense, Planning Studies expense and Tank Maintenance expense, each of which are addressed in separate sections below.

[100] Application 100-Day Update, Attachment 1, Ch. 4, Table 4.4 (PDF) at 34-35, 139-140, 251-252, 364-365, 480-481, 616-617, 741-742, 854-855, Exhibit CAW-3 at 240-261 and Attachment 3, Exhibit CAW-9 at 10-12, 22 at 35-36, and Exhibit CAW-9 at 11-12.

[101] Exhibit CalPA-6E at 2, 28-29, 37-38, and Attachment 1.

have been capitalized and that certain wrongly-recorded SWRCB drinking water fees should be reclassified.[102]

The Settlement proposes to adopt Cal-Am's methodology for Transmission and Distribution expenses with respect to SWRCB drinking water fees and standard escalation for all other miscellaneous items included in this account. The Settlement also proposes to capitalize the GPS expenses identified by Cal Advocates and to reclassify the wrongly-recorded SWRCB drinking water fees identified by Cal Advocates.[103]

7.9. CA Miscellaneous Customer Accounts Expenses (Acct 774)

Cal-Am presented specific requests for CA Miscellaneous Customer Accounts expenses using a five-year recorded average, based on expenses in 2014 - 2018.[104]

Cal Advocates asserted that Cal-Am's methodology did not account for declining postal expenses and suggested a reduction from Cal-Am's initial request.[105]

Cal-Am agreed that the original estimate of postage expense of $890,499 is not justified by recent recorded expenses but disagreed with Cal Advocates' argument that the declining trend will continue.[106] Cal-Am recommended a revised postal expense forecast of $750,000, based on Cal-Am's approximate two-year recorded expenses from 2018 ($753,500) to 2019 ($745,400).

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[102] Exhibit CAW-22 at 35-36.

[103] Settlement at 24-25.

[104] Application 100-Day Update, Attachment 1, Ch. 4, Table 4.3 (PDF) at 32-33, 137-138, 249-250, 362-363, 478-479, 614-615, 739-740, 852-853; Exhibit CAW-9 at 12-13 and Attachment 3.

[105] Exhibit CalPA-6E at 3, 30-31, Attachment 1, and 39.

[106] Exhibit CAW-22 at 36-37.

Rather than litigating this issue, the Settlement adopts a TY 2021 postal expense of $750,000 based on Cal-Am's approximate two-year recorded expenses from 2018 - 2019.[107]

7.10. Operating Expenses for Acquired Systems

Cal-Am's Application included a deviation in its forecast to account for additional operating expenses related to the authorized or pending acquisitions of Rio Plaza, Fruitridge Vista, Hillview, and Bellflower water systems.[108]

Cal-Am found that Cal Advocates excluded certain forecasted costs related to acquired systems' operating expenses in its RO Model and eliminated all Bellflower-related operating expenses. Cal-Am disagreed with Cal Advocates' RO Model and identified the deviations with each of the adjustments.[109]

Rather than litigating these issues, the Settlement provides as follows:

A. Adopt Cal-Am's forecasted incremental operating expenses for Fruitridge Vista, Rio Plaza, and Hillview acquisitions as reflected in Cal-Am's 100 Day Update; and

B. Remove incremental operating expenses for the Bellflower system to reflect the Proposed Decision in Cal-Am's Bellflower acquisition proceeding A.18-09-013 issued on March 30, 2020. However, if the final decision in proceeding A.18-09-013 instead authorizes Cal-Am to acquire the Bellflower system, then the final decision in this GRC shall include the incremental operating expenses for the Bellflower system.[110]

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[107] Settlement at 26-28.

[108] Application 100-Day Update, at. 4-5, 133, 245, 359, 408, 419-420, 427, 474, 527, 534, 550, 554-556, 564, 610, 670-671, 735, 848, 904-905; Exhibit CAW-5 at Section VII; Exhibit CAW-9 at 50-69; Exhibit CAW-11 at Section IV, V, and XI.

[109] Exhibit CAW-22 at 41-45.

[110] Settlement at 28.

7.11. Conservation

Cal-Am requested $5,950,305 as a three-year conservation budget for all districts but suggested that amount could be reduced to $4,957,453, if the Commission approves Special Request #13 of this GRC, which seeks to consolidate the conservation budgets on a statewide basis.[111] Cal-Am detailed its current conservation efforts, proposed cost recovery for conservation efforts, and the anticipated impacts of California's New Conservation Framework (Senate Bill 606 and Assembly Bill 1668).[112]

Cal Advocates argued Cal-Am should include its conservation budget and associated revenue requirements in base rates and the associated revenue requirements; certain staff positions should be removed from the conservation budget to avoid double counting; and the three-year conservation budget should be $1,315,524 per year to incorporate those proposed adjustments.[113]

MPWMD suggested that it (1) has broad authority to define conservation regulations in its service territory and (2) should continue to have a separate conservation budget, particularly because the proposed Monterey Peninsula Water Supply Project is unlikely to be operational by TY 2021.[114] Similarly, San Marino noted its significant efforts to achieve conservation and concerns that funding a statewide conservation budget could adversely impact customer rates in the San Marino district.[115]

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[111] Application 100-Day Update, Attachment 1, (PDF) at 179-187, 190-196, 293-304, 521-549, 656-676, 783-787, 898-901.

[112] CAW Exhibit 10 at 2-15.

[113] Exhibit CalPA-6E at 2, 32-33, and 90-91.

[114] Exhibit MPWMD-2 at 3-17 and Attachment 1.

[115] Exhibit San Marino-1 at 3-5.

Cal-Am noted Cal Advocates' recommendation to include conservation budget in base rates would conflict with its Special Request #13, which would authorize Cal-Am to shift funding across years and districts.[116] Cal-Am addressed the staff double-counting issue in its 100-Day Update submittal by removing the conservation labor from its labor forecast, leaving these expenses as part of the conservation budget.[117]

Again, rather than litigating this issue, the Settlement provides that:

A. Cal-Am shall include conservation positions in the labor forecast and remove them from the conservation budget;

B. Cal-Am shall include the conservation budget in base rates at the General Office level with allocation to the District level based on non-contested conservation budgets;

C. Cal-Am will have flexibility and discretion to utilize its authorized conservation budget where needed, and within the three-year rate case cycle, similar to other forecasted capital or expense budgets. The Monterey District is the sole district where the approved conservation funding will need to be spent within that district only;

D. Cal-Am shall eliminate the conservation funding surcharge and close the California American Water Conservation Surcharge Balancing Account effective December 31, 2020;

E. Any trailing interest charges associated with the Conservation Surcharge Balancing Accounts up to approval of the GRC implementation advice letter filing will be transferred to the Consolidated Expense Balancing Account (CEBA); and

[116] *See*, CAW Exhibit 23 at 2-9.

[117] *Ibid.* at 3.

F. The issue of whether conservation budgets can be used to pay for such penalties and fines will be deferred to a future GRC or a separate industry-wide proceeding.[118]

MPWMD opposed Cal-Am's proposal, and the agreements reached in the Settlement related to conservation expenses, based on concerns that the settlement may result in cost shifting to customers in the Monterey District.

7.12. Leak Adjustments

If a Cal-Am customer experiences a leak on the customer side of the meter, its water usage could be charged at the highest tier rate without the customer's knowledge, which could result in an unexpectedly high monthly bill.[119] Leak adjustments are issued by Cal-Am to individual customers at the discretion of Cal-Am staff.[120] Cal-Am forecasted TY 2021 leak adjustment expenses based on recorded 2018 data and estimated approximately $2.7 million in TY 2021 leak adjustments, if its request to implement Advanced Metering Infrastructure (AMI) is adopted, or $3.25 million in TY 2021 leak adjustments if its request to implement AMI is denied.[121]

Cal Advocates recommended reducing Cal-Am's forecast of TY 2021 leak adjustment expenses and suggested that, because leak adjustments can elevate Cal-Am's corporate image, shareholders should cover 50% of the forecasted leak adjustment costs.[122]

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[118] Settlement at 29-30.

[119] Exhibit CAW-2 at 11.

[120] Exhibit CalPA-10 at 5-20.

[121] Application 100-Day Update, Attachment 1, (PDF) at 104, 107, 110; Exhibit CAW-2 at 10-14 and Attachment 1; Exhibit CAW-9 at 35-48 and Attachments 7 and 9; Exhibit CAW-16 at 4-7; Exhibit 20 at 70-72; and Exhibit CAW-22 at 67-68.

[122] Exhibit CalPA-6E at 34-36 and Attachments 42 and 43; Exhibit CalPA-10 at 5.20 to 5.23.

MPWMD suggested the recovery of leak adjustments through the WRAM would not provide sufficient disclosure of how leak adjustment costs impact ratepayers' bills and that the Commission should, where appropriate, move cost recovery into base rates rather than bill adders.[123]

Cal-Am argued that the company follows a clear set of criteria in compliance with a Commission approved leak adjustment policy and argued that leaks and the associated adjustments can lead to negative press. Cal-Am also suggested that, if the Commission wants to require recovery of leak adjustments to be reviewed within its GRC, the costs should be evaluated and forecasted as part of Cal-Am's revenue requirements.[124]

Rather than litigating this issue, the Settlement provides as follows:

A. Cal-Am's proposed $2.7 million leak adjustment forecast, based on 2018 adjustments, is consistent with revised leak adjustment policy and therefore a 7% reduction is unnecessary at this time;

B. A statewide leak adjustment forecast of $2.7 million is consistent with Cal Advocates not opposing AMI implementation and removal of the 5th tier in the Monterey District;

C. The $2.7 million statewide leak adjustment forecast should be included in base rates for test year 2021 and any leak adjustments provided to customers that are inconsistent with Cal-Am's established policy will not be recovered in rates;

D. The utility's leak adjustment policy is appropriate and should be continued given the ongoing water supply constraints and steeply inclining tier block rate design for the Monterey District;

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[123] Exhibit MPWMD-2 at 3-9; Exhibit MPWMD-3 at 6-7.

[124] Exhibit CAW-22 at 67-68.

E. The leak adjustment costs for the Monterey District should be included in base rates at an amount of $2.70 million if the rate design and AMI requests are adopted as proposed by Cal-Am, or $3.25 million if those proposals are rejected; and

F. If the actual leak adjustments costs in 2021-2023 are lower than the amount authorized in base rate, the difference should be tracked in the Consolidated Expense Balancing Account (CEBA) and returned to customers.

Cal-Am's request to recover leak adjustment expenses should be recorded in the Water Revenue Adjustment Mechanism/Modified Cost Balancing Account (WRAM/MCBA) and Cal Advocates' response are addressed separately in the discussion of Special Request #4 in Section 14.4, *infra.*

7.13. Planning Studies and System Mapping Expenses

Cal-Am's application included forecasted Planning Studies expenses relating to Urban Water Management Plans (UWMP), Water Infrastructure Act (WIA) – Risk Assessments and Emergency Response Plans, the Wildfire Risk Assessment and Emergency Plan, the Corporate Headquarters Transition and Relocation Study, the Ventura Water Storage Tank Seismic Study, the Ventura Supervisory Control and Data Acquisition (SCADA) Master Plan, the Ventura Integrated Water Supply Master Plan, the Ventura Solar Power Study for Tank Sites, the Ventura Calleguas Municipal Water District Peak Study, the Ventura Turnout Pressure Regulating Valves Hydropower Study, the Monterey SCADA Master Plan, the Los Angeles Water Storage Tank Seismic Study, the Los Angeles

Well Master Plan, the San Diego Alternative Source of Supply Study, and system mapping activities.[125]

Cal Advocates recommended Cal-Am prepare a Portable Generator Planning Study to consider alternatives other than installing stationary generators using internal Cal-Am resources and should not require additional planning study expenses.[126]

Cal-Am initially disagreed with Cal Advocates' recommendations, but as discussed in Section 10, *infra,* the Settlement provides for Cal-Am to prepare a Portable Generator Planning Study to consider alternatives other than installing stationary generators at an estimated cost of $50,000 per Division, or $150,000 total.[127] The costs would be included as a planning study expense in TY 2021.

7.14. Tank Maintenance Expenses

Cal-Am proposed a tank maintenance and improvement program that included painting expenses and inspections by outside consultants.[128]

Although Cal Advocates did not take a position on the prudency or reasonableness of the projects Cal-Am proposes to complete in 2023, Cal Advocates recommended adjustments to the tank maintenance budgets for Lower Wikiup Tank #1 and North Wikiup Tank #2 to account for overlap with capital improvements already included in the Tank Rehabilitation and Seismic Upgrades

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[125] Application 100-Day Update, Attachment 1, (PDF) at 132, 244, 473, 609, 734, and 847; Exhibit CAW-3 at 240-257 and Attachment 3.

[126] Exhibit CalPA-9C at 20-25.

[127] Settlement Sections 8.1.10, 8.3.2, 8.4.6, and 8.7.4. Planning Studies and System Mapping budgets are provided in Attachment B-6 of the Settlement.

[128] Application 100-Day Update, Attachment 1, (PDF) at 132, 244, 473, 609, 734, and 847; Exhibit CAW-3 at 258-261, and CAW Exhibit 17 at 1-3. The consultants would compile studies that provide details on the integrity and condition of the tank inspected, when they should be inspected next, and estimates of project costs.

capital project in Larkfield. Cal Advocates further stated the tank maintenance expense for the Upper Wikiup Tank #1 should be disallowed, as this tank was destroyed in the Tubbs fire, and Cal-Am's proposed Industrial Tank #2 budget is unnecessary because the most recent inspection showed no improvements were needed.[129]

The Settlement proposes to adopt Cal Advocates' recommended Tank Maintenance Expense adjustments and disallowances.[130]

7.15. Insurance Other Than Group (Acct 793)

Cal-Am developed its proposed Insurance Other Than Group (IOTG) forecasts based on historical incurred costs, increased by standard escalation factors. The exception to this was its forecasted property insurance, which was increased by escalation factors provided by the company's insurance broker.[131] Cal-Am proposed additional funding of $4.225 million for the instant GRC period, 2021-2023, to procure earthquake insurance coverage for underground assets that do not reside on fee simple parcels or properties. The proposed earthquake policy would pay out based on the magnitude earthquake and the size of the loss sustained.[132]

Cal Advocates opposed the requested earthquake insurance policy as unreasonable for the following reasons: (1) Cal-Am's Northern and Central Divisions have lower risks of significant earthquakes; (2) the proposed

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[129] Exhibit CalPA-5 at 5-8.

[130] Exhibit CAW-17 at 1-3 for specific reductions and increases in budget as recommended by Cal Advocates. Adjusted tank maintenance projects and budgets are provided in the Settlement at 32-33 and Attachment B-5.

[131] Exhibit CAW-9 at 20-22 and Exhibit 22 at 37-40 and Attachment 3.

[132] Exhibit CAW-9 at 21.

insurance policy would not cover most earthquakes; and (3) the policy will not adequately mitigate the potential financial risks associated with significant earthquakes in Cal-Am 's Southern Districts. Cal Advocates recommended the Commission deny funding for the earthquake insurance policy premium.[133]

Cal-Am argued that Cal Advocates' analysis is solely based on historical earthquakes and argued that the Commission should also consider other factors such as distance of the site(s) from the earthquake and other seismological information to project potential maximum expected ground motions.[134]

The Settlement removes Cal-Am's request for recovery of earthquake insurance premiums in this GRC but reserves Cal-Am's ability to make a similar request in a subsequent proceeding.[135]

We have reviewed the record of this proceeding concerning Cal-Am's IOTG Account 793 forecasts and find that the Settlement reached compromises on these issues that are reasonable in light of the whole record, consistent with the law, and in the public interest. Cal-Am shall not recover the requested costs of earthquake insurance during this GRC cycle but may make similar requests in future GRC applications.

7.16. Discussion on Settled Expense Issues

We find the Settlement provides compromises on the expense related issues detailed above that are reasonable in light of the whole record, consistent with law, and in the public interest.

Purchased water expenses related to the Pure Water Monterey Purchased Water Agreement are not reflected in the summary of earnings comparisons, as

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[133] Exhibit CalPA-9C at 9-20.

[134] Exhibit CAW-22 at 37-40 and Attachment 3.

[135] Settlement at 33-34.

these costs are collected through a separately identified surcharge and not through base rates.[136] However, the current effective purchased water surcharge for the Pure Water Monterey Purchased Water Agreement is reflected in the exemplary tariffs provided in Attachment G-1 of the Settlement, and Cal-Am shall keep this surcharge in place with the new rates that will take effect after this decision.[137]

Cal-Am shall implement the purchased power forecasts and terms related to its Outside Service Account 798, Regulatory Commission Expenses Account, CA Uncollectible Accounts (excluding leak adjustments), Transmission and Distribution Accounts, Operating Expenses for Acquired Systems, CA Miscellaneous Customer Accounts, Tank Maintenance Expenses, and Insurance Other Than Group Account 793 as provided in the Settlement. Cal-Am shall use an uncollectible rate of 0.5117% for this GRC cycle.

Regarding Cal-Am's Rents Account 811, Cal-Am shall not recover any costs associated with its corporate headquarters relocation during this GRC cycle, as agreed upon in the Settlement. Regarding Cal-Am's A&G Accounts 792-805 and Operating Expenses for Acquired Systems, we reiterate that The Commission's review of Cal-Am's proposed Bellflower acquisition is ongoing and no incremental operating expenses related to that system are authorized at this time.

Further, we find MPWMD's continued concerns related to the Settlement's conservation budget to be unfounded, because the Settlement terms explicitly include a provision to ensure the Monterey District budget is solely utilized

[136] Joint response to the ALJ's March 25, 2021 Ruling at 2.

[137] *Ibid.*

within the Monterey service area. Therefore, Cal-Am shall ensure that the conservation budget allocated for the Monterey District is only expended on projects in that district and may maintain flexibility to shift its line item budgets within the Monterey District budget. The three-year budget for Cal-Am's other districts may be shifted across line items budget and other districts as necessary, pursuant to the agreements reached in the Settlement.

Cal-Am shall close its Leak Adjustment Balancing Account and continue tracking its leak adjustment costs and revenues through its CEBA, as discussed further in Section 14.4, *infra,* and more details regarding Cal-Am's recovery of costs related to SAMS is included in Section 15.3, *infra.*

We have reviewed the record of this proceeding concerning Cal-Am's planning studies and find that the Settlement's compromises are reasonable in light of the whole record, consistent with the law, and in the public interest. Cal-Am will fully evaluate the alternatives to installing costly stationary generators at many of Cal-Am's facilities throughout its service territories, with the goal of reducing the cost of providing back-up power to critical infrastructure. We find this agreement related to a preliminary study across all options for back-up generation resources to be reasonable prior to authorizing a large expenditure of ratepayer funds for stationary, gas-fired generators to be installed in multiple locations. Cal-Am is not precluded from seeking additional funding for back-up generation resources in a future GRC should the study identify the need for higher-cost back-up power generators at one or more locations.

8. General Office Allocation

For ratemaking purposes, each of Cal-Am's districts receive an allocation of General Office (GO) office costs related to Cal-Am's corporate offices and American Water Works Service Company (AWWSC). AWWSC is an affiliate of

Cal-Am that provides administrative and technical services to both regulated and market-based enterprises.

Cal-Am allocated a portion of GO costs and labor to its affiliate Hawaii American Water Company (HAWC).[138] Cal-Am's workpapers indicate the hours worked in Hawaii are treated as capitalized hours and the projected costs associated with HAWC labor were removed from the forecasted Cal-Am revenue requirement because the capitalization percentage was applied to labor and labor-related expenses.

Cal Advocates recommended several specific adjustments to Cal-Am's proposed allocation of GO expenses to account for services being provided to Cal-Am's affiliate HAWC and suggested that Cal-Am's GO 2021 and 2022 utility plant in service balance for ratemaking purposes should be reduced by $2.9 million and $3.2 million, respectively.[139]

Cal-Am argued that the appropriate allocation of labor expenses is incorporated in its RO Model.[140]

The Settlement sets forth compromises on this issue, including a requirement for Cal-Am to provide (1) all employees information and expanded training pertaining to the process and importance of accurately recording time for cost allocation purposes and (2) the following specific details about its GO expenses in its next GRC:

A. A copy of the information provided to all employees pertaining to recording time and cost allocation;

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[138] CAW's GRC Application Minimum Data Requirement (MDR) II.I.1 at 3.

[139] Exhibit CalPA-8 at 7.

[140] Exhibit CAW-22 at 48-51.

B. A summary of employee time recorded to operations outside of California-regulated operations for the period 2019-2021; and

C. A detailed summary of the specific GO expenses and assets that are appropriately allocated to operations outside of California-regulated operations.[141]

We have reviewed the record of this proceeding concerning Cal-Am's GO Allocation and find that the parties have reached compromises on this issue that are reasonable in light of the whole record, consistent with the law, and in the public interest. Cal-Am shall track and report more details regarding its employees' time and cost allocation, include information about its employee time budgeting education materials, and summarize the GO allocation of employee time, company assets, and other expenses, when filing its next GRC.

9. Labor

For TY 2021, Cal-Am estimated total labor expenses at $27,711,722.[142] For ratemaking purposes, Cal-Am forecasts labor expenses to increase more than 20% by TY 2021 and its number of employees will increase by about 9%.[143] Cal Advocates proposed several changes to Cal-Am's proposed labor expenses

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[141] Settlement at 34-35.

[142] This was described in Cal-Am's workpaper "ALL_CH04_O&M_RO_Labor" under sheet titled "Labor Costs W-Spec Adj WS7" under row: 503. Cal-Am's workpaper "ALL_CH04_O&M_RO_Labor" under sheet titled "Sum of Costs - District WS10" under row: 78: An average percentage increase in labor expenses from years 2014 to 2018 is 0.876%; *see also* Cal Am's workpaper "ALL_CH04_O&M_WP_Labor" under sheet titled "Employee Count WS-A-11" under row: 77. An average percentage increase in recorded employees from 2014 to 2018 is 1.956%.

[143] Cal-Am's workpaper "ALL_CH04_O&M_RO_Labor" under sheet titled "Labor Costs W-Spec Adj WS7" under row: 503. Increase from year 2020 ($26,986,188) to TY 2021 ($27,711,722) is 3%. Increase from year 2018 ($26,3030,823) to TY 2021 ($27,711,722) is 22%; Cal-Am's workpaper "ALL_CH04_O&M_WP_Labor" under sheet titled "Employee Count WS-A-11" under row: 77. Increase from year 2018 (296) to TY 2021 (322.4) is about 9% which is 3% annually (from 2018 to 2021).

and forecasts. The Settlement provides compromises on each of these issues, as discussed below.

9.1. Wage Escalation

For TY 2021, Cal-Am estimated total payroll and wages by escalating 2020 hourly wages using union or non-union annual increases of 2.50% or 3.00% respectively.[144] Cal-Am forecasted employee payroll for 2021 by indexing the 2019 payroll by the union contract agreement rate of 2.5% for per year for union employees.

Cal Advocates recommended using the same wage escalation rates for both union and non-union employees of 2.25% in 2020 and 2.50% in 2021 which would reduce Cal-Am's TY 2021 payroll and wages budget by approximately $186,688.[145]

Cal-Am argued that Cal Advocates' recommendation would disregard the wage escalation factors utilized in separately negotiated labor agreements and any additional premiums included in union agreements that are not available to non-union employees.[146]

The Settlement provides the following compromises on the above issues:

A. Cal-Am shall utilize an escalation factor for union employees based on the negotiated agreements as

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[144] Cal Am's workpaper "ALL_CH04_O&M_WP_Labor" under sheet titled "INP -Labor Benefits." Non-union employees include: Hourly Non-Union Employees and Basic Salaried Employees. Also, CAW Exhibit 9 at 17 and Application 100-Day Update, Attachment 1, Ch. 4, (PDF) at 28, 36-37, 44-45, 131, 141-142, 149-150, 243, 253-254, 263-264, 357, 366-367, 376-377, 472, 482-483, 492-493, 608, 618-619, 626-627, 733, 743-744, 753-754, 846, 856-857, 868-869; CAW Exhibit 5 at 61-64 and Attachments A and B; CAW Exhibit 9 at 14-23, and Exhibit 19 at 3-5 and Attachments 1-4.

[145] Exhibit CalPA-6E at 41-42.

[146] Exhibit CAW-19 at 3-5.

provided in Cal-Am's 100-Day Update submittal and the Rebuttal Testimony of Garry Hofer in Exhibit CAW-19;

B. Cal-Am shall apply the union escalation factors (both escalation increases and timing of increases) similarly to union-equivalent employees based in non-union service areas;

C. For purposes of determining authorized revenue requirement, and for ratemaking purposes, Cal-Am shall exclude non-union salary increase of 3% annually effective with the date of this Settlement Agreement through December 31, 2021, in response to the COVID-19 pandemic and the associated economic challenges; and

D. Cal-Am shall continue salary escalation for both union and non-union employees in its 2022 and 2023 step filings.[147]

9.2. Salaries and Wages – Capitalization Rate

Cal-Am used estimated capitalization rates for salaries and wages, based upon a three-year historical average from 2016-2018, to allocate total compensation between expensed and capitalized salaries and payroll costs.[148]

Cal Advocates asserted that the 14% capitalization rate that was hardcoded in Cal-Am's RO Model did not match the three-year average (10%) stated in Cal-Am's testimony.[149] Cal-Am argued that Cal Advocates' application of the methodology was erroneous.[150]

Rather than litigating this issue, the Settlement adopts Cal-Am's proposed methodology for the capitalization rate for salaries and wages based on the three-year historical average from 2016-2018.

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[147] Settlement at 35-36.

[148] Exhibit CAW-9 at 19-20.

[149] Exhibit CalPA-6E at 45.

[150] Exhibit CAW-22 at 53-55.

9.3. Salaries and Wages – New Employees

Cal-Am anticipated a total of 26 additional positions. This includes 10 positions hired after 2015, nine positions related to acquisition of the Fruitridge and Hillview systems, and seven positions that are currently vacant but necessary for operational needs.[151]

Cal Advocates argued that Cal-Am's forecast double-counted a Financial Analyst (FA) II B position and recommended removing the duplicate position from rates and ten of the new employee positions that Cal Advocates believes were not requested in Cal-Am's testimony.[152]

Cal-Am argued that the "duplicate" FA IIB position identified by Cal Advocates was a separate FA IIB position that had been converted to an Operations Specialist position and had been filled. Cal-Am further asserted that there were nine vacant positions included in forecasted labor and not ten as stated by Cal Advocates.[153] The Settlement results in the following compromises:

A. The Financial Analyst II B identified by Cal Advocates was not a "duplicate" position as this position has been filled and should be allowed in this GRC; and

B. Cal-Am shall remove recovery for the nine positions that were vacant at the time of the GRC filing.

9.4. Supervisor Pay Differential

Cal-Am's application included a forecast of increased pay for supervisor positions to incentivize union employees to take those positions. Cal Advocates did not expressly address this issue in its testimony but did remove the related

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[151] Application 100-Day Update, Attachment 1, Ch. 4, (PDF) at 29, 44-45, 132, 149-150, 244, 263-264, 358, 376-377, 473, 492-493, 609, 626-627, 734, 753-754, 847, 868-869; Exhibit CAW-5 at 61-63; Exhibit CAW-9 at 19-23; Exhibit CAW-22 at 53-56.

[152] Exhibit CalPA-6E at 45-47.

[153] Exhibit CAW-19 at 6-8.

increased forecasted supervisor pay expense from rates in the RO Model. Cal-Am emphasized the challenges involved in enticing union employees to accept supervisor roles.[154]

The Settlement results in Cal-Am's agreement to withdraw its request and monitor the employment and economic impacts associated with the COVID-19 pandemic and any associated economic challenges. Cal-Am reserved its ability to propose appropriate measures, including potential a salary differential for supervisor positions, as needed in a future GRC.

9.5. Labor Overtime

Cal-Am multiplied its forecasted wage rates by 1.5 to 2 and applied those rates to the historical three-year average of the recorded overtime hours by eligible employee positions from 2016-2018 in each district.[155] Cal Advocates recommended that the forecast for the TY 2021 labor overtime expense should be decreased by 5.39% to account for increasing headcount.[156] Cal-Am rebutted that there is no direct correlation between total employee count and the overtime expense that Cal Advocates used to make its recommendation.[157] To resolve the matter, the Settlement adopts Cal-Am's forecast of labor overtime expense.

9.6. Performance Based Compensation

Cal-Am requested recovery of its forecasted expenses for its Annual Performance Plan (APP) short-term incentive program and its Long-Term

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[154] Exhibit CAW-19 at 10-11.

[155] Application 100-Day Update, Attachment 1, Ch. 4, Table 4.8, (PDF) at 29, 44-45, 132, 149-150, 244, 263-264, 358, 376-377, 473, 492-493, 609, 626-627, 734, 753-754, 847, 868-869; CAW Exhibit 19 at 9.

[156] Exhibit CalPA-6E at 48-49 and Attachment 51.

[157] Exhibit CAW-19 at 9.

Performance Plan (LTPP) long-term incentive program for its employees.[158] Cal Advocates recommended disallowing 50% of APP expenses and all of Cal-Am's requested LTPP expenses.[159] Cal-Am rebutted that performance-based compensation is an important component of total compensation and should be authorized for cost recovery.[160]

The Settlement provides the following compromises:

A. Cal-Am shall split APP expenses related to Employee Bonuses and Incentives Programs equally between shareholder and ratepayers, particularly in consideration of the current COVID-19 pandemic and the associated economic challenges; and

B. Cal-Am shall recover LTPP expenses as authorized in Cal-Am's prior GRC in D.18-12-021.

9.7. Discussion on Settled Labor Related Issues

We have reviewed the record of this proceeding concerning issues related to wage escalation, capitalization rate, anticipated number of new employees, supervisor pay differential, labor overtime, and performance-based compensation and find that the Settlement reaches compromises on these issues that are reasonable in light of the whole record, consistent with the law, and in the public interest. Cal-Am shall utilize an escalation factor for union employees based on the negotiated agreements as provided in Cal-Am's 100-Day Update submittal and Exhibit CAW-19. Cal-Am shall not seek recovery of the nine positions that were vacant at the time of the filing of this GRC and shall implement the forecasted wage rates provided in A.19-07-004. Rather than

[158] Exhibit CAW-5 at 65-66.

[159] Exhibit CalPA-6E at 50-53.

[160] Exhibit CAW-19 at 12-24.

recovering costs associated with increased supervisor pay in this GRC cycle Cal-AM shall monitor the employment and economic impacts associated with the ongoing public health crisis. Cal-Am's APP expenses related to employee bonuses and incentives should be split equally between shareholders and ratepayers, and Cal-Am should continue recovering LTPP expenses as authorized in D.18-12-021.

10. Plant Issues

Cal-Am requested capital expenditure costs associated with numerous projects throughout its service territory. Cal Advocates, the Cities of Duarte and San Marino, and MPWMD each proposed several changes to Cal-Am's proposed capital expenditures and projects. The Settlement provides compromises on each of these issues, as discussed below and adopts Cal-Am's proposals that were undisputed by parties. We discuss each proposal separately, district by district and issue by issue, below.

10.1. Los Angeles County District Projects

10.1.1. Los Angeles County District Undisputed Projects

Section 8.1.1 of the Settlement identifies projects in the Los Angeles County District which were not disputed by any parties in this proceeding.[161]

We have reviewed the record of this proceeding concerning these undisputed projects in Cal-Am's Los Angeles County District and find these undisputed projects are reasonable in light of the whole record, consistent with the law, and necessary to improve service to Cal-Am's customers and to maintain and reinforce the utility's existing water service infrastructure. It is

[161] Settlement at 39-40.

reasonable to allow Cal-Am to include them in rate base and recover the costs from ratepayers, as detailed in the application and the related testimony.

10.1.2. Los Angeles County District Disputed Projects

The following projects were disputed by Cal Advocates in testimony, but agreements were later reached in the Settlement, as described below:

A. ***Project I15-500009 (Previously IP-0550-118) –*** *LA Santa Fe Well Replacement. This carry-over project to replace the Santa Fe Well was approved in A.10-07-007 and Cal-Am has initiated work, but due to external delays, this project was not completed on schedule.*[162]

Cal Advocates did not dispute the need for this capital project but has concerns about the feasibility of Cal-Am's forecasted project completion schedule and the potential for alternatives.[163]

The Settlement includes a proposed agreement on the treatment of the LA Santa Fe Well Replacement project costs:

1. For the purposes of determining the rate base in question for this GRC (2021-2023), the spend for this proposed project will not be included in the rate base or revenue requirement calculations;
2. Cal-Am will be able to capitalize the carrying cost (AFUDC) of the project's reasonable and prudent costs into the project's overall cost from January 1, 2021, up until the time the project is completed and placed into service; and
3. Once the project is in service, Cal-Am will capture the costs separately in an off-book

[162] A.19-07-004, Capital Projects Workpapers, Tab 12; Application 100-Day Update, Attachment 3, at 914 and 935; and Exhibit CAW-3 (Crooks Direct) at 29-30, Attachment 1.

[163] Exhibit Cal PA-5, Menda Public Testimony at 95-96.

> regulatory account along with the carrying cost of the project from the time it is complete until it goes into rate base for recovery.[164]

B. ***Project I15-500032*** *– Winston Well Redrill and Treatment. The project to redrill the Winston Well was approved in A.10-07-007 with a cost of $2,520,000 for the drilling of a replacement well and potential installation of new treatment system, depending on water quality analysis results. Work has been initiated but completion has been delayed, so Cal-Am is seeking to carry the project over into this GRC cycle.*[165]

Cal Advocates did not dispute the need for this proposed project but expressed concerns about the proposed forecast Cal-Am provided in its testimony.[166] The Settlement presents the same compromises for the Winston Well carry-over project as proposed in the Santa Fe Well project described above.

C. ***Project I15-500036*** *– Longden Well Redrill and Rehabilitation. The redrilling and rehabilitation of the Longden Well was approved in A.13-07-002 to address the deficit in supply for the San Marino water system. The well is currently inoperable due to ongoing water contamination issues. The previously-approved budget is $3,565,113, and Cal-Am states that the project is in the design phase with a target completion date of the end of 2022.*[167]

Cal Advocates did not dispute the need for the Longden Well Redrill and Rehabilitation project but recommended the project's funding should be suspended until Cal-Am can demonstrate the project is complete and providing

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[164] During project construction, AFUDC will be calculated based on the weighted average authorized cost of debt in effect for the relevant time period. Once the project is in service but not yet in rates, AFUDC will be calculated based on the authorized average cost of debt in effect for the relevant time period.

[165] A.19-07-004, Capital Projects Workpapers, Tab 17; Application 100-Day Update, Attachment 3, at 913 and 941; and Exhibit CAW-3 (Crooks Direct) at 33-34, Attachment 1.

[166] Exhibit Cal PA-5, Menda Public Testimony, at 95-96.

[167] A.19-07-004, Capital Projects Workpapers, Tab 18; Application 100-Day Update at 7, Attachment 3 at 915 and 936; Exhibit CAW-3 (Crooks Direct) at 34-36, Attachment 1.

service to ratepayers, and the cost should be removed from the forecasted rate base for this GRC.[168] The Settlement presents the same compromises for the Longden Well carry-over project as the two described above.

D. ***Project I15-500030 (Previously IP-0550-38)*** *– Oswego Well Replacement and Treatment. This project, which is intended to provide a reliable source of supply and reduce the LA district's dependence on purchased water, was also approved in A.10-07-007. Work has been initiated but it has not been completed due to external delays. Cal-Am states the project is in the design phase and is expected to be completed in 2021 with a budget of $1,482,308.*[169]

Cal Advocates recommended the Commission should temporarily suspend funding of the Oswego Well Project until Cal-Am can demonstrate the project has been completed and is providing service to ratepayers and remove the cost from the forecasted rate base in this GRC.[170]

The Settlement presents the same compromises for the Oswego Well Replacement and Treatment project as the other three carry-over projects described above in this section.

E. ***Project I15-500006*** *– Lamanda Well Redrill Project. In its testimony, Cal-Am states that the original site for the Lamanda well redrill project had to be abandoned due to unforeseen delays and construction challenges as well as permitting delays and incremental permitting requirements. Cal-Am has already incurred $975,413 for the initial drilling and abandonment of the site. Cal-Am states that the redrilling project is still necessary*

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[168] Exhibit Cal PA-4 (Goldberg) Public Version, Attachment 5, and Exhibit Cal PA-5 at 95-96.

[169] A.19-07-004, Capital Projects Workpapers, Tab 16; Application 100-Day Update, Attachment 3 at 913 and 935; Exhibit CAW-3 (Crooks Direct) at 39-40, Attachment 1.

[170] Exhibit Cal PA-4 (Goldberg Public Testimony), Attachment 7; Exhibit Cal PA-5 (Menda Public Testimony) at 95-96.

because the wells in San Marino are declining in capacity and the service area has a lack of firm supply.[171]

Cal Advocates argued that Cal-Am made poor business decisions when designing and launching the Lamanda Well Re-drill Project and that ratepayers should not bear the costs associated with the technical risks and permitting delays that occurred during the project.[172]

Cal-Am stated that costs for the project should be recovered in the future when a new location and new well, which is necessary to maintain reliable water supply in the territory, has been completed and is serving ratepayers.[173]

The Settlement provides the following compromises:

1. $92,000 of design costs incurred during the initial well redrilling effort should be amortized over this GRC cycle (2021-2023);
2. The design effort for the Lamanda project led to common project specification and economies of scale that benefited other designs completed under the same project;
3. $68,000 of costs incurred for demolition of the existing well should be authorized in this GRC because this work was not associated with the well redrill project, but was instead necessary to abandon the existing well; and
4. The $810,800 in remaining project costs will neither be included in rate base nor recovered from ratepayers.

F. ***Project I15-500066*** – *Main Replacement Program. Nearly 30 miles of mains in Cal-Am's Los Angeles County District have been identified as in need of replacement through the Condition Based Assessment (CBA) or through hydraulic analysis of the*

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[171] Exhibit CAW-3, Crooks Direct at 42-44.

[172] Exhibit Cal PA-5 at 91-92, 95.

[173] Exhibit CAW-17, Crooks Errata Rebuttal, at 22.

> *systems. Out of those miles, 23 must be upgraded to meet fire protection standards and forecasted future customer demand. The other seven miles must be upgraded due to a high likelihood of failure. Cal-Am requested a projected budget for this project of $10,800,000 for 2021-2023.*[174]

Cal Advocates argued that because Cal-Am has prior experience with similar types of projects and is replacing existing mains, its contingency for this project should be 15%.[175] The Settlement provides that Cal-Am will use a 15% contingency and implement a total capital expenditure for this project of $9,140,256.[176]

> G. ***Project I15-500071*** *– Tank Rehabilitation and Seismic Upgrades Program (2022-2026). Cal-Am stated that through a series of tank assessments conducted over the past decade by third-party consultants, it has developed a maintenance and replacement program that includes all of its tanks. It also plans seismic upgrades in 2022-2023 at a projected cost of $800,000.*[177]

Cal Advocates argued that the proposed seismic upgrades to the existing tanks should not be allowed, because Cal-Am has not completed a seismic study to understand what seismic upgrades are necessary. Cal-Am noted that the costs related to five-year anniversary tank maintenance should be classified as deferred tank improvement costs rather than capital costs, and that it will

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[174] A.19-07-004, Capital Projects Workpapers, Tab 29; Exhibit CAW-3 at 162-165, Attachment 1; Exhibit CAW-5 at 29-31 and 33-34; Exhibit CAW-9 at 71-72.

[175] Exhibit Cal PA-5C at 2, 27-28, and 90-91.

[176] Attachment C-4 of the Settlement shows the agreed-upon total capital expenditure to be $9,140,256.

[177] A.19-07-004, Capital Projects Workpapers, Tab 34; Exhibit CAW-3 at 103, 162, and 167-169, Attachment 1; Exhibit CAW-5 at 28-29. The City of Duarte also discussed the potential impacts of seismic events on its water supply in Exhibit Duarte-1 at 2-5, and Attachments 1 and 9.

complete its seismic study in 2021, providing sufficient time to perform seismic upgrades in 2022.[178]

The Settlement presents a compromise that Cal-Am shall complete a full seismic study on the tanks in the Los Angeles County District prior to starting any upgrades to the tanks, and this proposed project and any associated cost recovery will be deferred until the next GRC.

H. ***Project I15-500067*** *– Annual Well Installation and Replacement Program (2022-2026). Cal-Am states that new well installation and/or replacement of existing wells is necessary throughout the Los Angeles County District to meet existing customer demand as well as accommodate forecasted demand growth. This proposed project is intended to (1) increase system reliability; (2) maintain system capacity; (3) avoid catastrophic failures; (4) minimize potential violations; (5) extend the useful life of well facilities; (6) improve operability; (7) improve site aesthetics; (8) improve site safety; (9) increase customer satisfaction; and (10) decrease future unanticipated costs. Cal-Am requested a projected budget for $4,000,000 through 2023 for this project.*[179]

Cal Advocates argued that the projects included in this proposal are already included in previously-approved carryover projects.[180]

Cal-Am rebutted that this project is necessary because additional costs are expected to meet the maximum day demands (MDD) in two of the

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[178] Exhibit Cal PA-5C at 91-94 and 96; Exhibit Cal PA-9 at 39-41; Exhibit CAW-17 Rebuttal at 28-30.

[179] A.19-07-004, Capital Projects Workpapers, Tab 30; Exhibit CAW-3 at 44, 162, and 169-171; Exhibit CAW-9 at 73. We note that the Drinking Water Program was transferred from CDPH to the State Water Resources Control Board and renamed the Division of Drinking Water in July 2014.

[180] Exhibit Cal PA-4C at 19-20 and 54; Exhibit Cal PA-5 at 91-92 and 95-96.

Los Angeles Systems that include Duarte and San Marino.[181] The Settlement presents a compromise by Cal-Am to remove the 2022 forecasted budget for Project I15-500067 from the cost forecast in this GRC cycle, with the agreement and understanding that Cal-Am may request this capital project in its next GRC.[182]

I. ***Project I15-500065*** – *Standby Generator Improvement Program (2021-2026). Cal-Am proposes to install generators at sites in the Los Angeles County District to serve as backup power supply during the increasing number of Public Safety Power Shutoff (PSPS) events and other power outages. Cal-Am states that this project would be a continuation of the previous Tier 4 Compliance Standby Power Project (I15-500058).*[183]

Cal Advocates argued that stationary back-up generators should not be installed at this time, and that Cal-Am should instead conduct a portable generator and power shutoff study.[184] The City of Duarte supported Cal Advocates' request for Cal-Am to conduct a study regarding the feasibility for portable back-up generators.[185]

Cal-Am reiterated that this project should be deemed necessary to address emergency power to critical infrastructure.[186]

The Settlement provides a compromise that incorporates Cal Advocates' proposed scope and provides that Cal-Am shall conduct a Portable Generator

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[181] Exhibit CAW-17 at 22-23 and 25-28; Exhibit CAW-22 at 64. This issue was also addressed in Exhibit Duarte-1, in Attachment 9.

[182] Settlement at 48.

[183] A.19-07-004, Capital Projects Workpapers, Tab 28; Exhibit CAW-3, Crooks Direct at 162, 174-176, and Attachment 1.

[184] Exhibit Cal PA-5C, Menda at 2, 26, 90-91, 94, and 96; Exhibit Cal PA-9C Reed at 3-4, 20-26.

[185] Exhibit Duarte-1at 4-5.

[186] Exhibit CAW-17, Crooks Errata Rebuttal at 27-28; Exhibit CAW-19, Hofer Rebuttal at 34-37.

Planning Study to consider alternatives to installing stationary generators at its sites, as discussed in Section 7.13 above.[187]

10.1.3. Discussion on Los Angeles County District Disputed Projects

We find the Settlement, as it relates to the disputed projects in Cal-Am's Los Angeles County District, reaches compromises on these projects and the issues related to them that are reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest. Cal-Am shall complete studies to identify alternatives to stationary back-up generators and prioritize tank maintenance expenditures prior to beginning capital projects in the Los Angeles County District to develop back-up power resources or implementing tank maintenance. Further, Cal-Am shall not recover any costs associated with a new annual well installation and replacement program for the Los Angeles County District in this GRC cycle.

10.1.4. Los Angeles County District Recurring Projects

Cal-Am requested a total estimated direct capital expenditure cost associated with Los Angeles County District Recurring Projects (RPs) of $4,427,083 in 2021 and $4,629,874 in 2022.[188] Cal Advocates recommended reducing the proposed budget to remove any forecasted RP costs associated with the Bellflower system, which has not yet been acquired by Cal-Am.[189]

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[187] Settlement at 48.

[188] Exhibit CAW-3 at 19-28, Attachment 2.

[189] Exhibit Cal PA-5 at 2, 8-9, 89-91, and 96-97.

Cal-Am argued its requested budget for Los Angeles area RPs is reasonable based on anticipated increases in on-going routine and potential emergency capital maintenance costs.[190]

Rather than litigating this issue, the Settlement presents the following:

A. Cal-Am's Los Angeles County District RP budget shall be $4,212,875 in 2021 and $4,410,929 in 2022;

B. The agreed upon amounts shall be reflected in each year's Utility Plant In Service (UPIS);

C. Cal-Am's authority to spend the budgets requested for RP associated with the Bellflower system (approximately $137,593 in 2021 and $139,822 in 2022) is contingent upon the Commission's approval of Cal-Am's request to acquire the Bellflower Municipal Water System;[191] and

D. Cal-Am management has the flexibility to reallocate the agreed-upon spending levels across the Los Angeles District RP line items as necessary consistent with D.18-12-021.[192]

We have reviewed the record of this proceeding concerning the recurring projects in Cal-Am's Los Angeles County District and find that the parties have reached compromises on these issues that are reasonable in light of the whole record, consistent with the law, and in the public interest. Cal-Am shall limit its RP budget for the Los Angeles County District to the amounts agreed upon in the Settlement and shall not request any cost recovery associated with its outstanding request to acquire the Bellflower System until/unless the Commission authorizes the acquisition. While we authorize the Cal-Am to recover the Settlement's requested budget for RP in the Los Angeles County

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[190] Exhibit CAW-17 at 3-5 and 8-10.

[191] A.19-07-004 18-09-013.

[192] Settlement at 49.

District, Cal-Am shall not expend any of this authorized recurring project budget on recurring projects related to the Bellflower system during this GRC cycle. Cal-Am maintains flexibility to manage the overall RP budget in the Los Angeles County District to allocate different spending levels to specific line items as necessary, consistent with the authority granted in D.18-12-021.[193] The Commission will determine whether Cal-Am can recover costs associated with the Bellflower system when it issues a decision on the proposed acquisition.

10.2. San Diego County District

10.2.1. San Diego County District Undisputed Projects

Section 8.2.1 of the Settlement identifies projects Cal-Am proposed in the San Diego County District that were not disputed by any party.[194] We have reviewed the record of this proceeding concerning these undisputed projects in Cal-Am's San Diego County District and find these undisputed projects are reasonable in light of the whole record, consistent with the law, and necessary to improve service to Cal-Am's customers and to maintain and reinforce the utility's existing water service infrastructure. It is reasonable to allow Cal-Am to include them in rate base and recover the costs from ratepayers, as detailed in the application and the related testimony.

10.2.2. San Diego County District Disputed Project

The following project was disputed in party testimony, but agreements were later reached in the Settlement, as described below:

A. ***Project I15-300010*** *– Replace 16' Transmission Main along the Silver Strand – Project A-X. In this GRC, Cal-Am is proposing additional design and permitting expenditures for this entire*

[193] D.18-12-021 at 149.

[194] Settlement at 49-50.

> *carry-over project, increasing the total estimated cost to approximately $26,500,000. Its testimony provided the estimated annual capital expenditures by year for 2018-2024, and Cal-Am now expects the project to be complete in 2024.*[195]

Cal Advocates asserted that the Commission should account for funding already approved in rates and the amount Cal-Am planned to spend in 2018-2019 for the project.[196] Cal-Am rebutted that the project is moving along more quickly than before; there have been recent main breaks along the more than 100-year-old pipeline; and therefore, Cal-Am asked the Commission to approve the requested budget for this project based on its progress so far and the heightened need to replace the main in the San Diego County district.[197]

Rather than litigating this issue, the Settlement provides that the approved project budget should include the additional funding requested in this GRC, as supported by the additional information detailed in Cal-Am's rebuttal testimony.

We have reviewed the record of this proceeding concerning the San Diego County District Silver Strand main replacement and find that the Settlement's compromises on these issues are reasonable in light of the whole record, consistent with the law, and in the public interest. Cal-Am's implementation advice letter for this GRC shall reflect the agreed-upon capital expenditures for this capital project as included in Attachment C-4 of the Settlement.[198]

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[195] A.19-07-004, Capital Projects Workpapers, Tab 102; Application 100-Day Update at 7 and Attachment 3 at 921, 936; Exhibit CAW-3 at 111-116, Attachment 1.

[196] Exhibit Cal PA-5 at 100-102.

[197] Exhibit CAW-17 at 30-32.

[198] Settlement at 219, Attachment C-4.

10.3. Ventura County District

10.3.1. Ventura County District Undisputed Projects

Section 8.3.1 of the Settlement identifies projects in the Ventura County District were that were not disputed by parties in this proceeding.[199] We have reviewed the record of this proceeding concerning these undisputed projects in Cal-Am's Ventura County District and find these undisputed projects are reasonable in light of the whole record, consistent with the law, and necessary to improve service to Cal-Am's customers and to maintain and reinforce the utility's existing water service infrastructure. It is reasonable to allow Cal-Am to include them in rate base and recover the costs from ratepayers, as detailed in the application and the related testimony.

10.3.2. Ventura County District Disputed Projects

The following projects were disputed in Cal Advocate's testimony. The Settlement provides compromises on each, which we evaluate below:

A. ***Project I15-510055*** – *Standby Generator Improvements. Cal-Am proposed to install back-up generators at sites within the Ventura District to provide uninterrupted water service during PSPS events and other power outages.*[200]

Cal Advocates opposed this request and recommended the Commission deny this request and require Cal-Am to conduct a portable generator and power shutoff study.[201]

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[199] Settlement at 51-52.

[200] A.19-07-004, Capital Projects Workpapers, Tab 128; Exhibit CAW-3 at 183, 186-188, Attachment 1.

[201] Exhibit Cal PA-5C at 2, 24-26, 80, 86-88; Exhibit Cal PA-9C at 3-4, 20-26.

Cal-Am argued that fixed generators with automatic transfer switches will drastically reduce power loss at sites, ensuring water service can continue even during power outages and provide support for fire department and other essential water infrastructure needs.[202]

The Settlement presents a compromise that incorporates Cal Advocates' proposed scope and provides that Cal-Am will conduct a Portable Generator Planning Study to consider alternatives to installing stationary generators at its sites, as discussed in Sections 7.13 and 10.1.2 above.

B. ***Project I15-510049*** *– Academy Turnout Rehabilitation. Cal-Am proposes to provide resiliency to the Ventura District system by creating an additional interconnection with the Calleguas Municipal Water District. It is projected to cost $450,000. According to Cal-Am, the turnout is currently out of service, and the project would provide the upgrades necessary to allow conveyance of water from the Municipal Water District to the Ventura Water District Thousand Oaks service area.*[203]

Cal Advocates stated that this project is unnecessary because the current system capacity is adequate to meet Cal-Am's existing and forecasted demand.[204]

Cal-Am argued the Academy Turnout could provide better redundancy and increased resiliency to the system and reiterated the need for the proposed project.[205] In the Settlement, Cal-Am agreed to Cal Advocates' recommendation to not include this project in this GRC.

C. ***Project I15-510041*** *– Pump Station Replacement and Rehabilitation Project (2021-2026). Cal-Am has identified the most critical booster pump stations in the Ventura County District that*

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[202] Exhibit CAW-17 at 20-21.

[203] A.19-07-004, Capital Projects Workpapers, Tab 125; Exhibit CAW-3 at 183, 189-190, Attachment 1; Exhibit CAW-5 at 8.

[204] Exhibit Cal PA-5C at 80, 85-86, 88.

[205] Exhibit CAW-17 at 21.

are due for replacement. It requested $3,900,000 for 2021 through 2023 to complete the proposed replacements.[206]

Cal Advocates argued the Commission should only authorize a budget of $1,882,342 for 2021-2022 and reduce the approved budget to remove installation of permanent generators from the project scope.[207] In the Settlement, Cal-Am agreed to Cal Advocates' position on the above issue.[208]

D. ***Project I15-510054*** *– Tank Rehabilitation and Seismic Upgrades Program (2022-2026). Cal-Am developed a maintenance and replacement program that includes seismic upgrades to steel and concrete tanks located throughout the Ventura District service area. The actual seismic upgrades will be identified through a separate study that will be completed in 2021. Cal-Am requested $2,400,000 during 2022-2023 to conduct some of the projects identified through its studies in the Ventura District.*[209]

Cal Advocates argued that funding for seismic improvements should only be authorized after the studies have been completed.[210]

Cal-Am agreed to Cal Advocates' recommended scope and budget reductions.[211] In the Settlement, Cal-Am agreed to (1) adopt Cal Advocates' recommended scope and budget reductions so the total 2022 budget to be authorized in this GRC will be $306,633, and (2) complete the seismic study before work begins on this project.[212]

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[206] A.19-07-004, Capital Projects Workpapers, Tab 120; Exhibit CAW-3 at 182-184, Attachment 1; Exhibit CAW-5 at 76; and Exhibit CAW-9 at 74-76.

[207] Exhibit Cal PA-5C Menda Confidential at 79-80, 83-85, and 87.

[208] Settlement, Attachment C-4.

[209] A.19-07-004, Capital Projects Workpapers, Tab 127; Exhibit CAW-3 Crooks Direct at 183, 185, 186, and Attachment 1; Exhibit CAW-5 Hofer Public Direct at 28-29.

[210] Exhibit Cal PA-5C Menda Confidential at 79-82, 87.

[211] Exhibit CAW-17 Crooks Errata Rebuttal at 3.

[212] *Ibid.*

10.3.3. Discussion on Ventura County Disputed Projects

We have reviewed the record of this proceeding as it relates to the disputed projects Cal-Am proposed for its Ventura County District and find the Settlement reaches compromises that are reasonable in light of the whole record, consistent with the law, and in the public interest. Consistent with our finding in Section 7.13, the Settlement provides a compromise on the Ventura County disputed projects that limit Cal-Am's recovery of costs related to additional stationary back-up generators until a full study on alternative options can be completed. Cal-Am shall not recover any costs associated with its proposed Academy Turnout rehabilitation project during this GRC cycle because the proposed project is not yet necessary to support Cal-Am's forecasted demand. Further, Cal-Am shall complete a seismic study before starting work on any seismic improvements on tanks in its Ventura County District.

10.3.4. Ventura County Recurring Projects

Cal-Am requested an estimated budget for Ventura County District RP, which Cal Advocates recommended reducing. Cal Advocates noted that the forecasted RP costs requested in Cal-Am's application were significantly higher than the utility's historic expenditures, especially for the process plant category.[213]

Cal-Am argued that its requested RP budget for the Ventura County District was justified based on anticipated increases in on-going routine and unpredicted capital maintenance costs.

[213] Exhibit Cal PA-5 at 2, 8-9, 12-17, 78-80, and 87-88.

In the Settlement, Cal-Am agreed to use Cal Advocates' adjusted budgets for this issue.[214]

We have reviewed the record of this proceeding find that the parties have made compromises on the Ventura County RP budget that are reasonable in light of the whole record, consistent with the law, and in the public interest because the adjusted budgets reflect recent expenditures for similar projects. Cal-Am shall recover the costs associated with the Ventura County RP budget as reflected in Attachment C-4 of the Settlement and maintain flexibility to manage the overall RP budget in the Ventura County District to allocate different spending levels to specific line items as necessary, consistent with the authority granted in D.18-12-021.

10.4. Central Division District

10.4.1. Central Division District Non-Disputed Projects

The Settlement's Section 8.4.1 identifies projects in Cal-Am's Central Division District that were not disputed by parties to this proceeding.[215] We have reviewed the record of this proceeding concerning these undisputed projects in Cal-Am's Central Division District and find these undisputed projects are reasonable in light of the whole record, consistent with the law, and necessary to improve service to Cal-Am's customers and to maintain and reinforce the utility's existing water service infrastructure. It is reasonable to allow Cal-Am to include them in rate base and recover the costs from ratepayers, as detailed in the application and the related testimony.

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[214] Exhibit CAW-17 at 3-5 and 7-10; Settlement at 55-56 and Attachment C-4.

[215] Settlement at 56-57.

10.4.2. Central Division Disputed Projects

The Settlement provides compromises on the issues associated with Central Division Projects that were disputed by Cal Advocates and MPWMD in testimony, as detailed below:

A. *Project I15-400131 – Well Rehabilitation Program (2021-2026). Cal-Am requested $3,000,000 in 2021-2023 to rehabilitate, replace, and add new wells, as a continuation of the program approved in Cal-Am's 2013 and 2016 GRCs. This proposal has an added scope of replacing wells if the initial evaluation finds that rehabilitation is not viable and adding wells if production is not sufficient to meet system demand.*[216]

Cal Advocates argued the sum of project costs proposed for 2021-2022 is lower than Cal-Am's budget request and one of the project candidates in this proposed program is not necessary at this time.[217]

MPWMD, in contrast, argued that Cal-Am's request for the well rehabilitation program is too low and "may not represent a serious commitment to maximizing [aquifer storage and recovery (ASR)] yields."[218]

Cal-Am argued that the identified wells are only a partial representation of the projects necessary to provide adequate service to the Monterey system, especially in the Carmel Valley, but that the budget it requests in this GRC is appropriate for 2021-2023.[219]

The Settlement adopts Cal Advocates' recommended budget for the Well Rehabilitation program in the Monterey District.[220] MPWMD continues to

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[216] A.19-07-004, Capital Projects Workpapers, Tab 62; Exhibit CAW-2 Cook Direct at 9; Exhibit CAW-3 at 193,197-199, Attachment 1.

[217] Exhibit Cal PA-5C at 55-60 and 69.

[218] MPWMD-1 at 7, 10-11.

[219] Exhibit CAW-16 at 2; Exhibit CAW-17 Crooks Errata Rebuttal at 14-15.

[220] Settlement at 58 and Attachment C-4.

view the compromise reached in the Settlement on this project as "an underfunding of critical Monterey infrastructure needs."[221] Cal-Am argued that the budget compromise reached in the Settlement, through "hard-wrought negotiations," balances the financial needs of completing well rehabilitation and replacement against the potential for increased customer rates.[222]

B. *Project I15-400128 – Supervisory Control and Data Acquisition (SCADA) Maintenance and Improvements Program (2021-2026). Cal-Am requested $1,800,000 for new equipment and SCADA system upgrades in the Central Division in 2021-2023, as a continuation of a project approved in prior GRCs.*[223]

Cal Advocates noted the amount Cal-Am is seeking to recover in the current GRC (2021-2023) represents most of the total cost of the projects identified through 2026.[224]

Cal-Am argued that its proposed SCADA Maintenance and Improvements Program for the Central District not only includes the costs of the projects listed in the workpapers, but also estimated annual costs to ensure its SCADA system remains up-to-date and reliable.[225]

The Settlement adopts Cal-Am's forecasted budget for this project, consistent with the additional details provided in Cal-Am's rebuttal testimony.

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[221] MPWMD Comments on the Settlement at 4, 14, and 16.

[222] CAW Reply Brief at 11; CAW Reply Comments on Settlement Agreements at 5.

[223] A.19-07-004, Capital Projects Workpapers, Tab 59; Exhibit CAW-3 at 193, 199-200 and Attachment 1.

[224] Exhibit Cal PA-5C at 55-56, 61-63, and 70.

[225] Exhibit CAW-17 at 12-13.

C. *Project I15-400129 – Tank Rehabilitation Program (2021-2026). Cal-Am requested $2,515,728 for 2021-2022 to provide regular maintenance to the 120 storage tank facilities in the Monterey District.*[226]

Cal Advocates testified that the total direct costs for the projects in Cal-Am's Tank Rehabilitation Program exceeds the total proposed 2021-2026 budget for this project. Cal Advocates also stated the costs for the five-year anniversary tank maintenance should be considered deferred tank improvement costs, rather than capital costs, and that Cal-Am requested duplicate cost recovery of tank painting projects.[227]

In the Settlement, Cal-Am agreed to Cal Advocates' budget modifications as detailed in Attachment C-4 of the Settlement.[228]

D. *Project I15-400140 – Standby Generator Improvement Program (2021-2026). Similar to its requests in the Los Angeles and Ventura County Districts, Cal-Am sought to recover up to $1,050,000 in 2021-2023 to install and upgrade backup power generators at its pump stations and water treatment facilities in its Central Division.*[229]

Cal Advocates argued that Cal-Am should only be authorized to use a significantly reduced budget to procure portable generators and reiterated its argument that Cal-Am should be directed to conduct a portable generator and power shutoff study before installing additional generators.[230]

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[226] A.19-07-004, Capital Projects Workpapers, Tab 60; Exhibit CAW-3 at 193, 200-201, and Attachment 1; Exhibit CAW-5 at 28-29.

[227] Exhibit Cal PA-5C at 55-56, 64-70; Exhibit Cal PA-9 at 39-41.

[228] Exhibit CAW-17 at 2-3; Settlement at 59-60 and Attachment C-4.

[229] A.19-07-004, Capital Projects Workpapers, Tab 69; Exhibit CAW-3 at 193, 201-202, and Attachment 1.

[230] Exhibit Cal PA-5C at 55-56, 63-64; Exhibit Cal PA-9C at 3-4, 20-26.

Cal-Am argued that the project and proposed budget are necessary to provide reliable service to the Central Division. Cal-Am also argued that reliance on portable generators is labor intensive and could be inefficient.[231]

In the Settlement, Cal-Am agreed to Cal Advocates' proposed budget modifications for the Central District's standby generator improvement program and to prepare a Portable Generator Planning Study to consider alternatives to installing stationary generators, as described in Section 7.13 above.[232]

MPWMD argued that the compromise reached in the Settlement "is completely at odds with the vivid, descriptive testimony of Cal-Am's own engineer and is not in the public interest of the Monterey Service Area customers."[233] MPWMD stated that the Central District has many customers that would lose water service in the event of a power shutoff, and that Cal-Am's initial request for this project should be authorized.[234]

E. *Project I15-400130 – Carmel Woods #1 and #1 Tank Replacement. Cal-Am requested $421,657 in 2022 to replace two 50,000-gallon concrete storage tanks which are leaking and at the end of their useful life.*[235]

Cal Advocates asserted that the total storage volume for the two existing tanks is not necessary to meet the current storage demands for the specified

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[231] Exhibit CAW-17 at 15-17.

[232] Settlement at 60 and Attachment C-4 at 220.

[233] MPWMD comments on the Settlement at 4, footnote to Exhibit CAW-17 at 15-17 omitted.

[234] MPWMD-CAW Settlement at 14 and 16.

[235] A.19-07-004, Capital Projects Workpapers, Tab 61; Exhibit CAW-3 at 193, 204-205, and Attachment 1.

pressure zone.[236] In the Settlement, the parties agreed to defer this project to a future GRC.[237]

F. *Project I15-400124 – Huckleberry Hydropneumatic Tank Replacement. Cal-Am requested $1,322,856 to replace an existing hydropneumatic tank that is showing signs of rust and decay.*[238]

Cal Advocates argued that Cal-Am's cost estimate was based on construction of a storage tank, rather than the installation of a hydropneumatic tank, and that the approved budget should be reduced to $399,000 in 2020.[239] In the Settlement, Cal-Am agreed to adopt Cal Advocates' budget recommendation.

G. *Project I15-400123 – Annual Program – Well Rehabilitation and Replacement (2018-2020). Cal-Am requested $3,000,000 in 2021-2023 to continue a well rehabilitation program that was approved in its 2013 and 2016 GRCs. Cal-Am proposed to expand the scope of the program to allow for well replacement when a well cannot be rehabilitated or to develop new wells, if necessary, to meet system demands.*[240]

Cal Advocates argued that the actual sum of project costs for the specific wells identified in Cal-Am's application is significantly lower than the $3,000,000 requested, and that one of the project candidates proposed in this program should be denied because it is not needed at this time.

MPWMD argued the budget proposed by Cal-Am is low and may not represent a serious effort to maximize ASR yields. MPWMD also recommended

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[236] Exhibit Cal PA-5C at 56, 60-61, and 69-70.

[237] Exhibit CAW-17 at 13-14; Settlement at 61 and 220.

[238] A.19-07-004, Capital Projects Workpapers, Tab 54; Application 100-Day Update at 9 and Attachment 3, at 924 and 940; Exhibit CAW-3 at 143 and Attachment 1; Exhibit CAW-9 at Attachment 1.

[239] Exhibit Cal PA-4 at Attachment 7; Exhibit Cal PA-5 at 69-70.

[240] A.19-07-004, Capital Projects Workpapers, Tab 62; Exhibit CAW-2 at 9; Exhibit CAW-3 at 125-26, 145-46, 197-99, 209-12

the Commission separate and reject the costs requested by Cal-Am to drill new wells for the Sand City Desalination Plant.[241]

MPWMD noted that the Commission's approval of costs to support the Sand City Desalination Plant was to support customer growth in the Monterey service district, and the cost recovery approved in D.13-04-015 is solely associated with Cal-Am's production and delivery of water from Sand City, not the drilling of new wells. MPWMD therefore recommended the Commission deny Cal-Am's request to use ratepayer funds to drill new wells to support the Sand City plant's ongoing operation. However, MPWMD since withdrew its opposition to Cal-Am's request to drill a new well at the Sand City plant.[242] MPWMD noted that it "has been informed that the proposed intake well for the Sand City plant could be completed in eleven months at a cost of approximately $1.2 million." It further noted that Cal-Am's authorization to withdraw from the Carmel River will drop by 50% in January 2022, and that "every available source of supply must be optimized while awaiting the expansion of the Pure Water Monterey Project."

Cal-Am argued that it has determined that the existing wells at the Sand City plant are "significantly impacted by water quality and will require the addition of a [new] well to replace lost capacity."[243] Cal-Am also argued that nothing in the prior proceeding preempts it from recovering the costs of drilling a new well to support its own facilities.[244] Cal Am further argued that the

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[241] MPWMD-1 at 3-13.

[242] MPWMD comments on the Proposed Decision at 7-8.

[243] Exhibit CAW-3 at 125.

[244] Cal-Am reply comments to MPWMD comments on the Settlement and the Cal-Am-Las Palmas Settlement.

circumstances that D.13-04-015 intended to prevent have been resolved. Cal-Am stated that 99% of the output from the Sand City plant serves the Monterey Main system, not Sand City residents; therefore, "… the additional water produced by the Sand City Desalination Plant continues to serve Monterey District customers and reduce the reliance on Carmel River water."[245]

The Settlement provides a compromise to incorporate Cal Advocates' proposed budget modifications for Project I15-400123 as reflected in Attachment C-4 of the Settlement, reflecting a total of $1,258,518 for this project during this GRC cycle.

H. *Project I15-400141 – New Carmel Valley Well. Several of the existing wells in the Lower Carmel Valley have declining production and must be replaced to fully implement Cal-Am's maximum Carmel River water rights and the ASR program. Cal-Am requested $1,897,303 to construct one new well on the Rancho Canada Golf Course that will be 120-150 feet deep and have a production capacity of 1,200 to 2,500 gallons per minute.*[246]

MPWMD asserted that Cal-Am should construct more than one well – and preferably three to five new wells – to support the ASR program adopted in D.18-09-017.[247] In the Cal-Am-MPWMD Settlement, MPWMD agreed to Cal-Am's request for this project.[248]

I. *Project I15-400143 – Forest Lake Pump Station. Cal-Am proposes to construct a new pump station to raise the pressure in the transmission line between Forest Lake and Carmel Valley, which has four high spots in Carmel where the pressure can sometimes drop below the normal lower operating limit. This proposed pump station would likely be located at or near the*

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[245] Cal-Am comments on the Proposed Decision at 3-4.

[246] Exhibit CAW-3 at 125-26, 145-46, 197-99, 209-12

[247] Exhibit MPWMD-1 at 3-13.

[248] Cal-Am-MPWMD Settlement at 16.

Forest Lake Tanks site and could raise the pressure to within the normal operating limit throughout the pipeline.[249]

MPWMD strongly encouraged the Commission to approve Cal-Am's request for this project, stating that this new pump station will also provide "immense benefits to the system's ability to take water from the new source supplies in the north to customers in the south, traditionally served by the Carmel River, upon which production must be reduced by regulatory order."[250]

The Settlement adopts Cal-Am's proposal and budget.

J. *Project I15-400122 – Los Padres Dam NMFS MOA Requirements. Cal-Am operates the Los Padres Dam (LPD) along the Carmel River. In 2017, Cal-Am entered into two memoranda of agreements (MOA) with the National Marine Fisheries Service (NMFS) to evaluate the potential impacts of removing LPD, which was constructed in 1949, and other alternatives to the dam's removal. Cal-Am requested $12,417,500 to conduct additional studies to evaluate alternatives to the LPD removal and complete this project.*[251]

MPWMD requested the Commission continue to fund this project. As a project manager, MPWMD stated that it is working with Cal-Am to contain the costs related to the NMFS studies.[252] The Settlement adopts Cal-Am's proposal and budget for this project.

10.4.3. Discussion on Central Division Disputed Projects

We find the Settlement provisions relating to the budgets for the above summarized issues ((1) the Central Division Well Rehabilitation Program; (2) the Tank Rehabilitation Program budget for this GRC cycle; (3) the cost of the

[249] Exhibit CAW-3 at 125-126, 145-146, 197-199, and 209-212; Exhibit CAW-17 at 14-16 and 18-19.

[250] Cal-Am-MPWMD Settlement at 16.

[251] Exhibit CAW-3 at 125-126, 145-146, 197-199, and 209-212; Exhibit CAW-17 at 14-16 and 18-19.

[252] Cal-Am-MPWMD Settlement at 15.

Huckleberry hydropneumatic tank replacement project; (4) deferral of the Carmel Woods tank replacement project; (5) the SCADA system maintenance and equipment upgrade costs for the Central District; (6) the New Carmel Valley Well Project; (7) the Forest Lake Pump Station, and (8) the Los Padres Dam studies and project) to be reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest. While MPWMD highlights the need for additional investment in Cal-Am's Monterey Service District, we find the Settlement strikes a reasonable balance between the capital expenditures necessary in the near term and the potential customer bill impacts from the major well upgrade programs, supports the necessary SCADA system maintenance and equipment upgrades, and funds the ongoing studies necessary to evaluate the removal of the Los Padres Dam.

Further, consistent with our discussion in Section 7.13 above, Cal-Am is provided with initial funding to support portable generator deployment to alleviate near-term concerns about potential power shut-offs at facilities in the Central District and authorized to recover costs associated with conducting and completing a study on alternatives to stationary generators at facilities in the Central District as well as the rest of its service territory. We find it reasonable for this broader study to occur before authorizing Cal-Am to expend significant capital to install additional, stationary back-up power resources that may not be necessary. This issue may be considered further in a future GRC once the Portable Generator Planning Study is complete.

The Settlement did not address the Sand City well issues raised by MPWMD. D.13-04-015 authorized Cal-Am to purchase water from the Sand City

Desalination Plant under specific terms, with cost recovery to be evaluated through an advice letter process.[253]

Cal-Am is authorized to recover the costs of water it produces and delivers from the existing Sand City plant. The cost allocation method adopted by D.13-04-015 specifically intended to "leave the operational cost risk with shareholders, and to protect ratepayers from assuming Cal-Am's guarantee of production regardless of cost."[254] This provision was adopted on the concern that the Sand City plant's production would largely support growth within Sand City, while any expansion or incremental operational costs might be borne by Cal-Am's broader Central Division rate base. However, we find that the concerns that provision intended to address have been resolved, given that the majority of the Sand City plant's production is serving Monterey Main service territory customers and is not supporting any rapid growth in the Sand City area.[255] As noted in Cal-Am's testimony, "the majority of water produced from the Sand City Desalination plant is used to offset pumping from the Seaside Basin and Carmel River." Upon review of MPWMD's withdrawal of its opposition to the proposed new Sand City well, and the additional arguments Cal-Am provided in comments on the PD highlighting the critical need to identify incremental resources to provide service to the Monterey Peninsula, we

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[253] D.13-04-015 denied Cal-Am's request to enter a 31-year lease for the Sand City Desalination Plant because Cal-Am failed to show that the water produced by the plant is the most reasonable and prudent resource to supply water to customers – both new and existing – in its Monterey District. However, Cal-Am was authorized to include the costs of water it produces and delivers to Monterey District customers from the Sand City plant in its Monterey District revenue requirement. (*See* D.13-04-015 at 22-33.)

[254] D.13-04-015 at 32.

[255] D.18-12-012 found that "there have been a total of three new customers in Sand City since 2009 and 99% of the production serves the Monterey Main system" (at 234).

find Cal-Am's proposal and the terms of the Settlement related to the Sand City Desalination plant to be reasonable in light of the whole record, consistent with the law, and in the public interest.

10.5. Monterey County Wastewater District

10.5.1. Monterey County Wastewater District Non-Disputed Projects

The following projects in the Monterey County Wastewater District were not disputed.

a. Project I15-420004 – Spreckles Boulevard Main Replacement (proposed); and

b. Recuring Projects R15-42B through R15-42R.[256]

We have reviewed the record of this proceeding concerning these undisputed projects in Cal-Am's Monterey County Wastewater District and find these undisputed projects are reasonable in light of the whole record, consistent with the law, and necessary to improve service to Cal-Am's customers and to maintain and reinforce the utility's existing water service infrastructure. It is reasonable to allow Cal-Am to include them in rate base and recover the costs from ratepayers, as detailed in the application and the related testimony.

10.5.2. Monterey County Wastewater District Disputed Project

The Settlement provides compromises reached to address the issues associated with one of Cal-Am's proposed Monterey County Wastewater District projects that was disputed by parties in testimony, as detailed below:

A. *Project I15-420003 – Las Palmas Moving Bed Bioreactor (MBBR) Installation. Cal-Am requested $248,033 in 2022 for a retrofit of the Las Palmas Ranch Wastewater Treatment Plant that would remove the existing trickling filter towers, convert the secondary clarifiers 1 and 2 into process tanks that house a*

[256] Settlement at 62.

> *MBBR, install coarse and medium bubble aeration and blowers, and install retention screens at the outlet of each secondary clarifier. Cal-Am states this project is necessary because the Plant 1 trickling filter tanks are not structurally sound, that Cal-Am has already sought a third-party evaluation of alternatives to improve the operations at the Las Palmas Ranch treatment plant, and that the MBBR proposal offered in its testimony was found to be the best alternative.*[257]

Cal Advocates argued that the requested budget should be reduced to eliminate redundant contingency project costs included in Cal-Am's request.[258] Cal-Am agreed to Cal Advocates' proposed budget reduction.[259]

No other parties filed comments on this project.

The Settlement provides a budget that excludes redundant contingency costs but allows for the MBBR project to move forward as proposed.

We have reviewed the record of this proceeding concerning the Las Palmas MBBR project and find that the compromise reached on this issue is reasonable in light of the whole record, consistent with law, and in the public interest.[260] Cal-Am shall continue the project with the budget reductions proposed by Cal Advocates, as agreed to in the Settlement.

10.6. Sacramento County District

10.6.1. Sacramento County District Undisputed Projects

Section 8.6.1 of the Settlement identifies projects in the Sacramento County District that were not disputed by parties.[261] We have reviewed the record of this

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[257] A.19-07-004, Capital Projects Workpapers, Tab 72; Exhibit CAW-3 at 213-215 and Attachment 1; Exhibit CAW-2 at 15-17; Exhibit CAW-6 at 91.

[258] Exhibit CalPA-5C at 72 and 75-77.

[259] Exhibit CAW-16 at 7-8; Exhibit CAW-17 at 2-3.

[260] Settlement at 221.

[261] Settlement at 63-64.

proceeding concerning these undisputed projects in Cal-Am's Monterey County Wastewater District and find these undisputed projects are reasonable in light of the whole record, consistent with the law, and necessary to improve service to Cal-Am's customers and to maintain and reinforce the utility's existing water service infrastructure. It is reasonable to allow Cal-Am to include them in rate base and recover the costs from ratepayers, as detailed in the application and the related testimony.

10.6.2. Sacramento County District Disputed Projects

The Settlement provides compromises reached to address the issues associated with Cal-Am's proposed Sacramento County District projects that were disputed by parties in testimony, as detailed below:

A. *Project I15-600094 – Nut Plains Well PFOA Treatment. This previously-approved investment project, which was completed in Fall 2017 at a total cost of $1,292,899, was necessary to lower the levels of Perfluorooctanoic acid (PFOA) and other contaminants in drinking water served in Cal-Am's Suburban-Rosemont service area to comply with a May 25, 2016 federal health advisory.*[262]

Cal Advocates opposed authorizing the full cost recovery because Cal-Am is seeking repayment from the U.S. Air Force (Air Force) for part of the treatment upgrades costs.[263]

Cal-Am argued that, despite the Air Force being potentially responsible for the underlying contamination driving remediation project, there is no guarantee what cost recovery is feasible from the Air Force. Cal-Am further argued that, due to the indeterminate amount of time it may take for the lawsuit to be

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[262] Application 100-Day Update, Attachment 3 at 912; Exhibit CAW-3 at 89-90; Exhibit CAW-5 at 3-4.

[263] Exhibit CalPA-4 at 9, 23-24.

resolved, the Commission should approve the full cost recovery for this project requested in this GRC.[264]

The Settlement provides that Cal-Am's requested costs related to the Nut Plains Well PFOA Treatment should be included in rate base in this GRC. Cal-Am also agreed that, in the event that it obtains any monetary recovery through litigation for this project, it will seek Commission approval to allocate any net proceeds consistent with D.10-10-018.[265]

B. *Project I15-600072- Sacramento District Main Replacement. Cal-Am completed a main replacement program across the nine, geographically distinct service areas in the Sacramento County District with the intent of improving water pressure, quality, and overall system reliability.*[266]

Cal Advocates argued that Cal-Am's contingency on this item should be limited to 15%.[267]

In the Settlement, Cal-Am agreed to use a 15% contingency for Project I15-600072 as recommended by Cal Advocates.[268]

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[264] Exhibit CAW-17 at 12; Exhibit CAW-22 at 57-58.

[265] D.10-10-018 found that "After the contaminated plant is replaced, remediation has occurred, and all recoverable costs have been determined, the remaining amount of contamination proceeds arising from damage awards, settlements, government order and insurance proceeds may be shared between ratepayers and shareholders on a case-by-case basis under a framework for analysis provided in [Table 2 and Appendix D] of this decision." (at 3.)
Ordering Paragraph 3 of D.10-10-018 directed all investor-owned water utilities to account for local or federal grants, government loans, damage awards, settlements, government ordered funds and insurance proceeds used to replace contaminated water supplies as Contributions in Aid of Construction (CIAC).

[266] A.19-07-004, Capital Projects Workpapers Tab 82; Application 100-Day Update, Attachment 3 at 910, 912, and 934; Exhibit CAW-3 at 90-91, 133-134, 216-217, and Attachment 1; and Exhibit CAW-5 at 29-30 and 33-34.

[267] Exhibit CalPA-5C at 2 and 27-28.

[268] Settlement at 66 and Attachment C-4.

C. *Project I15-600101 – Standby Generator Improvements Program (2021-2026). Cal-Am claims that with the increasing number of PSPS events, additional systems in the Sacramento County District have been added to those identified in 2016 as in need of redundant power resources, and that the costs and needs of the proposed incremental systems were based on the 2016 report's findings.*[269]

Cal Advocates argued that only three of the 11 proposed generator project candidates in the Sacramento District should be constructed, and two generators should be relocated as described in the 2016 report. Cal Advocates further argued that any additional generators should be contingent upon Cal-Am's completion of a portable generator and power shutoff study.[270]

Cal-Am opposed Cal Advocates' proposed budget reduction and argued that its proposed Sacramento District generator program was necessary to ensure reliable water service during emergencies and power interruptions.

D. *Project I15-600032 – Walerga Road Bridge Pipeline. Cal-Am is seeking authority to file an advice letter to get approval for cost recovery of up to $1.5 million associated with installing a new pipeline within the box girder of the new bridge, while abandoning the existing water pipeline at this location.*[271]

Cal Advocates argued that Cal-Am is accounting for the costs of this project elsewhere in its workpapers in this GRC request, so it should not be authorized to file a separate advice letter seeking further recovery of these costs.[272] Cal-Am agreed these costs are already included in the projected revenue

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[269] A.19-07-004, Capital Projects Workpapers, Tab 92; Exhibit CAW-3 at 215, 222-223, and Attachment 1.

[270] Exhibit CalPA-5C at 33-38, 42, and Attachment 2; Exhibit CalPA-9C at 3-4 and 20-26.

[271] A.19-07-004, Capital Projects Workpapers, Tab 78; Application 100-Day Update Attachment 3 at 921 and 938; Exhibit CAW-3 at 151-152 and Attachment 1.

[272] Exhibit CalPA-4 Attachment 7; Exhibit CalPA-5 at 2,4, and 2-30.

requirement in Cal-Am's RO Model; and the Settlement reflects this acknowledgement by Cal-Am.[273]

E. *Project I15-600102 – Service Saddle Replacement Program (2021-2026). Cal-Am proposed a $4.5 million project over 2021-2023, or $1.5 million per year, to replace the single strap saddles in this district to minimize the ongoing repair work and the potential for future leaks.*[274]

Cal Advocates recommended that Cal-Am's requested 2021-2022 budget for saddle service replacement be reduced to align with historic costs for similar replacements in the service territory.[275] Cal-Am agreed to Cal Advocates' proposed scope and budget modifications, as reflected in Attachment C-4 of the Settlement.[276]

F. *Project I15-600103 – Suburban Rosemont Hydraulic Improvement. Cal-Am proposes to spend $3,450,000 in 2021-2023 for a project to construct a booster pump station and pressure sustaining valves with new vaults that would physically separate the area in the eastern portion of the Sacramento system and address the water supply constraints that currently exist in the suburban Rosemont area.*[277]

Cal Advocates recommended reducing Cal-Am's proposed direct cost to $1,469,377 in the 2021-2022 period to address redundant contingency costs in the project proposal.[278]

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[273] Exhibit CAW-22 at 66; Settlement at 67.

[274] A.19-07-004, Capital Projects Workpapers, Tab 93; Exhibit CAW-3 at 215, 224, and Attachment 1.

[275] Exhibit CalPA-5C at 33-34 and 40-42.

[276] Exhibit CAW-17 at 11; Settlement at 68 and Attachment C-4.

[277] A.19-07-004, Capital Projects Workpapers, Tab 94; Exhibit CAW-3 at 215, 225-226, and Attachment 1; Exhibit CAW-5 at 3-4.

[278] Exhibit CalPA-5C at 33-34, 38-39, and 42.

In the Settlement, Cal-Am agreed to Cal Advocates recommended total capital expenditure for this project.[279]

> G. *Project I15-600099 – Well Rehabilitation Program (2021-2026). Cal-Am proposes to spend $4.5 million in 2021-2023, or $1.5 million per year, to fund well rehabilitation projects that will, among other benefits, increase the Sacramento District's system reliability; avoid catastrophic failures; extend the useful life of the existing well facilities; and improve operability, site safety, and customer satisfaction.*[280]

Cal Advocates noted that six of the well rehabilitation projects proposed by Cal-Am for this project have already been completed and recommended a reduction of the 2021-2022 budget to account for those already-completed projects.[281]

In the Settlement, Cal-Am agreed to Cal Advocates' recommended budget and scope modifications, including the reduced 2021-2022 budget.[282]

10.6.3. Discussion on Sacramento County Disputed Projects

We find the Settlement reaches compromises on the Sacramento County disputed projects described above that are reasonable in light of the whole record, consistent with the law, and in the public interest. Regarding the outstanding costs associated with the Nut Plains Well PFOA Treatment, Cal-Am shall file a Tier 2 Advice Letter if and when it seeks approval of its proposed

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[279] Exhibit CAW-17 at 2; Settlement at 69 and Attachment C-4.

[280] A.19-07-004, Capital Projects Workpapers, Tab 90; Exhibit CAW-3 at 215, 220-221, and Attachment 1.

[281] Exhibit CalPA-5C at 33-34 and 41-42.

[282] Exhibit CAW-17 at 2 and Settlement at 69 and Attachment C-4 at 224.

recovered cost allocation within 90 days of receiving any proceeds from its ongoing lawsuit with the Air Force, as provided in the Settlement.[283]

Cal-Am has experience completing main replacement programs across its various service areas in California and Sacramento County. Therefore, Cal-Am shall implement the 15% contingency for the Sacramento District Main Replacement program agreed upon in the Settlement.

As previously discussed in Sections 7.13, 10.1.2, 10.3.2, and 10.4.2 above, the Settlement adopts Cal Advocates' proposal to require Cal-Am to prepare a Portable Generator Planning Study to identify alternatives to stationary generators where feasible. Cal-Am shall conduct and complete a study on alternatives to stationary generators at facilities across its California service territory before recovering costs for non-portable generators. Recovery of stationary and/or portable generator costs in the Sacramento County District may be considered further in a future GRC once the Portable Generator Planning Study is complete.[284] Cal-Am shall not file a Tier 2 Advice Letter seeking to recover additional costs related to its Walegra Road Bridge Pipeline project and shall adopt the budget for service saddle replacement provided in the Settlement, which aligns with recent costs for similar projects in the Sacramento County District.

Further, Cal-Am shall limit its total capital expenditure for the Sacramento County Disputed Projects to those provided in Attachment C-4 of the Settlement, which remove redundant contingency costs related to the

[283] Settlement at 65.

[284] Settlement at 66-67 and Attachment B-6.

Suburban Rosemont Hydraulic Improvement project and costs associated with already completed well rehabilitation projects.

10.6.4. Sacramento County Recurring Projects

Cal-Am requested an estimated direct cost for Sacramento County District Recurring Projects (RP) of $4,393,166 in 2021, and $4,499,442 in 2022.

Cal Advocates did not dispute any of the proposed RPs in the Sacramento County District but recommended a lower total direct cost of $3,421,639 in 2021, and $3,503,514 in 2022.

Cal-Am argued that its requested RP budget is justified because it anticipates increased ongoing, routine, and emergency capital maintenance costs.[285]

The Settlement adopts Cal Advocates' lower recommended budgets and requires Cal-Am to reflect its annual RP budget amounts for the Sacramento County District in its UPIS for each year.[286]

We have reviewed the record of this proceeding concerning the Sacramento County District recurring projects and find the compromises provided in the Settlement are reasonable in light of the whole record, consistent with the law, and in the public interest. Cal-Am's speculated increases in ongoing, routine, and emergency capital maintenance costs were not supported by its testimony. Cal Advocates' proposed budgets are more in line with historic RP costs in the Sacramento County District, and Cal-Am shall adopt them as provided in the Settlement. Cal-Am maintains flexibility to manage the overall

[285] Exhibit CAW-17 at 3-7 and 35.

[286] Settlement at 70.

RP budget in Sacramento County to allocate different spending levels to specific line items as necessary, consistent with the authority granted in D.18-12-021.

10.7. Larkfield District

10.7.1. Larkfield District Non-Disputed Projects

Section 8.7.1 identified projects in the Larkfield District that were not disputed by parties in this proceeding.[287] We have reviewed the record of this proceeding concerning these undisputed projects in Cal-Am's Monterey County Wastewater District and find these undisputed projects are reasonable in light of the whole record, consistent with the law, and necessary to improve service to Cal-Am's customers and to maintain and reinforce the utility's existing water service infrastructure. It is reasonable to allow Cal-Am to include them in rate base and recover the costs from ratepayers, as detailed in the application and the related testimony.

10.7.2. Larkfield District Disputed Projects

The Settlement provides compromises reached to address the issues associated with Cal-Am's proposed Larkfield District projects that were disputed by parties in testimony, as detailed below.

A. *Project I15-610015 – Larkfield Main Replacement Program. Cal-Am requested $2,046,000 in 2021-2022 for this proposed project to replace mains that were identified in the 2019 Sonoma County District Comprehensive Planning Study and Buried Infrastructure Condition Based Assessment.*[288]

Cal Advocates argued that the 2021-2022 Main Replacement Program budget should be $1,110,797, and that Cal-Am should prioritize the main

[287] *Ibid* at 70-71.

[288] A.19-07-004, Capital Projects Workpapers, Tab 44; Exhibit CAW-3 at 231-232, Attachment 1.

replacement projects identified in Cal-Am's 2018 Conditional Based Assessment report.[289]

In the Settlement, Cal-Am agreed to Cal Advocates' proposed budget and scope for this project.[290]

B. *Project I15-610018 – Larkfield Tank Rehabilitation and Seismic Upgrades. Cal-Am requested $818,400 in 2021-2022 for a tank rehabilitation and seismic upgrade project that will include the preparation of an evaluation of the structural integrity of the tanks in the Larkfield District and the identification and design of seismic upgrades for each specific tank. Cal-Am intends to implement the upgrades during the scheduled maintenance cycles for the tanks in the Larkfield District.*[291]

Cal Advocates argued that some of Cal-Am's requested costs are duplicative and should be included in the deferred tank maintenance budget.

In the Settlement, Cal-Am agreed to Cal Advocates' proposed modifications to this project's budget and scope.[292]

C. *Project I15-610002 – Faught Road Well. Cal-Am sought approval to submit an advice letter to recover $2,504,133 to construct a 150 gpm production well and install 1,500 feet of 6-inch raw water main from the new well to the Larkfield water treatment plant.*[293]

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[289] Exhibit CalPA-5C at 2, 27-28, 44-46, and 53.

[290] Exhibit CAW-17 at 2, Settlement at 71 and Attachment C-4.

[291] A.19-07-004, Capital Projects Workpapers, Tab 7; Exhibit CAW-3 at 231, 235, and Attachment 1.

[292] Exhibit CAW-17 at 2; Settlement at 72 and Attachment C-4.

[293] Application 100-Day Update, Attachment 3 at 912 and 938; Exhibit CAW-3 at 152-153 and Attachment 1; Exhibit CAW-9 Attachment 1.

Cal Advocates argued that this project is not necessary at this time, and if Cal-Am decides this project is necessary in the future, it should request recovery of the completed project costs in a subsequent GRC.[294]

Cal-Am agreed that the 2017 Tubbs Fire resulted in a decrease in demand in the Larkfield District. Accordingly, in the Settlement, Cal-Am agreed to exclude these project costs from this GRC but reserves Cal-Am's ability to request recovery of this project in a subsequent GRC.[295]

D. *Project I15-610014 – Larkfield Wildfire Recovery (Facilities) and Project I15-610023 – Larkfield Wildfire Recovery (Meters and Services). Cal-Am requested $7.5 million to rebuild infrastructure for the nearly 25% of the Larkfield water system customers that had their homes, businesses, and other utilities destroyed by the 2017 Tubbs Fire. The estimated cost includes Cal-Am's expenditures on this project through December 2018 totaling $4.05 million.*[296]

Cal Advocates argued that the Commission should not allow the $7.5 million requested in 2020 until the insurance claims are complete.[297]

Cal-Am provided updated information regarding its Larkfield Wildfire insurance claims in rebuttal, illustrating that the final claim for its Larkfield Wildfire insurance provided a total of $1,206,275.92 related to lost or damaged assets and $70,433.00 related to lost revenues. Cal-Am stated that no further

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[294] Exhibit CalPA-4 at 11, 14, 37-40, and 48.

[295] Settlement at 73 and Attachment C-4.

[296] A.19-07-004, Capital Projects Workpapers, Tab 3; Application 100-Day Update, Attachment 3 at 925 and 940; Exhibit CAW-3 at 160-161 and Attachment 1; Exhibit CAW-6 at 39-40; Exhibit CAW-14 at 16-18.

[297] Exhibit CalPA-4 at 10, 12, 28-30, 47, and 59; Exhibit CalPA-5C at 76, 83-86, and Attachment 69.

reimbursement is forthcoming because the March 20, 2020, agreement was the final sign-off on this insurance claim.[298]

The Settlement provides that the portion of the insurance claim related to lost or damaged assets should be netted against the total project cost, and the net forecasted capital spend should be allowed for inclusion in rate base, with the total capital expenditure for this project set forth in Attachment C-4 of the Settlement.[299]

10.7.3. Discussion on Larkfield Disputed Projects

We find the Settlement provides compromises on the Larkfield District disputed projects that are reasonable in light of the whole record, consistent with the law, and in the public interest.

The Settlement reduces Cal-Am's proposed budget for the Larkfield District disputed projects to (1) prioritize main replacement projects already identified by Cal-Am's Conditional Base Assessment report; (2) remove duplicative tank maintenance costs; (3) exclude costs that are not necessary due to system impacts related to the 2017 Tubbs Fire; and (4) reflect wildfire insurance claims Cal-Am has received to recoup lost assets and revenues.

Cal-Am shall recover the costs for the projects described in Section 10.7.2 above, as provided in Attachment C-4 of the Settlement.

10.8. Recurring Projects – Corporate General Office

Cal-Am requested a total estimated direct cost for Corporate General Office (GO) RPs of $5,494,844 in 2021 and $5,632,153 in 2022.[300]

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[298] Exhibit CAW-17 at 38-40; Exhibit CAW-22 at 59-60; Exhibit CAW-25 at 60-64.

[299] Settlement at 73-74 and Attachment C-4.

[300] Exhibit CAW-3 at 19-28 and Attachment 2.

Cal Advocates recommended that Cal-Am should be required to separate all costs for unique software application projects into individually identifiable investment projects in future GRC filings.[301]

The Settlement sets forth a compromise to adopt Cal-Am's proposed direct capital expenditures for Corporate GO RPs identified above, with the annual amounts reflected in each respective year's UPIS.

We have reviewed the record of this proceeding concerning the corporate GO RPs and find the compromises on these issues provided in the Settlement are reasonable in light of the whole record, consistent with the law, and in the public interest. We also share the concern noted by Cal Advocates; thus, Cal-Am shall separately identify costs for unique software application projects in its future GRC filings to allow for better review of the costs associated with individually identifiable investment projects. Cal-Am is authorized to recover the budgets associated with its GO RPs as provided in Attachment C-4 of the Settlement and has the flexibility to re-allocate the approved RP budget for different line-items, if necessary, pursuant to D.18-12-021.

10.9. Used and Useful Assets

10.9.1. Facilities Addressed in D.18-12-021

In D.18-12-021, the Commission found that certain plant facilities and associated parcels of land should be removed from rate base because they no longer provide used and useful service. Cal-Am requested to include some of those identified facilities and parcels in this GRC because (1) the facilities were required by other regulatory agencies; (2) the land houses other facilities that are still used and useful; or (3) there is a plan in place to bring the facilities back into

[301] Exhibit CalPA-5 at 17-23.

service in this GRC cycle.[302] Cal-Am further stated that some of the facilities identified by D.18-12-021 would be retired and are reflected as such in the RO Model.[303]

Cal Advocates opposed Cal-Am's request to include the Roanoke and Fish Canyon facilities in rate base, because it is unclear whether they will be returned to service in this GRC cycle. Cal Advocates also identified the Scotland Well, Wittkop Well, and Sutter Gold Well as having been disconnected or destroyed in 2019 and suggested they should be removed from rate base.[304]

Cal-Am agreed with Cal Advocates' recommended removal of the Scotland Well, Wittkop Well, and Sutter Gold Well but argued that the Fish Passage and Roanoke facilities will return to service during this GRC cycle and should remain in the rate base.[305]

In the Settlement, Cal-Am agreed not to include the Fish Passage and Roanoke Well, and the associated land parcels, for this GRC cycle, given the uncertain timeline for the two facilities to return to used and useful service. Because there is a definite plan for returning the two facilities to use, the Settlement would move the assets to Cal-Am's Uniform System of Accounts (USOA) Account #100-4: Utility Plant Held for Future Use for this GRC cycle.[306]

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[302] Application 100-Day Update at 6 and Attachment 1 at 50-54, 161-165, 275-279, 388-392, 502-506, 638-642, 765-769, and 880-884.

[303] Exhibit CAW-9 at 69-79.

[304] Exhibit CalPA-4C at 6-23.

[305] Exhibit CAW-17 at 23, 27, and 29; Exhibit CAW-22 at 56-57. Cal-Am noted that the retirement of the Scotland Well, Wittkop Well, and Sutter Gold Well facilities was reflected in its 100-Day Update.

[306] Settlement at 75 and Attachment C-5.

10.9.2. "TBD" Land Identified in D.18-12-021

The Commission in D.18-12-021 found that Cal-Am failed to demonstrate the used and useful status of certain land and excluded those parcels, valued at up to $1,135,370, from Cal-Am's Plant and Rate Base. In A.19-07-004, Cal-Am grouped the same land, termed "TBD" in D.18-12-021, into the following five categories:

1. Used and Useful ($803,165)
2. Vacant Property – Future Well Site ($264,811)
3. Vacant Property – Well Abandoned ($16,922)
4. Vacant Property – Well Inactive ($47,412)
5. Not Used and Useful ($3,060)

Cal-Am requested to include the land in the first two categories referenced above in the rate base and excluded from the rate base the land in last three categories.[307]

Cal Advocates argued that land in the second category, "Vacant Property – Future Well Site" should not be included in the rate base because it is not currently providing used and useful service.[308]

Cal-Am argued that the land needed for future well sites should be included, and if the Commission excluded that land for future sites from rate base in this GRC, it should be brought back into rate base at fair market value at the time it becomes used and useful.[309]

As a compromise, the Settlement provides that $803,165 be categorized as "Used and Useful" in rate base for this GRC cycle. The Settlement also

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[307] Exhibit CAW-9 at 69-79.

[308] Exhibit CalPA-4C at 6-23.

[309] Exhibit CAW-17 at 23 and 29; Exhibit CAW-22 at 56-57.

recognizes the potential future need for the land categorized as "Vacant Property – Future Well Site," but does not include it in the rate base in this GRC because the timing for it becoming used and useful is uncertain. Instead, the Settlement provides that the parcels, totaling $264,811, will be moved to USOA Account #100-4: Utility Plant Held for Future Use for this GRC cycle. The Settlement also provides that the remaining "TBD" property, totaling $67,394, be excluded from the rate base.[310]

10.9.3. Discussion on Facilities and "TBD" land identified in D.18-12-021

We have reviewed the record of this proceeding as it relates to the facilities and properties addressed in D.18-12-021 and find the compromises reached in Settlement in reasonable in light of the whole record, consistent with the law, including D.18-12-021, and in the public interest. Only the land parcels that have been identified as "Used and Useful" by Cal-Am and the Settlement shall be included in the rate base.

Cal-Am shall move the Fish Passage and Roanoke facilities and the associated land categorized as "Vacant Property – Future Well Site" into USOA Account #100-4: Utility Plant Held for Future Use for this GRC cycle. Cal-Am shall not recover any costs associated with the Fish Passage and Roanoke Well, and the associated land parcels in this GRC. The costs associated with Cal-Am's Fish Passage and Roanoke Well shall be evaluated in a future GRC after the two facilities and associated land parcels return to used and useful service.

10.10. Construction Work in Progress

Cal-Am requested to recover Construction Work in Progress (CWIP) costs for utility plant assets that are already included in the rate base and the

[310] Settlement at 76 and Attachment C-5.

forecasted future CWIP expenses based on the latest year-end amount for capital projects, minus the total amount of expenditures on projects that have or will be moved to plant-in-service status in the forecasted year of completion.[311]

Cal Advocates recommended the CWIP balance should be adjusted to remove any projects that (1) have not been in progress since 2017; (2) are abandoned projects; and/or (3) are tracked in a memorandum account already earning a return on costs incurred.[312]

Cal-Am agreed that projects tracked in a memorandum account earning a return should be excluded from CWIP, but disputed Cal Advocates' proposed exclusion of the specific projects categorized as "not in progress since 2017" and addressed the status of each project. Cal-Am also disputed the exclusion of the Lamanda Redrill project, which Cal Advocates categorized as "abandoned."[313]

The Settlement provides a compromised CWIP budget with the following reductions from the budget initially proposed by Cal-Am:

A. $409,000 associated with Recurring Project Budgets, because the work has been completed and the projects are used and useful;

B. $975,000 related to the Lamanda Well Redrill project;

C. $349,250 related to carryover projects in the Los Angeles County District that will be removed from rate base in this GRC;[314] and

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[311] Application 100-Day Update at 1, 6, Attachment 1 at 51-52, 162-163, 276-277, 389-390, 503-504. 639-640, 766-767, 811-882 and Attachment 2; Exhibit CAW-9 at 55-58; CAW-11 at 20-22, 27-28.

[312] Exhibit CalPA-4 at 50-60.

[313] Exhibit CAW-17 at 35-40; Exhibit CAW-22 at 3 and 61-66.

[314] The Los Angeles County District carryover projects are Los Angeles Santa Fe Well, Winston Well, Longden Well, and Oswego Well. These projects will be excluded from CWIP as it accrues AFDUC effective January 1, 2021.

D. $3,041,783 related to the Larkfield Wildfire Recovery Project, because CWIP accrues AFUDC so this project should be excluded from that account.[315]

We have reviewed the record of this proceeding concerning CWIP and find the Settlement's compromises on these issues are reasonable based on the whole record of this proceeding, consistent with the law, and in the public interest. The Settlement's terms concerning the CWIP budget ensure Cal-Am does not double-account for projects that have already been completed or are accruing AFUDC, and exclude projects that have already been, or will be, removed from rate base in this GRC. Cal-Am shall adopt its proposed CWIP budget less the four exclusions detailed above.

11. Taxes

Cal-Am made numerous requests related to its taxes and related deductions and depreciation rates. Cal Advocates recommended several changes to Cal-Am's requests, and the Settlement provides compromises on the disputed issues as described below.

11.1. Income Taxes

Cal-Am included a deduction for its 2021 federal income tax (FIT) as an expense, based on the amount of its 2020 California Corporate Franchise Tax (CCFT).[316]

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[315] Settlement at 77.

[316] Application 100-Day Update, Attachment 1, Chapter 6, Tables 6.1 and 6.2, and pages 13, 15, 17, 19, 21, 23, 25, 85, 155-160, 207, 269-274, 382-387, 426, 498-501, 563, 632-627, 685, 759-764, 798 and 874-879; Exhibit CAW-15 at 2-18 and Attachment 1.

Cal Advocates recommended a CCFT deduction based on the actual amount customers will fund in authorized 2020 rates to estimate the 2021 FIT expense.[317]

Cal-Am argued that its proposed use of forecasted CCFT deduction is more accurate and is also supported by Commission precedent.[318]

In the Settlement, Cal-Am agreed to Cal Advocates' recommended use of the 2020 Commission-authorized CCFT amount for TY 2021.[319]

11.2. Income Taxes – Excess Accumulated Deferred Income Tax

According to Cal-Am, the 2017 Tax Cuts and Jobs Act (TCJA) substantially modified the Internal Revenue Code and changed the calculation of income taxes. Cal-Am requested to amortize the components of the Excess Accumulated Deferred Income Tax (EADIT) related to the TCJA and to use EADIT related assets to calculate the Annual Rate Adjustment Method (ARAM) amortization rate.[320]

The Settlement adopts Cal-Am's proposal to amortize specific components of the EADIT related to the TCJA.[321]

11.3. Income Taxes – Deferred Taxes in Rate Base – Repairs

Cal-Am calculated a deduction related to taxable repairs applicable to certain replacement property by multiplying Cal-Am's projected replacement plant additions for years 2019-2023 by the 10-year average (2008-2017) of the

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[317] Exhibit CalPA-1 at 1-3.

[318] Exhibit CAW-26 at 1-3.

[319] Settlement at 78.

[320] Exhibit CAW-15 at 7-8.

[321] Settlement at 79.

actual tax repairs deduction to replacement plant additions as taken on Cal-Am's filed tax returns.[322]

Cal-Am noted that the federal Internal Revenue Service (IRS) has not indicated it intends to change its normalization rules for accounting for deferred income taxes, including any excess deferred income taxes in this proceeding.[323]

The Settlement adopts the deduction calculation methodology proposed by Cal-Am.[324]

11.4. Taxes Other Than Income

Cal-Am estimated its payroll tax expenses using the same tax rates and cap used in its last GRC and proposed to include an $84 per employee penalty for the California Unemployment Insurance Fund to account for a previous state deficit to the Federal fund. Cal-Am also requested to recover forecasted expenses related to franchise fees and ad valorem taxes.[325]

Cal Advocates opposed the proposed $84 per employee penalty because Cal-Am, in its opening testimony, initially projected a positive balance for the California Unemployment Insurance Fund at the end of 2020.[326]

The Settlement sets forth an agreement to adopt Cal-Am's requested penalties for the California Unemployment Insurance Fund, after considering the current COVID-19 pandemic and the associated ongoing economic challenges.[327]

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[322] Exhibit CAW-15 at 3.

[323] Exhibit CAW-26 at 4.

[324] Settlement at 79-80.

[325] Application 100-Day Update, Attachment 1, Chapter 5, Table 5.1 and at 13, 15, 17, 19, 21, 23, 25, 26, 46-49, 151-154, 265-368, 378-381, 494-497, 628-631, 755-758, and 870-873.

[326] Exhibit CalPA-1 at 4-6.

[327] Exhibit CAW-26 at 3-4 and Settlement at 80.

11.5. Discussion on Settled Tax Issues

We find the Settlement's compromises on the tax related issues described above to be reasonable in light of the whole record, consistent with state and federal law, in the public interest. We find Cal-Am's argument that D.89-11-058 did not consider the more sophisticated technology and computation tools available today has merit. We therefore direct Cal-Am to propose a clear forecast for its TY FIT and CCFT deductions and provide a detailed methodology for the relevant calculations, in its next GRC.

However, we do not modify the Settlement's term on the FIT issue for this GRC. Instead, we direct Cal-Am to base its TY 2021 CCFT deduction on the actual expense amount Cal-Am recovered from ratepayers to cover the utility's 2020 FIT, as agreed to in the Settlement. Cal-Am shall amortize the components of the EADIT related to the TCJA and may use EADIT related assets to calculate the ARAM amortization rate. Note, Cal-Am is not authorized to recover costs associated with PowerTax software implementation, pursuant to D.18-12-021.[328] The methodology related to deferred income taxes agreed upon in the Settlement reflects the current IRS rules, and Cal-Am shall calculate a deduction for taxable repairs based on its projected replacement plant additions in years 2019-2023 and the 10-year average of actual tax repairs deductions over the years 2008-2017.

Further, Cal-Am is authorized to include an $84 per employee penalty for the California Unemployment Insurance Fund in light of the ongoing challenges associated with the COVID-19 pandemic.

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[328] D.18-12-021 found that Cal-Am failed to provide forecasts for TCJA implementation costs and did not prove the expected costs could be substantial, and denied CAW's requests to track TCJA implementation costs, including any related implementation of PowerTax software, in a memorandum account for future recover. (D.18-12-021 at 128-129.)

12. Rate Base

12.1. Inclusion of Meadowbrook Utility Plan Acquisition Adjustment

Cal-Am requested to amortize $1,869,520 over a 40-year period, starting January 1, 2018, for a Utility Plan Acquisition Adjustment (UPAA) associated with its Meadowbrook acquisition, adjusted for taxes. Cal-Am stated that it did not include this UPAA in its Utility Plant in Service accounting, so this separate addition is necessary and that this treatment is consistent with D.16-12-014 and D.18-12-021.[329]

Cal Advocates did not directly address this issue in its testimony, and the Settlement adopts Cal-Am's request to include the Meadowbrook UPAA in rate base.[330]

We have reviewed the record of this proceeding and find the Settlement, as it relates to the Meadowbrook UPAA and Cal-Am's proposed amortization rate, is reasonable in the light of the whole record on this issue, consistent with the law, and in the public interest. The treatment Cal-Am proposed, which is adopted in the Settlement, aligns with Commission directives in D.16-12-014 and D.18-12-021. Cal-Am shall amortize the costs related to its UPAA associated with the Meadowbrook acquisition over 40 years, starting January 1, 2018.

12.2. Depreciation

Cal-Am used the straight-line, average remaining life depreciation system to calculate the annual and accrued depreciation proposed in its application. [331]

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[329] Exhibit CAW-4 Dana Errata Direct at 31-32 and Attachment 3.

[330] Settlement at 81.

[331] Application 100-Day Update, Attachment 1, Chapter 8, Tables 8.1-8.2, and at 13, 15, 17, 19, 21, 23, 25, 26, 57-61, 168-172, 282-286, 395-399, 509-513, 645-649, 722-776, and 887-891; Exhibit CAW-11 Pourtaherian Direct at 19. The Commission's "Standard Practice for

Footnote continued on next page.

The Settlement adopts Cal-Am's proposed depreciation rate, and notes that any difference between Cal-Am's and Cal Advocates' previously proposed depreciation expense were due to differences in forecasted depreciable plant in service, which depends on recommended plant additions.

We find the Settlement reached a compromise on depreciation rates that is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest. The straight-line, average remaining life depreciation system is an appropriate methodology to calculate the annual and accrued depreciation for this GRC, and we adopt the depreciation rates illustrated in Attachment C-1 of the Settlement.[332] We also adopt Cal Advocates' recommendation regarding compliance with requirements established in D.18-12-021 related to future depreciation rates. Cal-Am shall provide all of the future depreciation study information identified in D.18-12-021 when it files its next GRC, including analyses and explanations of causes for any increases in the depreciation rate; (2) comparison and analysis of current and proposed depreciation rates, net salvage rates, and service lives of each asset group; and (3) the proposed methodology for computation of the annual depreciation rate.[333]

Determination of Straight-Line Remaining Life Depreciation Accruals" (Standard Practice U4W) provides average ranges of equipment service life for different types of utilities, including water systems.

[332] Settlement at 81 and Attachment C-1.

[333] D.18-12-021 found that Cal-Am did not justify its requested increase in depreciation expense, and found that Cal-Am "must provide additional information, including but not limited to: (1) analyses and explanations of the drivers and causes for the increases, which possibly would also include the percentage increase attributed to each driver; (2) comparison and analysis of current and proposed depreciation rates, net salvage rates, and service lives of each asset group, and (3) computation of the annual depreciation rate." (D.18-12-021 at 201.)

12.3. Allowance for Working Cash

Cal-Am calculated its proposed allowance for working cash made up of two categories, operational working cash and lead lag, using the methodologies identified in Standard Practice U-16-W. Cal-Am also proposed to include specific regulatory assets, net of any regulatory liabilities, in operational working cash.[334]

Cal Advocates recommended that the Commission exclude surcharge accounts and miscellaneous receivables for operational working capital. Cal Advocates also recommended that non-expense and non-cash items be removed, including Commission fees, franchise tax, estimated depreciation expense, and estimated deferred income taxes.[335]

Cal-Am disagreed with Cal Advocates' proposal to exclude non-cash and non-expense items and recommended including certain regulatory assets in the calculation of the allowance for operational working cash and the allowance for working cash related to lead-lag. Cal-Am did not oppose Cal Advocates' recommendation to remove two non-expense items – franchise fees and Commission fees – from calculating the allowance for working cash related to lead-lag.[336]

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[334] Application 100-Day Update, Attachment 1, Chapter 9, Table 9.1 and at 63-64, 174-175, 288-289, 401-402, 515-516, 651-652, 778-779, and 893-894; Exhibit CAW-11 Section VIII at 28, 33-41 and Attachment 1.

[335] Exhibit CalPA-2 at 2-9 and Attachments 1 and 2.

[336] Exhibit CAW-24 Pourtaherian Rebuttal Section III at 1-10 and Attachment 1.

The Settlement sets forth an agreement to:

A. Remove several specific regulatory assets, net of regulatory liabilities and deferred income taxes, from the calculation of the allowance for operational working cash;[337] and

B. Use the same methodology the Commission prescribed for this issue in D.20-12-007, which allows for the inclusion of non-expense and non-cash items in the calculation of allowance for working cash.[338]

We have reviewed the record of this proceeding as it relates to the calculation of allowance for working cash and find the compromise provided in the Settlement is reasonable in light of the whole record, consistent with the law, and in the public interest. Cal-Am shall exclude the agreed-upon expenses when calculating the allowance for operational working cash for this GRC cycle and shall use the methodology approved in D.20-12-007 as it relates to the inclusion of deferred income taxes, depreciation expenses, and uncollectible expenses in the calculation of the allowance for working cash.

13. Memorandum and Balancing Accounts

13.1. Consolidated Expense Balancing Account (CEBA)

Cal-Am's CEBA is intended to consolidate the amortization of Commission-approved balancing and memorandum accounts where appropriate. Cal-Am requested to be allowed to continue the existing CEBA as authorized in D.18-12-021 and to recover any additional incremental balances or to refund any over collections separately, as addressed further in Section 12.7 of

[337] Settlement at 82-83 and Exhibit CAW-11 at 28.

[338] Settlement at 82-83 and D.20-12-007 Section 4.5 at 35-38, Conclusions of Law 21-23, and Ordering Paragraphs 20-21.

the Settlement. Cal-Am stated that it agreed with Cal Advocates to consolidate its CEBA accounts to align with its consolidated tariff areas.[339]

Cal Advocates argued that Cal-Am failed to calculate the CEBA surcharge net of refundable amounts and that it failed to exclude amounts that were previously authorized or pending in other open proceedings.

Cal-Am suggested that Cal Advocates erred in calculating its CEBA balance and adjusted its request as it relates to specific balancing and memorandum accounts in rebuttal testimony.

Under the terms of the Settlement:

A. The CEBA account remains open;
B. The final balance, once it is determined, should be amortized;
C. The final balance to be amortized will depend on the disposition of all other balancing and memorandum accounts to be transferred into the CEBA in this GRC; and
D. Cal-Am will transfer $12,639,314 to the CEBA for recovery from multiple balancing and memorandum accounts, as discussed in detail below.[340]

Further discussion concerning the individual accounts and balance amounts to be transferred follows.

13.2. NOAA/ESA Memorandum Account

Cal-Am tracks compliance payments it makes to the National Oceanic and Atmospheric Association (NOAA) or its designated payee for Endangered Species Act (ESA) mitigation. In this GRC, Cal-Am did not seek recovery of the

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[339] Exhibit CAW-4 Direct at 3-30 and Attachments 1 and 2. CAW's proposed consolidated tariff areas are Southern Division, Northern Division, Monterey Service Area, and the Central Satellite Service Area.

[340] Settlement at 83-85. Disposition of the specific balancing and memorandum accounts is included *infra.*

account balance but requested to keep this account open to seek future recovery of the annual payments through a Tier 2 Advice Letter process.[341]

Cal Advocates recommended this memorandum account be closed, effective December 31, 2021, based on the compliance deadline established in the State Water Resources Control Board's revised cease and desist order and the completion of Project I15-400049 – Los Padres Dam Fish Passage Project.[342]

Cal-Am argued that a full water supply solution will not be complete by the end of 2021, due to circumstances beyond its control, and therefore the account should stay open to track compliance payments beyond December 31, 2021.[343]

The Settlement adopts Cal-Am's initial request to keep the NOAA/ESA memorandum account open and to recover future annual payments through a Tier 2 Advice Letter, consistent with D.18-12-021.[344]

In the Cal-Am-MPWMD Settlement, MPWMD also agreed this account should remain open during this GRC cycle.[345]

13.3. San Clemente Dam Balancing Account

Cal-Am uses its San Clemente Dam Balancing Account to track authorized costs related to the Carmel River Reroute and San Clemente Dam Removal Project, which was approved in D.12-06-040. Cal-Am requested to recover the

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[341] Application 100-Day Update at 5; Exhibit CAW-3 Crooks Direct at 153-157; Exhibit CAW-4 Dana Errata Direct at 3-4 and Attachment 1.

[342] Exhibit CalPA-4 Goldberg Testimony at 41-43 and Attachments 2 and 3; Exhibit CalPA-6E Nagesh Errata Public Testimony at 54-59, 70-71, and Attachments 55, 56, and 69.

[343] Exhibit CAW-18 at 20; Exhibit CAW-22, at 61.

[344] Settlement at 86-87; D.18-12-021 at 221-222.

[345] MPWMD – Cal-Am partial settlement at 17-18.

balance in this account consistent with the directives adopted by the Commission in D.18-12-021.[346] No party opposed this request. The Settlement sets forth an agreement to keep this account open for this GRC cycle.

13.4. WRAM/MCBA

Cal-Am's WRAM balancing account tracks the difference between the fixed costs authorized by the Commission, which are recovered through the quantity charge revenues, and the total fixed cost revenues recovered through the quantity charge based on actual sales. Cal-Am's MCBA account tracks the difference between the total variable cost quantity charge revenues received from customers and the actual payments made to service provided for purchased water, power, and pump taxes. Cal-Am requested to (1) continue these accounts; (2) recover the quantity rate revenues not billed due to the October 2017 Larkfield District wildfires; (3) consolidate the WRAM/MCBA accounts to align with consolidated service areas as requested in Special Request #7; and (4) recover leak adjustments through the WRAM as requested in Special Request #4.[347]

Cal Advocates recommended the Commission postpone Cal-Am's request to recover costs and lost revenue related to the Larkfield District Wildfires until all insurance claims are settled.[348] Cal Advocates also argued that a portion of the balance of costs and lost revenue related to the wildfires in the Larkfield District were already authorized in the disposition of Cal-Am's Advice Letter 1198 in 2018.[349]

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[346] Exhibit CAW-4 at 4-7 and Attachments 1-2; Exhibit CAW-15 at 5 and 6.

[347] Exhibit CAW-4 at 7-8 and Attachment 1.

[348] Exhibit CalPA-6E Nagesh Errata Public at 54-59, 75-76, and Attachments 55, 56, and 69.

[349] Cal-Am Advice Letter 1198 was approved in June 2018 with an effective date of 3/31/2018. It authorized Cal-Am to recover under collection of revenues associated with prior balances in

Footnote continued on next page.

Cal-Am clarified that it has signed off and received approval of the final insurance proceeds related to the Larkfield District wildfires, and all insurance proceeds reflected in its GRC request are final. Further, Cal-Am noted that its request in this GRC application is to transfer the balance approved for recovery in Advice Letter 1198 to the CEBA for recovery statewide, instead of solely from Larkfield District customers.[350]

Rather than litigating this issue, the Settlement adopts Cal-Am's requested disposition and recovery of the 2017 Larkfield Wildfire related account through the CEBA on a statewide basis and to recover the account's $633,317 under-collected balance as of May 31, 2019, to the CEBA for recovery on a statewide basis. Further, the Settlement provides that additional quantity revenues associated with customers impacted by the 2017 Larkfield wildfires be transferred to the CEBA for review in Cal-Am's next GRC.

MPWMD objected to the statewide recovery of costs associated with the 2017 Larkfield District wildfires and requested that Cal-Am customers in the Monterey District be exempt from any rate increases associated with this and other similar requests in the future.[351]

13.5. ESA Memorandum Account

Cal-Am's ESA Memorandum Account tracks costs associated with ESA requirement compliance beyond those tracked in the San Clemente Dam Balancing Account discussed in Section 13.3 above. Cal-Am requested to

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the WRAM/MCAB account in Larkfield District, along with additional under-collections associated with load reduction related to the 2017 wildfires in the Larkfield District.

[350] Exhibit CAW-18 Dana Errata Rebuttal at 5, 13, and Attachment 4.

[351] MPWMD Opening Brief at 9.

continue the account and transfer the current balance to the Monterey District CEBA.[352]

Cal Advocates recommended removing some costs related to the Los Padres Fish Passage Project and the balance authorized for recovery in Cal-Am's most recent GRC and suggested the account should be closed with the approval of this GRC.[353]

Cal-Am agreed to remove $615,755 in costs associated with the Los Padres Dam Fish Passage Project and include them in utility plant in service, while reiterating its position that this account should remain open.[354]

Rather than litigating this issue, the Settlement sets forth an agreement to keep the ESA memorandum account open, and adopts an offset credit identified in Cal Advocates testimony that reduces the amount to be transferred to the CEBA for recovery.[355]

13.6. School Lead Testing Memorandum Account

Cal-Am's School Lead Testing Memorandum Account tracks its incremental expenses associated with lead monitoring and testing at kindergarten through 12th grade schools throughout its service territory, as required by the SWRCB Division of Drinking Water. Cal-Am requested to keep this account open and to transfer the existing account balance of $(9,101) to the CEBA for recovery.[356] No party objected to Cal-Am's request.

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[352] Exhibit CAW-4 at 8-9 and Attachment 1.

[353] Exhibit CalPA-6E at 54-59, 71-72, and Attachments 55 and 56.

[354] Exhibit CAW-18 at 5, 9-11, and Attachment 2.

[355] Settlement at 89; MPWMD-Cal-Am partial settlement at 17-18.

[356] Exhibit CAW-4 at 9 and Attachment 1.

The Settlement adopts Cal-Am's request to transfer $(9,101) to the CEBA for cost recovery and to keep this account open.[357]

13.7. Two-Way Tax Memorandum Account

Ordering Paragraph 18 of D.18-12-021 established Cal-Am's two-way tax memo account (TMA) intended to track (1) changes in permanent tax items and rate effects; (2) differences between tax expenses authorized and tax expenses incurred from mandatory and elective tax law changes, or other tax accounting, procedural, or policy changes; (3) the excess protected ADIT through the end of 2018; and (4) bonus depreciation associated with assets where eligibility for bonus depreciation is uncertain because construction started before the contract was signed. Cal-Am requested to close this account and transfer the remaining balance of $(104,563) to the CEBA for recovery.

Cal-Am stated that this TMA is no longer necessary, but that if the Commission believes a TMA is necessary for this GRC cycle, this decision should reaffirm that a TMA is not intended to be a true-up mechanism for taxes. Cal-Am states that such reaffirmation is necessary to remain consistent with the Commission's existing policy and would ensure the differences between forecasted and actual tax expenses would continue to flow to Cal-Am's bottom line for each taxable year.[358] No party opposed this request.

The Settlement provides that:

A. Cal-Am should continue the components of the TMA related to excess ADIT pay-back;

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[357] Exhibit CalPA-6E at 54-59, 78, and Attachments 55, 56, and 69; Settlement at 90.

[358] Exhibit CAW-4 at 9-10 and Attachment 1; Exhibit CAW-15 at 10-15; Exhibit CAW-18 at 5-6. CAW directly referenced Commission decisions in D.85-05-036 and D.17-05-013 as indication of what it refers to as "the Commission's longstanding policy" related to tax accounting true-ups.

B. Cal-Am should close the bonus depreciation and other tax changes portions of this account as of December 31, 2020; and

C. Cal-Am should recover the existing account balance associated with those portions of the account through the CEBA.

13.8. LIRA Balancing Account

Cal-Am's Low-Income Ratepayer Assistance Program (LIRA) Balancing Account was adopted in D.15-04-007 and continued in D.18-12-021, to track revenues and recoveries associates with the LIRA, or CAP, offered in each service district. Cal-Am requested to continue the LIRA Balancing Account as previously approved, which allows for annual adjustments to the surcharge to ensure Cal-Am is fully recovering or refunding any over- or under-collected balances.[359] No party opposed this request.

The Settlement sets forth an agreement to continue this account using the previously-authorized adjustment process for establishing surcharges.[360]

13.9. California American Water Conservation Surcharge Balancing Account

The California American Water Conservation Surcharge (CAWCS) One-Way Balancing Account is currently in effect for all districts to track conservation-related expenses and surcharges related to Cal-Am's conservation programs. Cal-Am requested to continue the account and transfer the current under-collected account balance of $874,755 to the CEBA for recovery from all customers statewide.[361]

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[359] Exhibit CAW-4 at 10 and Attachment 1.

[360] Exhibit CalPA-6E at 54-59, 77, and Attachments 55 and 56; Settlement at 91.

[361] Exhibit CAW-4 at 10-11 and Attachment 1.

Cal Advocates recommended this account be closed and that the Commission should instead direct Cal-Am to include its conservation budget in base rates.[362]

Cal-Am agreed that it could close this account if it could include the conservation budget through base rates but argued that previously-authorized amounts must to be transferred to the CEBA for recovery.

To align with requirements adopted in D.18-12-021, Cal-Am filed Tier 2 Advice Letter 1322 (AL 1322) on February 16, 2021, which provided a full accounting of conservation funds spent, with supporting documentation, and a proposal to refund any unspent funds to customers through the CEBA.[363] Water Division approved AL 1322 on March 17, 2021, with an effective date of March 18, 2021.

The Settlement sets forth an agreement for Cal-Am to:

A. Close the CAWCS account, effective December 31, 2020;
B. Transfer the under-collected balance with interest to the CEBA; and
C. Transfer and recover through the CEBA any trailing interest charges associated with the CAWCS between December 31, 2020, and the date its GRC implementation advice letter is approved pursuant to this decision.

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[362] Exhibit CalPA-6E at 54-59, 72-73, and Attachments 55, 56, and 69. Cal Advocates also asserted the balance to be transferred should only be ($388,209).

[363] AL 1322 was a second compliance filing related to Ordering Paragraph of D.18-12-021. Cal-Am requested, and was approved, to return over-collected conservation balances to be returned to customers through a meter-based refund over a twelve-month period, except for customers in its Central Division where the over-collected balances would be netted against the existing CEBA balances.

13.10. Coastal Water Project Memorandum Account

Cal-Am's Coastal Water Project (CWP) memorandum account was authorized by the Commission in Ordering Paragraph 6 of D.03-09-022 to track costs associated with the development of a new water supply in the Monterey County District. According to Cal-Am, D.10-08-008 requires this account to remain open until all legal issues are resolved. Further, Cal-Am requested recover the current under-collected balance through June 6, 2019.[364]

Cal Advocates recommended closing the CWP account after transferring the remaining account balances for recovery.[365]

Cal-Am acknowledged that no AFUDC will need to be addressed in the next GRC and agreed that Cal Advocates' deferred depreciation recommendation is appropriate, if May 31, 2019, is used, rather than its proposed date of June 6, 2019.[366]

Rather than litigating this issue, the Settlement sets forth an agreement for Cal-Am to:

A. Recover $492,509 of AFUDC and $128,676 of deferred depreciation, from May 1, 2019, to June 6, 2019.
B. Include interest through the transfer date for all transfers to the CEBA from the CWP;
C. Close each component of the CWP account once the balance transfer plus interest has occurred; and

[364] Exhibit CAW-4 at 11 and Attachment 1.

[365] Exhibit CalPA-6E (Public)at 54-59, 74-75, and Attachments 55, 56, and 69.

[366] Exhibit CAW-18 at 5 and 15-16.

D. Keep the CWP account open to track Regional Desalination Plant costs.[367]

13.11. Credit Card Memorandum Account

Cal-Am's Credit Card Memorandum Account, as established in D.18-12-021, tracks the credit card fees that have been waived for customers and any offsetting cost savings that may result with the use of a credit card. In this GRC, Cal-Am requested to keep this account open and transfer the current account balance of $(22,390) to the CEBA for recovery.[368]

Cal Advocates recommended closing this account.[369] Rather than litigating this issue, the Settlement adopts Cal-Am's proposal to keep the account open.[370]

13.12. Water Contamination Litigation Expense Memorandum Account

The Water Contamination Litigation Expense (WCLE) Memorandum Account, which was authorized in March 1998 by Resolution W-4084, tracks costs associated with litigating water contamination issues for all of Cal-Am's districts.[371] Cal-Am requested to keep this account open.[372] No party opposed this request.

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[367] Settlement at 92-93; Cal-Am-MPWMD Settlement at 17-18. MPWMD did not provide testimony on the CWP but agreed in a partial settlement that Cal-Am should be authorized to keep this account open.

[368] Exhibit CAW-4 at 12 and Attachment 1; Exhibit CAW-18 at 6.

[369] Exhibit CalPA-6E (Public) at 54-59, 75, and Attachments 55,56, and 69.

[370] Settlement at 93.

[371] Resolution W-4084 authorized all water utilities to establish a memo account to track water contamination litigation expenses and recover reasonable expenses in a subsequent GRC proceeding.

[372] Exhibit CAW-4 at 12-13 and Attachment 1.

The Settlement adopts Cal-Am's request to keep the account open and shows that there is no current amount to recover in this GRC.[373]

13.13. Catastrophic Event Memorandum Account

Cal-Am uses its Catastrophic Event Memorandum Account (CEMA) to track costs associated with restoring service and reconstructing or replacing facilities that are affected by officially-declared national or state disasters or states of emergency. These catastrophic events can include drought related costs that are not otherwise covered by the drought Memorandum Account. Cal-Am's CEMA was authorized in 1991, and D.18-12-021 authorized its continuance. Cal-Am requested to transfer the full balance of the account to the CEBA for recovery and to keep this account open.[374]

Cal Advocates did not object to keeping this account open but recommended the current CEMA account balance should not be transferred for recovery until all pending insurance claims have been settled.[375]

Cal-Am in its rebuttal testimony indicated the final insurance reimbursements have occurred and agreed to account for them prior to transferring the CEMA balance.[376]

The Settlement sets forth an agreement to keep the CEMA account open and transfer an under-collected balance of $235,392 to the CEBA for recovery.

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[373] Settlement at 93-94.

[374] Exhibit CAW-4 at 13-15 and Attachment 1.

[375] Exhibit CalPA-6E (Public) at 54-59, 76, and Attachments 55, 56, and 69.

[376] Exhibit CAW-18 at 6 and 22.

13.14. Seaside Basin Adjudication Balancing Account

Cal-Am's Seaside Basin Adjudication Balancing Account (SABA) tracks the amortization of costs and related interest on the unamortized balance of litigation costs incurred to secure Seaside Basin water rights in the Monterey County District. As authorized in Advice Letter W-778, effective July 19, 2009, a meter surcharge is assessed on all Cal-Am customers in the Monterey Main, Hidden Hills, Ryan Ranch, and Bishop areas to recover $2,755,960 in costs over a 10-year period. Cal-Am initially requested to keep this account open to continue tracking the interest and surcharge collections.[377]

Cal Advocates recommended closing the SABA and transferring any remaining balance to the CEBA.

The Settlement sets forth an agreement to close Cal-Am's SABA because the balance has been fully recovered through a separate surcharge.

13.15. Seaside Groundwater Basin Memorandum Account

Cal-Am requested continued authorization to file a Tier 2 advice letter to reestablish the Seaside Groundwater Basin Memorandum Account (SGBMA), in which it historically tracked payments to the Seaside Basin Water Master for replenishment water. The SGBMA is currently closed, but Cal-Am stated it may need to reopen this account if it incurs future replenishment water costs.[378]

Cal Advocates recommended keeping the account closed and highlighted that D.18-12-021 denied Cal-Am's request to keep it open.[379] While Cal-Am

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[377] Exhibit CAW-4 at 15 and Attachment 1. The SABA accrues interest at the 90-day commercial rate.

[378] Exhibit CAW-4 at 15-16 and Attachment 1.

[379] Exhibit CalPA-6E (Public) at 54-60 and Attachments 55 and 56; D.18-12-021 at 212-213.

acknowledged the account is currently closed, it reiterated its request for authorization to re-open the SGBMA by filing a Tier 2 Advice letter.[380]

Rather than litigating this issue, the Settlement adopts Cal-Am's request to file a Tier 2 Advice Letter to reestablish the account if it expects to incur costs from the Seaside Basin Water Master for replenishment water.[381]

13.16. Seaside Groundwater Basin Balancing Account

Cal-Am uses the Seaside Groundwater Basin Balancing Account (SGBBA) to track annual administrative and other payments made to the Seaside Basin Water Master, as authorized in D.09-07-021. Cal-Am requested to keep this account open and to transfer the account's outstanding balances to the CEBA for refund or recovery from customers in the Monterey County District.[382]

Cal Advocates recommended authorizing an over-collected balance be transferred to the CEBA to account for prior cost recovery allowed in Resolution W-5197.[383]

The Settlement adopts Cal Advocate's recommended over-collected balance transfer and keeps the SGBBA open for this GRC cycle.[384]

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[380] Exhibit CAW-18 at 6 and 17.

[381] Settlement at 95-96; MPWMD-Cal-Am Settlement at 17-18.

[382] Exhibit CAW-4 at 16 and Attachment 1.

[383] Exhibit CalPA-6E (Public) at 54-59, 76, and Attachments 55, 56, and 69. Resolution W-5197 authorized Cal-Am to transfer the overcollection balance of $878,665, or 1.5% of authorized revenues, from the SGBBA to the Monterey CEBA, and to amortize the remaining balance of $4,162,023, or 7% of authorized revenues, using a 24-month $0.0686 surcharge in the Monterey County – Main Service Area and through a 12- month $0.0558 surcharge in the Central Division – Satellite Service Area.

[384] Settlement at 96.

13.17. Group Insurance Balancing Account

Cal-Am's Group Insurance Balancing Account was first authorized as a two-way balancing account in D.18-12-021 and captures the difference between authorized recovery of insurance costs and actual costs.[385] Cal-Am requested to keep the account open and transfer the current balance to the CEBA for recovery.[386] No party opposed this request. The Settlement sets forth an agreement to keep the account open and transfer the current balance of $(962,078) to the CEBA for recovery.[387]

13.18. Pension Balancing Account

Cal-Am uses its Pension Balancing Account to track the difference between Commission-authorized pensions and actual pension payments. Cal-Am requested to continue the account and transfer the current over-collected balance of $1,788,719 to the CEBA.[388] No party opposed this request.

The Settlement adopts Cal-Am's request.[389]

13.19. OPEB Balancing Account

The Other Post-Employment Benefits (OPEB) Balancing Account tracks the difference between Commission-authorized OPEB costs and the actual payments made in all Cal-Am districts. Cal-Am requested to continue the account and transfer the over-collected balance of $1,553,996 to the CEBA for refunding to ratepayers.[390] No party opposed this request.

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[385] D.18-12-021 at 228-231.

[386] Exhibit CAW-4 at 17 and Attachment 1; Exhibit CAW-18 at 6.

[387] Settlement at 96-97.

[388] Exhibit CAW-4 at 17 and Attachment 1.

[389] Settlement at 97 and Section 11.1.

[390] Exhibit CAW-4 at 17-18 and Attachment 1.

The Settlement adopts Cal-Am's request.[391]

13.20. Old Monterey-Style WRAM Balancing Account

The Old Monterey-Style WRAM Balancing Account was authorized in D.96-12-005 and tracks the difference that would have been collected under the Commission-approved standard rate design and the tiered conservation rate design implemented in the Monterey District in 1996. Cal-Am requested to close this account and transfer the existing under-collected balance of $33,835 to the CEBA for recovery.[392]

Cal Advocates agreed with Cal-Am's request to close the account but argued the balance to be transferred should be reduced because Cal-Am should not be allowed to recover interest charges tracked in this account following the adoption of D.18-12-021.[393]

Cal-Am disagreed with Cal Advocates and argued that D.18-12-021 only approved recovery of balances and interest through May 31, 2016, which left additional unrecovered interest in the account.[394]

Rather than litigating this issue, the Settlement sets forth an agreement to close this account and transfer the existing under-collected balance of $33,835 to the CEBA for recovery consistent with Cal-Am's initial request.[395]

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[391] Settlement at 97-98 and Section 11.1.

[392] Exhibit CAW-4 at 18 and Attachment 1.

[393] Exhibit CalPA-6E (Public) at 54-61 and Attachments 55, 56, and 69.

[394] Exhibit CAW-18 at 6 and 17-18.

[395] Settlement at 98 and Section 11.1.

13.21. Emergency Rationing Costs Memorandum Account

Cal-Am uses its Emergency Rationing Costs Memorandum Account to track potential expenses related to rationing requirements associated with local regulations in its Monterey County District. This account was initially established as Special Condition #9 in D.06-11-050 and continued in the partial settlements adopted in D.15-04-007 and D.18-12-021. Although no costs have been incurred as of the filing of A.19-07-004, Cal-Am requested to continue it in this GRC.[396] No party opposed this request.

The Settlement adopts Cal-Am's initial request to continue its Emergency Rationing Costs Memorandum Account.[397]

13.22. Purchased Water, Purchased Power and Pump Tax Balancing Accounts

Cal-Am tracks certain production-based expense related items that could prevent utilities from achieving their authorized earnings in its Purchased Water, Purchased Power and Pump Tax Balancing Accounts. Cal-Am requested to continue these accounts, and no party opposed this request.[398]

The Settlement adopts Cal-Am's request to keep this account open for this GRC cycle. [399]

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[396] Exhibit CAW-4 at 18-19 and Attachment 1.

[397] Settlement at 99; MPWMD did not address this account in testimony but agreed in its partial settlement with Cal-Am that the utility should be authorized to maintain the Emergency Rationing Costs Memorandum Account (Cal-Am-MPWMD Settlement at 17-18).

[398] Exhibit CAW-4 at 19-20 and Attachment 1; Exhibit CalPA-6E at 54-59, 80, and Attachments 55 and 56.

[399] Settlement at 99.

13.23. Monterey Wastewater Purchased Power Expense Balancing Account

Cal-Am uses this Purchased Power Expense Balancing Account to track unavoidable changes in power costs in the Monterey Wastewater District. Cal-Am requested to continue this account and transfer the current under-collected balance to the CEBA for recovery.[400] No parties opposed this request.

The Settlement sets forth an agreement to continue this account and transfer the current under-collected balance of $172,642 to the CEBA for recovery, consistent with Cal-Am's initial request.[401]

13.24. Monterey Cease and Desist Order Memorandum Account

Pursuant to Resolution W-4824, Cal-Am established the Monterey Cease and Desist Order (CDO) Memorandum Account to track costs associated with the SWRCB cease and desist order. Cal-Am requested to continue the CDO account and transfer the existing under-collected account balance of $6,084,320 to the CEBA for recovery.[402]

Cal Advocates argued $613,507 of Cal-Am's requested recovery amount was previously authorized for recovery in D.18-12-021. Cal Advocates further recommended closing this account because there is deadline of December 31, 2021, for addressing these costs established in the revised SWRCB cease and desist order.[403]

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[400] Exhibit CAW-4 at 20 and Attachment 1; Exhibit CalPA-6E at 54-59, 78, and Attachments 55, 56, and 69; Exhibit CAW-18 at 6.

[401] Settlement at 99-100 and Section 11.1.

[402] Exhibit CAW-4 at 20-21 and Attachment 1.

[403] Exhibit CalPA-6E at 54-59, 61-62, and Attachments 55, 56, and 69.

Cal-Am argued that the requested cost recovery amounts reflect the amounts previously authorized by D.18-12-021 and that it is likely to continue incurring costs related to the SWRCB cease and desist order beyond December 31, 2021.[404]

The Settlement sets forth an agreement that Cal-Am's requested under-collected balance be transferred to the CEBA and that the CDO account should remain open.[405]

13.25. Affiliate Transaction Memorandum Account

Cal-Am's Affiliate Transaction Memorandum Account was established in D.10-10-019 to track fees paid to Cal-Am for the transfer, assignment, or employment of an employee by an affiliate. Cal-Am requested to keep the account open and transfer the over-collected balance of $91,413 to the CEBA to be refunded to ratepayers.[406]

Cal Advocates argued the correct over-collected amount to transfer is $739,037. [407]

Cal-Am in rebuttal argued it seeks recovery entries tracked in this account that tie directly to the requested $91,413 over-collected balance representing the 15% fee for five employees that transferred from Cal-Am to an affiliate.[408]

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[404] Exhibit CAW-18 at 5, 7-8, and Attachment 1.

[405] Settlement at 100 and Section 11.1; In the Cal-Am-MPWMD Settlement a similar agreement was reached: both parties agreed the CDO account should remain open for this GRC cycle (at 17-18).

[406] Exhibit CAW-4 at 21-22 and Attachment 1.

[407] Exhibit CalPA-6E at 54-59, 81-82, and Attachments 55, 56, and 69.

[408] Exhibit CAW-18 at 22. D.10-10-019, Appendix A Section IV.D.2 states "When an employee of a utility is transferred, assigned, or otherwise employed by the affiliate, the affiliate shall make a one-time payment to the utility in an amount equivalent to 15% of the employee's base

Footnote continued on next page.

The Settlement sets forth an agreement to keep the account open and transfer the over-collected balance of $91,413 to the CEBA to be refunded to ratepayers, consistent with Cal-Am's initial request.[409]

13.26. GRC Interim Rate True-Up Memorandum Account

The GRC Interim Rate True-Up account was created to track the difference between what was billed by Cal-Am in 2018 and 2019 and what should have been billed based on D.18-12-021 and the authorized step-up for 2019 rates. Cal-Am will file an Advice Letter to refund or bill customers for the amount outstanding in this account, once the final calculation is complete. Cal-Am also requested to continue this account to allow time for the final calculation associated with the difference described above, as well as any true-ups necessary for future GRCs.[410]

Cal Advocates did not object to this request, but in rebuttal testimony Cal-Am identified this account as one that should be closed.[411]

The Settlement provides that this account be closed.[412]

Cal-Am was authorized to establish a separate memorandum account to track interim rates for this GRC and any associated balance(s) with the approval of its Advice Letter 1318, effective January 1, 2021.

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annual compensation. All such fees paid to the utility shall be accounted for in a separate memorandum account to track them for future ratemaking treatment on an annual basis, or as otherwise necessary to ensure that the utility's ratepayers receive the fees."

[409] Settlement at 101 and Section 11.1.

[410] Exhibit CAW-4 at 22 and Attachment 1.

[411] Exhibit CalPA-6E at 69-70 and Attachments 55 and 56; Exhibit CAW-18 at 24.

[412] Settlement at 102.

13.27. Cost of Capital Interim Rate Memorandum Account

D.18-12-021 adopted a lower cost of capital and the Cost of Capital Interim Rate Memorandum Account tracked the over-collection associated with bills in 2018 related to the authorized rates adopted in the last GRC. Cal-Am requested to continue this account but stated that the amounts tracked in this account have been already transferred to the GRC Interim Rate True-Up Memorandum Account, so no balance transfer is necessary.[413]

Cal Advocates recommended closing this account because the balance has already been transferred.[414]

The Settlement sets forth an agreement to close this account.

13.28. Statewide Non-Revenue Water Action Plan Memorandum Account

Cal-Am requested to close its Statewide Non-Revenue Water Action Plan Memorandum Account and transfer the under-collected balance of $2,718 for recovery.[415] This account has been used to track costs associated with engineering, final evaluation, and studies of measures that would reduce non-revenue water in each district, as approved in Cal-Am's Advice Letter 969. No party opposed this request.

The Settlement sets forth an agreement that this account be closed, as requested by Cal-Am.[416]

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[413] Exhibit CAW-4 at 22-23 and Attachment 1.

[414] Exhibit CalPA-6E at 54-59, 69-70, and Attachments 55-56.

[415] Exhibit CAW-4 at 23 and Attachment 1; Exhibit CAW-18 at 6 and 23.

[416] Settlement at 102-103 and Section 11.1.

13.29. Monterey Leak Adjustments Memorandum Account

Cal-Am requested to close its Leak Adjustment Memorandum Account (LAMA) in this GRC after transferring the under-collected balance of $3,412,468 to the CEBA for recovery. The LAMA, as approved in Resolution W-4951, was used to track leak adjustments in the Monterey District from February 26, 2013, through December 31, 2014, when leak adjustments started being included in base rates.[417]

Cal Advocates recommended we should account for an error rate of 5.24% and deny recovery of any interest tracked in the LAMA after December 31, 2014.[418] Cal Advocates also argued the appropriate balance to transfer is $(3,165,698).[419]

Cal-Am disagreed with Cal Advocates' recommended error rate calculation but identified a cumulative miscalculation in the LAMA of $3,758. Cal-Am further stated that its requested LAMA balance does not include interest accrued after December 31, 2014.[420]

The Settlement sets forth an agreement adopting Cal-Am's adjusted request to transfer an under-collected balance of $3,408,710 to the CEBA for recovery.[421]

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[417] Exhibit CAW-4 at 23-24 and Attachment 1.

[418] The proposed error rate was calculated based on a data request response and is described in Exhibit CalPA-6EC at 62-63. In essence, Cal Advocates sought specific leak adjustment transactions and audited them to identify calculation errors and suggested that 5.24% of the balance of the selected transactions was an overcalculation.

[419] Exhibit CalPA-6E at 54-59, 62-63, and Attachments 55, 56, and 69.

[420] Exhibit CAW-18 at 6 and 18; Exhibit CAW-22 at 67-68.

[421] Exhibit CAW-22 at 68, Settlement at 103.

13.30. Conservation / Rationing Memorandum Account

Cal-Am was authorized to establish its Conservation/Rationing Memorandum Account in Resolution W-4976 to track expenses associated with implementing Rule 14.1 and/or Schedule 14.1 that have not been considered in a GRC or other proceeding.[422] Cal-Am requested to close this account and transfer the under-collected balance of $48,252 for recovery.[423]

Cal Advocates did not oppose this request but recommended denying recovery of all costs because the Governor lifted the emergency drought declaration on April 7, 2017.[424] Cal-Am rebutted that denying all cost recovery would prevent Cal-Am's recovery of interest accrued from March through December 2018.

The Settlement proposes to adopt Cal-Am's initial request.[425]

13.31. Sand City Desalination Plant Purchased Water Balancing Account

Cal-Am requested to close its Sand City Desalination Plant Purchased Water Balancing Account, which was established by D.13-04-015. D.18-12-021 added Sand City costs to Monterey District purchased water costs, effective January 1, 2018.[426] However, Cal-Am stated that the last GRC did not cover the activity or interest in the account after May 31, 2016, and requested to transfer the under-collected balance of $441,128 accrued from May 31, 2016, through

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[422] Rule and Schedule 14.1 include mandatory water rationing requirements and associated enforcement provisions.

[423] Exhibit CAW-4 at 24-25 and Attachment 1.

[424] Exhibit CalPA-6E at 54-59, 64-65, and Attachments 55, 56, and 69.

[425] Settlement at 104-105.

[426] D.18-12-021 at 232-234.

December 31, 2017, and any accrued interest through the date the balance is transferred to the CEBA.[427]

Cal Advocates agreed with Cal-Am's request to close the account but recommended transferring an over-collected balance of $238,929, which it calculated based on Attachment 1 of Exhibit CAW-4.[428] Cal-Am argued Cal Advocates' calculation did not account for activity that occurred after May 31, 2019.[429]

The Settlement adopts Cal-Am's request to transfer an under-collected balance of $441,128 to the CEBA for recovery, and to close the account after the balance, including any accrued interest through the date the balance is transferred to the CEBA.[430] The Settlement reflects the provisions adopted in D.18-12-012 but allows Cal-Am to fully recover the outstanding under-collected balance before closing this account.

13.32. Chromium 6 Memorandum Account

Cal-Am requested to continue its Los Angeles and Sacramento District Chromium 6 Memorandum Account and to transfer the current account balance to the CEBA for recovery.[431] According to Cal-Am, the current balance in this account relates to depreciation, ad valorem taxes and Allowance for Funds Used During Construction (AFUDC) from the January 1, 2018 (date of the project completion) to May 31, 2019, for Sacramento and Dunnigan Districts.[432]

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[427] Application 100-Day Update at 5; Exhibit CAW-4 at 24 and Attachment 1.

[428] Exhibit CalPA-6E at 54-59 and Attachments 55, 56, and 69.

[429] Exhibit CAW-18 at 5, 16, and Attachment 6.

[430] Settlement at 104; this amount reflects that $680,057 was credited back to customers through the 2019 interim rate process.

[431] Exhibit CAW-4 at 25 and Attachment 1.

[432] Exhibit CAW-18 at 13.

Cal Advocates recommended adjusting the requested account balance to account for costs Cal-Am was authorized to recover in Resolution W-5212. Cal Advocates argued that any AFUDC included in the forecasted plant costs for the Dunnigan and Sacramento Districts should be removed for TY 2021 and that the depreciation amounts recovered through surcharges should be deducted from rate base. Cal Advocates also suggested the account should be closed as the related projects have all been completed or will be completed in this GRC cycle.[433]

Cal-Am agreed that the account balance should be adjusted to account for Resolution W-5212 but argued that AFUDC should not be removed from the Dunnigan District and that depreciation amounts should only be deducted in certain circumstances. Cal-Am also reasserted that the account should remain open for this GRC.[434]

Rather than litigating these issues, the Settlement adopts Cal-Am's initial request to keep the account open and transfer the under-collected account balance to the CEBA. The Settlement recognizes that:

A. Incremental costs beyond trailing interest have not been added to the account since the Sacramento/Dunnigan Chromium 6 projects have been included in rate base since January 1, 2020;
B. The AFUDC should not be reduced from the Dunnigan District's forecasted plant; and
C. Depreciation expenses from the period January 1 and May 31, 2019, could be added to the depreciation reserve

[433] Exhibit CalPA-6E at 54-59, 66, and Attachments 55, 56, and 69. Cal Advocates identified the related projects that have already or will be complete by 2023 as I15-500054 in the Los Angeles District and I15-600081 and I15-630001, both in the Sacramento District.

[434] Exhibit CAW-18 at 5, 13-15, and Attachment 5; Exhibit CAW-22 at 59.

once they are collected, if the reserve has not already forecasted it in.[435]

13.33. Garrapata Service Area Memorandum and Balancing Accounts

Cal-Am requested to maintain three memorandum accounts and eight balancing accounts designed to recover costs in the Garrapata Service Area that are used to track and recover costs not anticipated in rates.[436] No party objected to this request. In its rebuttal testimony, Cal-Am stated that the 11 Garrapata Service Area accounts could be closed.[437]

The Settlement adopts Cal-Am's adjusted request to close the 11 Garrapata Service Area accounts.[438]

13.34. Garrapata SDWSRF Loan Repayment Balancing Account

The Garrapata Safe Drinking Water State Revolving Fund (SDWSRF) account tracks recovery of the balance provided to Cal-Am under the American Recovery and Reinvestment Act for projects authorized by Resolution W-4788.[439] No party objected to this request.

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[435] Settlement at 105-106.

[436] Exhibit CAW-4 at 26-27 and Attachment 1.

[437] Exhibit CalPA-6E at 54-59, 79, and Attachments 55 and 56; Exhibit CAW-18 at 24.

[438] Settlement at 106-107. The 11 accounts are Cal-Am's (1) Unanticipated Repair Cost Memorandum Account, (2) Infrastructure Act Memorandum Account, (3) Water Contamination Litigation Expense Memorandum Account, (4) Purchase Power Balancing Account, (5) Purchase Water Balancing Account, (6) Pump Tax Balancing Account, (7) Payroll Balancing Account, (8) Payroll Taxes Balancing Account, (9) Contract Labor Balancing Account, (10) Water Quality Balancing Account, and (11) California Department of Public Health User Fees Balancing Account.

[439] Resolution W-4788 authorized then-Garrapata Water Company to borrow $114,813 under the American Recovery and Reinvestment Act and enter into a secured loan contract with the California Department of Public Health.

The Settlement adopts Cal-Am's request to keep this account open.[440]

13.35. Monterey One-Way Leak Adjustment Balancing Account

Cal-Am stated that its Monterey One-Way Leak Adjustment Balancing Account, which tracks balances related to Monterey District leak adjustments, has no outstanding balance and requested to close this account.[441]

Cal Advocates recommended that leak adjustments be recovered through base rates which would eliminate the need for this balancing account.[442]

The Settlement adopts Cal-Am's initial request to close this account, starting January 1, 2021.[443]

13.36. West Placer Memorandum Account

Cal-Am requested to keep its West Placer Memorandum Account open to continue tracking the construction costs, including post-construction carrying costs, and the special facilities fee collected from developers in the West Placer County service area of the Sacramento District.[444] No party objected to this request.

The Settlement adopts Cal-Am's request to maintain this account in this GRC cycle.[445]

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[440] Exhibit CAW-4 at 27 and Attachment 1; Exhibit CalPA-6E at 54-59, 79-80, and Attachments 55 and 56.

[441] Exhibit CAW-4 at 27-28 and Attachment 1; Exhibit CAW-18 at 24.

[442] Exhibit CalPA-6E Attachments 55 and 56.

[443] Settlement at 107.

[444] Exhibit CAW-4 at 28 and Attachment 1; Cal-Am was authorized to maintain this memorandum account in D.13-10-003.

[445] Exhibit CalPA-6E at 54-59, 80, and Attachments 55 and 56; Settlement at 108.

13.37. SGMA Memorandum Account

Cal-Am requested to keep its Sustainable Groundwater Management Act (SGMA) memorandum account open to continue recording costs of complying with new regulations that were not able to be forecasted in its last GRC and to transfer the current under-collected balance to the CEBA for recovery.[446]

Cal Advocates did not object to continuing this account but argued the account balance to be transferred is $(316,456).[447] Cal-Am argued Cal Advocates' proposed balance was higher than the under-collected balance in the account as of May 31, 2019, likely due to a difference in interest calculations.[448]

The Settlement adopts Cal-Am's initial request to recover the outstanding under-collected balance in this account and keep the SGMA account open for this GRC.[449]

13.38. The Memorandum Account for Environmental Improvement and Compliance Issues for Acquisitions

This account was originally opened to track costs associated with system improvements required to comply with environmental and other regulations in the Dunnigan service territory. Cal-Am requested to keep this account open in this GRC cycle.[450]

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[446] Exhibit CAW-4 at 28-29 and Attachment 1. The SGMA sets a comprehensive framework to regulate groundwater and requires the designation of groundwater sustainability agencies and the adoption of groundwater sustainability plans for basins that the Department of Water Resources designates as medium- or high- priority.

[447] Exhibit CalPA-6E at 54-59, 81, and Attachments 55, 56, and 69.

[448] Exhibit CAW-18 at 6 and 23-24.

[449] Settlement at 108-109.

[450] Exhibit CAW-4 at 29 and Attachment 1.

Cal Advocates argued that, because Cal-Am has operated the Dunnigan system for several years and should understand the system requirements, this account should be closed.[451] Cal-Am explained the account is no longer specific to costs associated with the Dunnigan acquisition.[452]

The Settlement provides an agreement to adopt Cal-Am's initial request to keep the account open.[453]

13.39. Dunnigan Consulting Memorandum Account

The Dunnigan Consulting memo account tracks Cal-Am's consulting costs associated with a settlement authorized in D.15-11-012, which included a six-year, monthly compensation amount of $12,500. Cal-Am requested to keep this account open and to transfer the current under-collected balance of $465,336 to the CEBA for recovery.[454]

Cal Advocates argued that the requested balance does not account for the balance that was authorized for recovery in D.18-12-021 and should be reduced further because the consultant costs exceeded what was authorized in the 2015 Decision. Cal Advocates also recommended that this account should be closed effective November 5, 2021, which would represent six years after the close of Cal-Am's transaction to acquire the Dunnigan system.[455]

Cal-Am argued its proposed closure date aligns with the decision that authorized the acquisition, rather than the actual close of the acquisition.[456]

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[451] Exhibit CalPA-6E at 54-59, 67, and Attachments 55 and 56.

[452] Exhibit CAW-18 at 19.

[453] Settlement at 109.

[454] Exhibit CAW-4 at 30 and Attachment 1.

[455] Exhibit CalPA-6E at 54-59, 67-68, and Attachments 55, 56, and 69.

[456] Exhibit CAW-18 at 5, 11-12 and Attachment 3.

Rather than litigating this issue, the Settlement provides an agreement to adopt Cal-Am's initial request.[457]

13.40. Water-Energy Nexus Program Memorandum Account

Cal-Am uses the Water-Energy Nexus Program memorandum account to track expenses related to water-energy nexus projects and requested to keep this account open and to transfer an under-collected balance of $286,962 to the CEBA for recovery.[458] Cal Advocates recommended this account be closed and that the appropriate balance to be transferred is $(277,633).[459]

The Settlement adopts Cal-Am's initial request.[460]

13.41. Discussion on Memo and Balancing Accounts and CEBA Transfers

We find the Settlement reached compromises on the memorandum and balancing accounts described and discussed above, including the associated balance transfers to Cal-Am's CEBA account, to be reasonable in light of the whole record, consistent with the law, and in the public interest.

Cal-Am shall transfer $12,639,314 to the CEBA for recovery, based on the details discussed related to specific accounts in Sections 13.2 through 13.40 above, and keep its CEBA account open for this GRC cycle. We note that D.19-07-015, found, in part, that "[c]osts for emergency customer protection activities should be recovered across each utility's entire customer base."[461]

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[457] Settlement at 109-110.

[458] Exhibit CAW-4 at 30 and Attachment 1.

[459] Exhibit CalPA-6E at 54-59, 68-69, and Attachments 55, 56, and 69.

[460] Exhibit CAW-18 at 6, 19-20, and Attachment 7; Settlement at 110 and Section 11.1.

[461] D.19-07-015 at 67 and Ordering Paragraph 10.

Additional issues related to Cal-Am's Special Requests #2, # 4, and #7 described above related to the WRAM/MCBA are addressed in Section 12 of the Settlement and Section 14 of this Decision.

We also note that D.18-12-021 established specific cost accounting procedures for the SGMA Memorandum Account.[462] Therefore, Cal-Am shall continue its SGMA memorandum account for this GRC cycle, including the cost accounting procedures established in D.18-12-021.

Further, the CEMA amount agreed upon in the Settlement and authorized in this decision to be transferred to the CEBA for recovery does not account for customer arrearages associated with loss of income or other economic distress caused by the COVID-19 pandemic. The costs associated with those customer arrearages are still under consideration in Phase 2 of R.17-06-024.

13.42. Request to Close Memo and Balancing Accounts Before Next GRC

Cal Advocates argued that Cal-Am has too many regulatory accounts open.[463] Cal-Am stated that it has requested to close a number of these regulatory accounts in this GRC and requested to be allowed to file a Tier 2 Advice Letter to request account closure after transferring the balance(s) to the CEBA for recovery.[464]

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[462] D.18-12-021 requires Cal-Am to document and identify each cost incurred, the purpose of each cost, and provide an explanation why the costs are necessary to comply with SGMA. The Decision at 252-253 also established requirements for tracking and recording employees' time associated with SGMA compliance.

[463] Exhibit CAW-6EC at 58-75 and Attachments 55, 57, 60, and 61-65.

[464] Exhibit CAW-18 at 7-21 and Attachments 2, 6, and 7; Exhibit CAW-20 at 30-32.

The Settlement identifies twelve surcharge accounts that should be closed after any trailing interest charges are transferred to the CEBA for recovery.[465]

The Settlement also includes terms authorizing Cal-Am to file a Tier 2 Advice Letter, if necessary, prior to the filing of its next GRC, to close regulatory accounts that are no longer necessary.[466]

We find the Settlement, as it relates to the closure of these 12 accounts, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest because it ensures Cal-Am to continue to evaluate and fully close regulatory accounts when the balance has been fully recovered from ratepayers. Cal-Am shall close the 12 accounts identified in the Settlement and may file a Tier 2 Advice Letter seeking to close additional accounts, if necessary, ahead of the filing of its next GRC.

We separately note that the terms set forth in Section 11.9 of the Settlement requires closure of the Conservation Surcharge Balancing Account as of December 31, 2020, and that conservation expenses should be recovered through base rates for this GRC cycle. The Settlement provides that any trailing interest charges associated with the Conservation Surcharge Balancing Account up to the

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[465] Settlement at 85 identifies the following accounts to be closed: Two-Way Tax Memo Account – Bonus Depreciation and Tax Change Components; Seaside Basin Adjudication Balancing Account; Seaside Groundwater Basin Memorandum Account; Old Monterey Style WRAM Balancing Account; GRC Interim Rate True Up Memorandum Account; Cost of Capital Interim Rate Memorandum Account; Statewide Non-Revenue Water Action Plan Memorandum Account; Monterey Leak Adjustments Memorandum Account; Sand City Desalination Plant Purchased Water Balancing Account; Conservation/Rationing Memorandum Account; Garrapata Service Area Memorandum and Balancing Accounts; and Monterey One-Way Leak Adjustment Balancing Account.

[466] Settlement at 110-112.

December 29, 2020, approval of the Tier 2 Advice Letter shall be transferred to the CEBA for recovery.[467]

We find the Settlement, as it relates to the Conservation Surcharge Balancing Account, is reasonable in light of the whole record, consistent with the law, and in the public interest because it aligns with Commission precedence on this issue. Pursuant to Ordering Paragraph 41 of D.18-12-021, Cal-Am filed a Tier 2 Advice Letter on November 23, 2020, providing an accounting of conservation funds spent with supporting documentation.[468] Advice Letter (AL) 1316 included a proposal to refund customers for any unspent funds or to collect any authorized revenues that are not yet billed through the CEBA. The Commission's Water Division approved AL 1316 on December 29, 2020. Therefore, Cal-Am is directed to close its Conservation Surcharge Balancing Account after any trailing interest charges are transferred to the CEBA for recovery. For this GRC, Cal-Am shall recover costs associated with its conservation expenses through base rates.

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[467] Settlement at 86.

[468] Ordering Paragraph 41 of D.18-12-021 provided "California-American Water Company (Cal-Am) is authorized to shift authorized conservation budget amounts between best management practice rate categories within a service area. Cal-Am shall continue to track conservation expenses in the one-way California American Water Conservation Surcharge Balancing Accounts with any unspent funds refunded to ratepayers on an annual basis after the end of each year of the General Rate Case cycle. Cal-Am shall file a Tier 2 advice letter no later than 45 days after the end of each year providing an accounting of conservation funds spent with supporting documentation, as well as a proposal to refund to customers any unspent budgeted funds."

14. Special Requests

14.1. Southern Division Tariff Area Consolidation

As Special Request #1, Cal-Am sought to consolidate its Los Angeles County, Ventura County, and San Diego County Districts to create one Southern California Division tariff area.[469] Cal Advocates argued:

A. The Commission should only authorize consolidation of the proposed revenue requirements and tariff pricing;

B. The tier breakpoints should be based on specific consumption data from the current five, separate districts;[470]

C. The Commission should ensure the proposed rate design does not significantly increase bills for median water use in any of the five districts; and

D. Any new rate should maintain a strong conservation signal in each district.

Duarte suggested Cal-Am's requested consolidation would reduce average residential water rates.[471] However, San Marino argued its customers would see a 16.64% increase in rates in 2021 if Cal-Am's proposal were approved.[472]

Cal-Am stated Cal Advocates' suggestion to impute savings of at least 0.761% on the proposed consolidated Southern District revenue requirement would be retroactive ratemaking and conflict with the Water Action Plan.[473]

Rather than litigating this Special Request, the Settlement provides an agreement that adopts Cal-Am's request to consolidate its Southern District but

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[469] A.19-07-004 at 10; Exhibit CAW-6 at 13-38 and Attachment 4.

[470] Exhibit CalPA-10 at 5-1 to 5-20 and Attachments 2 and 6.

[471] Exhibit Duarte-1 at 7 and Attachment 7.

[472] Exhibit San Marino-1 at 2-3.

[473] Exhibit CAW-20 at 41-56

makes significant adjustments to ensure median usage customers (and below) will see no more than the average system-wide rate increase.[474]

We find the Settlement, as it relates to Cal-Am's request to consolidate its Los Angeles County, Ventura County, and San Diego County Districts to create one Southern California Division tariff area, is reasonable in light of the whole record, consistent with the law, and in the public interest. As provided in the Settlement, Cal-Am shall ensure its Southern District consolidation does not cause any customers with median to below-median usage to face a rate increase above the system-wide average. Details on the authorized Southern Division purchased water cost consolidation design are discussed in Section 4.4 above.

14.2. Catastrophic Event Cost Impact Normalization

In Special Request #2, Cal-Am sought to normalize all cost recovery associated with recent and future catastrophic event costs on a statewide basis, including specific costs associated with the October 2017 wildfires in the Larkfield District.[475]

Cal Advocates argued that the Commission should not pre-determine recovery of unknown future costs and that Cal-Am's recovery of any 2017 Larkfield wildfire-related costs should be postponed until the insurance claims are fully settled.[476]

Cal-Am argued that D.19-07-015 approved recovery of costs recorded to the CEMA "across each utility's entire customer base,"[477] and that the costs it

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[474] Settlement at 112-113.

[475] A.19-07-004 at 10; Exhibit CAW-6 at 38-46 and Attachment 3.

[476] Exhibit CalPA-6E Chapter 4 at 83-91 and Attachments 70-72.

[477] D.19-07-015 at 44-45.

requested associated with the 2017 Larkfield wildfire events are appropriate because no further insurance reimbursement for that event should be expected.[478]

Rather than litigating Special Request #2, the Settlement provides an agreement that Cal-Am's request related to the 2017 Larkfield Wildfires, as described in Exhibit CAW-20, should be authorized, and that wildfire-related costs recorded in Cal-Am's CEMA after May 31, 2019, should be reviewed in the next GRC for recovery on a statewide basis, pursuant to D.19-07-015.[479] The Settlement also provides that any 2018-2020 lost-quantity revenues should be reviewed in Cal-Am's next GRC.

MPWMD's opening brief requested relief from any recovery related to catastrophic wildfire related events that are not directly connected to Cal-Am's Monterey District. It argued there are no distribution or transmission systems that link the areas impacted by the Larkfield Fires, for example, to the rest of Cal-Am's service districts, and that cost recovery should be limited to those areas impacted by the catastrophic event.[480]

We find the Settlement, as it relates to Cal-Am's request to normalize its catastrophic event cost recovery, is reasonable in light of the whole record on this on this issue, consistent with the law, and in the public interest. Although MPWMD continues to oppose the statewide recovery of CEMA costs, we find that the agreements reached in the Settlement related to the "normalization" of

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[478] Exhibit CAW-20 at 56-61.

[479] Settlement at 113; CAW-20 at 31 "Approval of [Special Request] #2 will allow the catastrophic event costs related to the Sonoma County wildfires that impacted our Larkfield district to be recovered properly. These are the costs incurred to bring our customers back on-line."

[480] MPWMD opening brief at 9.

CEMA costs align with the provisions adopted in D.19-07-015.[481] Cal-Am shall recover the 2017 Larkfield Wildfire related costs, net of received insurance claims, as identified in Exhibit CAW-20, and shall seek recovery of any wildfire-related costs after May 31, 2019, through its next GRC on a statewide basis.

14.3. Acquisition Contingency Memorandum Account

According to Cal-Am, SWRCB and Commission policy directives encourage the acquisition of small and/or troubled water systems; and it is therefore reasonable to create a mechanism to track the potentially lost revenues associated with the incremental customer base between each three-year GRC cycle.[482] In this GRC, Cal-Am included Special Request #3, to establish a new Acquisition Contingency Memorandum Account (ACMA) to record the difference between rates established based on pre-acquisition rate base for customers of water systems acquired by Cal-Am and the revenues Cal-Am would recover if customers in acquired water systems were billed on post-acquisition rates, based on the post-acquisition revenue requirement. This memo account would be used for any acquisition after a decision is adopted in this GRC, and Cal-Am requested authorization to file a Tier 2 Advice Letter to recover any annual balance in the ACMA.

Cal Advocates argued that acquisitions and their timing are typically fully within Cal-Am's control, and that the Commission should not continue its proliferation of surcharge accounts for Cal-Am.[483]

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[481] Ordering Paragraph 10 of D.19-07-015 states that all Class A water utilities shall recover costs for emergency customer protection activities done in response to any federal- or state-declared state of emergency, across their entire customer base.

[482] A.19-07-004 at 10; Exhibit CAW-6 at 46-51.

[483] Exhibit CalPA-6E Chapter 5 at 87-89.

Cal-Am stated that although it can manage some timing related to acquisitions, the negotiations and costs cannot be as detailed as necessary to include forecasted costs in GRC filings, particularly because the utility must await Commission approval for the acquisition(s). Therefore, Cal-Am argued (1) it is not possible to time its acquisitions to correspond to rate case cycles and (2) delaying acquisitions to align with GRC cycles could potentially cause harm to ratepayers.[484]

The Settlement provides an agreement that withdraws Cal-Am's request to establish an ACMA but affirms Cal-Am the ability to revisit the issue to request a similar account within specific acquisition-related proceedings.[485]

We find the Settlement, as it relates to the withdrawal of Cal-Am's request to establish a new ACMA, is reasonable in light of the whole record of this proceeding because it aligns with Cal Advocates' testimony encouraging a reduced number of surcharge accounts for Cal-Am's customers. Further, it is consistent with the law and in the public interest because it provides Cal-Am the opportunity to request a similar account when filing applications for specific acquisitions. Cal-Am provided no persuasive rationale to establish any form of ACMA prior to Cal-Am needing it in conjunction with a new proposed acquisition. Cal-Am shall not establish an ACMA for this GRC cycle but may request a similar account within specific acquisition-related proceedings, if appropriate.

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[484] Exhibit CAW-20 at 61-70 and Attachment 4.

[485] Settlement at 113-114.

14.4. Leak Adjustment Policy and Recovery

As Special Request #4, Cal-Am sought to continue implementing its authorized leak adjustment policy but to move recovery of leak adjustments from base rates, as adjusted by the one-way Leak Adjustment Balancing Account (LABA), into the WRAM and to close the existing LABA.[486]

Cal Advocates recommended this request be denied and suggested the Commission should maintain oversight of the LABA through the GRC process.[487] Cal-Am stated that if the Commission prefers to continue evaluation of leak adjustments through the GRC process, the costs should be evaluated and forecasted as part of Cal-Am's revenue requirement.[488]

The Settlement provides an agreement to (1) include leak adjustments as an operating expense in base rates and (2) close Cal-Am's LABA.[489] We find the Settlement, as it relates to Cal-Am's LABA and leak adjustment policy, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest. As noted by MPWMD, "even small leaks can result in extraordinary bills. This policy affords some relief to customers."[490] Cal-Am shall close its LABA and recover leak adjustments going forward as an operating expense in its base rates, returning any overcollection to its customers if necessary. Pursuant to the Cal-Am-MPWMD Settlement, the leak adjustment costs for the Monterey District should be included in base rates at an amount of $2.70 million for TY 2021. Further, if the actual leak adjustment costs are less

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[486] A.19-07-004 at 10-11; Exhibit CAW-6 at 51-59.

[487] Exhibit CalPA-10 Rose testimony at 5-2 and 5-20.

[488] Exhibit CAW-20 at 70-72.

[489] Settlement at 115 and Section 11.1.

[490] MPWMD opening brief at 5.

than the amount authorized to be reflected in base rates in this decision during this GRC cycle, Cal-Am shall track and return the different to customers through its CEBA.[491]

14.5. WRAM/MCBA Cap

D.18-12-021 temporarily authorized a 15% cap on annual amortization of Cal-Am's WRAM/MCBA. As Special Request #5, Cal-Am sought to increase this cap to 25%, effective January 1, 2021, to better collect existing WRAM/MCBA balances in 2021-2023 and limit future surcharges.[492]

Cal Advocates argued this request should be denied because the current cap does not inhibit conservation, and the requested increase in the cap would not solve the current or potential future equity problems.[493] MPWMD further argued that Cal-Am should close surcharge accounts when possible and include additional transparency about how these charges will impact customers' rates.[494]

Although Cal-Am disagreed with Cal Advocates' recommendation, in its rebuttal, Cal-Am modified this request to largely maintain the 15% cap temporarily authorized in the last GRC and requested to increase the cap on the WRAM/MCBA in the Central Satellite, Ventura, and Baldwin Hills Districts from 15% to 20%.[495]

Rather than litigating this issue, the Settlement provides that Cal-Am will maintain the current 15% cap of the authorized revenue requirement for recovery

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[491] *See* Appendix D of this instant decision at 4-5 and Cal-Am Comments on the PD at 10.

[492] A.19-07-004 at 11; Exhibit CAW_6 at 59-67 and Attachments 5 and 6.

[493] Exhibit CalPA-10 at 5-23 to 5-26.

[494] Exhibit MPWMD-3 at 16.

[495] Exhibit CAW-18 at 72-79.

of the under-collected WRAM/MCBA balances adopted in D.18-12-021, until 2023 when the WRAM/MCBA mechanism comes to an end for Cal-Am.

We find the Settlement, as it relates to Cal-Am's WRAM/MCBA balances and the authorized cap established in D.18-12-021, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, pursuant to the Commission's approval of the temporary 15% cap in Cal-Am's prior GRC proceeding. Cal-Am shall maintain the 15% cap related to its WRAM/MCBA balances as authorized in D.18-12-021 through this GRC cycle. This approach balances Cal-Am's need for accelerated cost recovery with mitigating the rate impacts to customers.[496]

14.6. Incentivizing Taxable Grants, Contributions, and Advances

In Special Request #6, Cal-Am requested recovery of the federal tax imposed on all contributions-in-aid-of-construction (contributions) and any advances for construction, pursuant to the TCJA. Further, Cal-Am requested that, to the extent any grants received are taxable, the tax portion be included in rate base.[497]

Cal Advocates objected to this request, arguing it is contrary to the long-standing principle that the person/entity that causes the tax should pay the tax.[498] Currently, contributors and ratepayers share taxes on contributions, but ratepayers take on a much smaller share of the tax burden.[499] Cal Advocates

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[496] MPWMD opening brief at 5.

[497] A.19-07-004 at 11; Exhibit CAW-6 at 67-70.

[498] Exhibit CalPA-2 Dawadi Chapter 2 at 10-16 and Attachment 3.

[499] Exhibit CalPA-2 Chapter 2 at 10. "The Commission allows utilities to utilize Method 5 to calculate federal taxes on taxable contribution and advances. Method 5 places the major portion of the tax burden on the contributor (*Re Methods for Establishing the Proper Level of Expense Resulting from 1986 Tax Reform Act*, D.87-09-026, at 114 [1987 Cal. PUC LEXIS 195])."

argued that Cal-Am is seeking to collect the full taxes associated with contributions from ratepayers, which would be contrary to D.87-09-026.[500]

Cal-Am disagreed with Cal Advocates and proposed a modification to its initial request specific to the treatment of contributions and advances for the Placer Vineyards and Riolo Vineyards developments.[501] Cal-Am stated that it would use Method 5 gross up treatment for the service connection components of those developments but would seek to recover any tax on non-service connection related components of the developments from ratepayers, but that expanding Method 5 to all contributions would have "a multi-million dollar impact to the project budgets" which could delay the projects as well as the development of new housing during a statewide housing crisis. Cal-Am further argued that including projected grant funds in the GRC could increase risk for both Cal-Am and its ratepayers because grant funds are not always available as forecasted.[502]

Rather than continuing to litigate this issue, the Settlement sets forth and agreement to continue use of Method 5 for new development and further provides as follows:[503]

> A. The tax gross up associated with federal and state government grants should be recovered through a Tier 2 Rate Base Offset Advice Letter. This will ensure that recovery only begins when the project is complete and/or the grant funding is received;

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[500] Exhibit CalPA-2 at 11-12. D.87-09-026 found Method 5 to be reasonable because it splits the tax burden between the contributor and ratepayers and provides the least risk to the utility.

[501] Exhibit CAW-22 at 68-74 and Attachment 5.

[502] Exhibit Cal-Am-22 at 71-74.

[503] Settlement at 117.

B. The tax gross up in the Tier 2 Advice Letter filing shall be addressed as an adjustment to deferred taxes;

C. Effective January 1, 2021, through completion of the Placer and Riolo Vineyards developments, Cal-Am shall apply Method 5 treatment for the service connection component of contributions and advances as reflected in the agreement reached between Cal-Am and the Placer Vineyards Development Group;[504] and

D. Cal-Am shall withdraw its requested change to Method 3 for all other developments.

We find the Settlement, as it relates to taxable grants and contributions is reasonable in light of the whole record, consistent with the law, and in the public interest, because it protects ratepayers from paying taxes on contributions. Cal-Am shall address taxes related to federal and state grants through a Tier 2 rate base offset advice letter filing and continue the use of Method 5 to determine the gross up for service connection component of contributions and advances in the Placer Vineyards and Riolo Vineyards development and shall apply Method 3 for all non-service connection advances and contributions. Method 5 will continue to be applied for all other contributions and advances.

14.7. Alignment and Simplification of District Specific Tariffs

Cal-Am's Special Request #7 requested to align its WRAM and MCBAs with its current and proposed tariffs, and to consolidate its CEBA for the Southern and Northern Divisions.[505]

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[504] Exhibit CAW-22 Attachment 5 (Public) describes the agreement between Cal-Am and Placer Vineyards Development Group, which was executed more than two years prior to the TCJA. The agreement includes a Method 5 gross-up for all service connection related contributions and advances, and a Method 3 treatment for all non-service components of the Placer and Riolo Vineyard developments.

[505] A.19-07-004 at 12; Exhibit CAW-6 at 80-81.

Cal Advocates did not dispute Cal-Am's request to align the WRAM/MCBA related to the Northern Division and Central Satellite District but recommended that, for the Southern Division, Cal-Am should only be authorized to consolidate the accounts if the Commission approves consolidation of the associated revenue requirements.[506]

The Settlement adopts Special Request #7 and reflects the agreements related to Cal-Am's Southern Division consolidation as discussed in Section 14.1.[507]

We find the Settlement, as it relates to Cal-Am's request to align its WRAM and MCBAs with its current and proposed tariffs, and to consolidate its CEBA for the Southern and Northern Divisions, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, because it aligns Cal-Am's WRAM/MCBA accounts to its tariff structures. Within 30 days of the adoption of this decision, Cal-Am shall:

A. Establish (1) a single WRAM/MCBA, (2) a single WRAM/MCBA surcharge, (3) a single CEBA, and (4) a single CEBA surcharge for its Southern Division;

B. Establish (1) a single WRAM/MCBA, (2) a single WRAM/MCBA surcharge, (3) a single CEBA, and (4) a single CEBA surcharge for its Northern Division. These accounts should include customers in the Hillview and Meadowbrook service territories; and

C. Fold its Toro and Ambler pre-2018 WRAM/MCBA balances into the existing Central Satellite WRAM/MCBA.

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[506] Exhibit CalPA-10 Rose testimony at 5-27.

[507] Settlement at 118.

14.8. Meadowbrook Rate Deign Consolidation Deferral

Cal-Am's Special Request #8 sought to defer rate design consolidation in its Meadowbrook service district. D.16-12-014 authorized Cal-Am to move its Meadowbrook customers onto the Sacramento District Rates, but in this GRC, Cal-Am proposed a separate, stand-alone rate design for Meadowbrook customers that has three tiers, with costs based on specific consumption profiles in the Meadowbrook District.[508]

Cal Advocates argued that consumption in the Meadowbrook District "far exceeds" consumption in the Sacramento District and that Cal-Am's proposed rate design could mute conservation signals in districts that have lower usage and result in "unexpectedly large bills" for customers that have usage just above average especially in higher-use district. Cal Advocates proposed an alternate rate design for the Meadowbrook District based on a four-tiered rate structure that has step-ups in commodity rates and tier breakpoints.[509]

Cal-Am argued its proposed rate design would accelerate the adjustment of Meadowbrook customers' usage to the more typical usage rates of customers throughout its Sacramento District.[510]

The Settlement adopts Cal-Am's Special Request #8 using the rate design agreed to regarding the Sacramento District in Sections 4.1 and 4.2 of the Settlement and described in Section 6 above. We find the Settlement, as it relates

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[508] Exhibit CAW-6 at 76-83. Cal-Am states that the proposed Meadowbrook rate design mirrors the Sacramento District's three-tier rate design but is based on usage profiles of customers in the Meadowbrook District.

[509] Exhibit CalPA-10 at 4-15 to 4-17, 5-5 to 5-6, and 5-27 to 5-28.

[510] Exhibit CAW-20 at 77-78. Cal-Am argues that adding a third tier for Meadowbrook customers should drive the overall consumption down without adversely affecting customer rates overall.

to Cal-Am's proposed deferral of a consolidated Meadowbrook rate design, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest.

The agreed-upon rates and tier breakpoints for Meadowbrook customers will not hinder conservation signals and will better align customer rates in the recently-acquired service territory with those in the rest of Cal-Am's Sacramento District. Cal-Am shall align its Meadowbrook customer rates with the rate design agreed upon for the Sacramento District in Settlement Sections 4.1 and 4.2.

14.9. Rate Case Expense Recovery

Cal-Am's Special Request #9 sought to amortize rate case expenses over 27 months. Cal Advocates suggested this request would violate the Commission's Revised Rate Case Plan and should only be considered through an industry-wide rulemaking.[511] Cal-Am agreed to withdraw this request, and the Settlement reflects Cal-Am's withdrawal of Special Request #9.

We find the Settlement, with respect to Cal-Am's Special Request #9, to be reasonable in light of the whole record, consistent with the law, and in the public interest. The Settlement moots this request for our consideration and ensures Cal-Am shall continue to amortize its authorized level of rate case expense over 36 months, as adopted in D.07-05-062.

14.10. Subsequent Rate Changes

As Special Request #10, Cal-Am sought authority to fully incorporate any rate changes that occurred between its filing of A.19-07-004 and the issuance of

[511] Exhibit CalPA-8 Chapter 1 at 1-7, D.07-05-062 Attachment A, and Settlement at 119. Cal-Am disagreed with Cal Advocates' position in Exhibit CAW-20 at 78-80, but ultimately agreed to withdraw Special Request #9.

this Decision.[512] Cal Advocates agreed with this request.[513] The Settlement sets forth an agreement to adopt Cal-Am's Special Request #10.[514]

We find the Settlement, as it relates to Cal-Am's request to incorporate all rate changes that have occurred when implementing this Decision, is reasonable in light of the whole record, consistent with the law, and in the public interest, because it ensures and incremental rate changes that occurred between the filing of A.19-07-004 and the issuance of this Decision are included in Cal-Am's implementation of this GRC. Cal-Am's implementation Advice Letter for this Decision should describe and reflect all rate changes that have occurred in the time since A.19-07-004 was filed.

14.11. Acquisition Revenue Requirement Normalization

As Special Request #11, Cal-Am requested to normalize the UPAA across its rate base entirely for its approved Rio Plaza, Fruitridge, and Hillview acquisitions and partially for its proposed Bellflower acquisition.[515]

Cal Advocates recommended the UPAA should be spread across all ratemaking areas to achieve what Cal Advocates proposed would be the largest socialization of excess acquisition costs possible.[516] Cal Advocates also stated that the Commission should reduce the UPAA associated with the Bellflower

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[512] A.19-07-004 at 12; Exhibit CAW-6 at 81-86.

[513] Exhibit CalPA-2 at 17-22.

[514] Settlement at 119.

[515] A.19-07-004 at 12; Exhibit CAW-6 at 83-84; Exhibit CAW-9 at 55-63.

[516] Exhibit CalPA-8 at 5 references Senate Bill 1268 (Kelley, 1997), which enacted the Public Water System Investment and Consolidation Act that requires the Commission to utilize "fair market value" to develop the rate base for acquired systems and describes how the acquired systems' accounting value may be lower than the calculated "fair market" value.

acquisition by $8 million to account for what Cal Advocates argued is an unreasonable acquisition cost.[517]

Duarte raised concerns that, without spreading the UPAA associated with the Bellflower acquisition, its residents could see up to a 28% monthly rate increase.[518]

In rebuttal, Cal-Am agreed with Cal Advocates that the UPAA should be spread across all ratemaking areas to achieve greater socialization of excess acquisition costs but disagreed that its Bellflower acquisition costs were inflated.[519] Cal-Am also provided additional information about its Hillview water system acquisition as approved in D.19-11-003.

Rather than litigating this issue, the Settlement provides an agreement to allocate the UPAA associated with Cal-Am's acquisitions of Fruitridge Vista, Rio Plaza, and Hillview across all ratemaking areas and to remove any UPAA costs associated with the Bellflower acquisition, which has not yet been approved by the Commission.[520]

MPWMD argued that this request and the agreements reached in the Settlement regarding UPAA are not in the interest of Monterey County customers because the compromises fail to consider the existing financial burdens Monterey County customers already face or how the incremental costs associated with Cal-Am's system acquisitions would adversely affect customers in the Monterey Service Area.[521] MPWMD recognizes that the statewide

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[517] Exhibit CalPA-8 Chapter 2 at 4-6.

[518] Exhibit Duarte-1 at 7-8.

[519] Exhibit CAW-22 at 75-77.

[520] Settlement at 120.

[521] MPWMD opening brief at 10.

allocation of UPAA is a standard policy, as defined in Pub. Util. Code Section 2720 but still requests relief from any rate increases associated with Special Request #11 and any UPAA related rate impacts associated with future Cal-Am acquisitions.[522]

We find the Settlement as it relates to this Special Request #11 is reasonable in light of the whole record of this proceeding, consistent with the law and Commission precedent related to UPAA and acquisitions, and in the public interest, because it ensures no costs associated with the pending Bellflower acquisition are recovered without Commission approval of that acquisition. While Cal-Am's cost recovery associated with buying and maintaining the smaller systems creates diseconomies of scale, the statewide UPAA allocation provided in the Settlement provides the largest socialization of cost increases possible.

We agree with Cal Advocates that "[i]f the initial acquisition price is unreasonable, any ensuing UPAA and ratepayer impact is also unreasonable, regardless of how small the impact might be on a per customer basis."[523] It is the Commission's purview to fully review each acquisition filing on the merits of a utility's application, and that evaluation process occurred prior to Commission approval of the Fruitridge Vista, Rio Plaza, and Hillview systems. Therefore, for the purposes of this GRC, the UPAA associated with the acquisitions of Fruitridge Vista, Rio Plaza, and Hillview water systems should be allocated across all ratemaking areas as discussed in Settlement Section 5.11 and 12.11 and detailed in the Settlement Attachments E-1 and F-1.

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[522] *Ibid.*

[523] Exhibit CalPA-8 at 6.

However, the Commission's review of Cal-Am's proposed Bellflower acquisition is still ongoing.[524] If the Bellflower acquisition is approved after this GRC is decided, Cal-Am may incorporate the authorized acquisition costs into rates pursuant to the final decision in that proceeding.

14.12. Annual Consumption Adjustment Mechanism

Cal-Am was authorized to create a pilot Annual Consumption Adjustment Mechanism (ACAM) in the Monterey County District in D.18-05-027.[525] In this GRC, as Special Request #12, Cal-Am requested to make its pilot ACAM permanent in the Monterey County District and to establish a similar ACAM pilot program for Cal-Am's Northern Division.[526] MPWMD, Cal-Am, and Cal Advocates reached a settlement creating the ACAM pilot program in the Monterey District in A.15-07-019.[527]

Cal Advocates argued that the Commission is currently evaluating the concept of Sales Reconciliation Mechanisms such as the ACAM in a water-industry-wide proceeding, R.17-06-024, and that using the advice letter process for rate changes could result in more frequent rate changes that are less rigorously considered than a GRC.[528]

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[524] A.18-09-013.

[525] D.18-05-027 adopted a Settlement between Cal-Am, Cal Advocates, and MPWMD and authorized Cal-Am to establish a pilot "annual consumption true-up pilot program (ACPP)" to track and account for the costs of acquiring replacement water to replace the court-ordered ramp-down of withdrawals from the Seaside Groundwater Basin, and a Consumption Adjustment Mechanism to update water demand in the Monterey District.

[526] A.19-07-004 at 13; Exhibit CAW-6 at 81-91 and Attachments 7 and 8.

[527] *See* Presiding Officer's Decision Adopting Phase 3B Settlement Agreement in A.15-07-019, Attachment 2, and D.18-07-010 adopting the Phase 3B Settlement Agreement.

[528] Exhibit CalPA-10 at 5-29 to 5-35.

MPWMD supported Cal-Am's request, because it believes the ACAM "has provided an alternative to poor revenue forecasting and was sorely needed in the Monterey District where WRAM balancing once exceeded $39 million."[529]

Cal-Am argued that three-year sales forecasts are difficult to predict, and the Commission has previously found that reconciliation mechanisms such as the ACAM are appropriate tools for updating water demand and could also address WRAM/MCBA balances.[530]

Rather than litigating the ACAM issue, the Settlement provides that Cal-Am should incorporate the existing ACAM mechanism permanently in the Monterey County District and incorporate the adjustment mechanism approved in D.18-05-027, as part of the step and attrition filings for all districts, excluding (1) the Fruitridge sub-system in the Northern Division for 2022 and 2023; and (2) setting test year rates for the Monterey District.

We find the Settlement, as it relates to Special Request #12, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, pursuant to the directives adopted the Presiding Officer's Decision Adopting the Phase 3B Settlement Agreement in A.15-07-019, Attachment 2, and D.18-07-010 adopting the Phase 3B Settlement Agreement. The Monterey District ACAM shall be made permanent effective in 2021. The new pilot ACAM across other districts, excluding the Fruitridge sub-system, shall begin in 2021 with an adjustment mechanism that aligns with D.18-07-010. The pilot ACAM shall include the Fruitridge sub-system starting in 2024.

[529] Exhibit MPWMD-3 at 17.

[530] Exhibit CAW-20 at 80-88.

14.13. Consolidating Conservation Program Statewide

As Special Request #13, Cal-Am proposed to consolidate its conservation program, which is currently funded district-by-district, into a statewide program in which up to 50% of individually-authorized conservation budget funds can be shifted between different service areas.[531]

Cal Advocates recommended that the granting of Special Request #13 should be contingent on the following parameters:

A. Conservation costs should be placed in base rates;

B. Surcharge accounts associated with conservation costs should be closed; and

C. Cal-Am should be prohibited from using conservation funds to pay any penalties or fines.[532]

The Settlement provides for a withdrawal of Special Request #13.[533]

We find the Settlement term on withdrawal of Special Request #13 is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest. Withdrawal of this request aligns with MPWMD's request to maintain a separate, specific conservation budget for the Monterey District.[534] Further, we agree with MPWMD that "outreach is an important component of each conservation and efficiency program proposed in this GRC. Outreach keeps customers aware of changing conditions and communicates information about programs that are available to the

[531] A.19-07-004 at 13; Exhibit CAW-10 at 23-25 and Attachment 1.

[532] Exhibit CalPA-6E at 90-96 and Attachment 73.

[533] Exhibit CAW-23 at 4-11; Settlement at 121.

[534] Exhibit MPWMD-2 at 11-13.

community."[535] Cal-Am shall continue partnering with local organizations to conduct customer outreach related to its conservation programs to ensure customers in each of its service districts are aware of the programs it offers.

14.14. Elimination of Duplicative or Unnecessary Reporting

As Special Request #14, Cal-Am requested to eliminate the following reports that it considered duplicative or unnecessary:

A. The Monterey District rebate and audit reports required by D.09-05-029;[536] and

B. The customer complaint reports required by D.06-11-050.[537]

Cal-Am stated that it already reports on rebate water savings figures and customer service performance metrics annually in its GO-103A filings to the Commission and that it has demonstrated its successful reduction of the number of formal and informal complaints received through the Commission's Consumer Affairs Branch.[538]

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[535] Exhibit MPWMD-2 at 15.

[536] D.09-05-029 adopted specific reporting requirements regarding the Monterey District that were agreed upon in a Joint Settlement between Cal-Am, Cal Advocates, and MPWMD. Specifically, Cal-Am agreed to provide an annual conservation report for the Monterey District that includes estimated water saving calculations for each device offered through its customer-facing conservation programs; a summary of conservation plans for the following year; budgets for each planned conservation program; and an evaluation of the effectiveness of its outreach program(s). (*See* D.09-05-029 at Section 3.2.3 and Appendix A at 12-13.)

[537] D.06-11-050 adopted quarterly reporting requirements regarding California-specific statistics, by district, of all calls and final disposition of complaints and all complaints received at district and regional levels and their final disposition. It also directed Cal-Am to enter into a formal agreement with MPWMD related to conservation funding and programs. (*See* D.06-11-050 at 36 and 27-28.)

[538] GO 103-A governs water service and provides minimum standards for operation, maintenance, design and construction along with specific reporting requirements for water utilities.

MPWMD did not oppose the proposed elimination of the rebate reports required in D.09-05-029. However, MPWMD argued that the number of customer complaints reported in the Monterey District is still disproportionately high; as such, the data required under D.06-11-050 should remain available to the public.[539]

Cal-Am noted the Consumer Affairs Branch of the Commission has consistent and regular contact with all regulated utilities, and the customer complaint reporting requirements adopted in D.06-11-050 are duplicative of its annual customer service reporting required as part of GO 103-A.[540]

The Settlement adopts Special Request #14 to eliminate the two reporting requirements.

In comments on the Settlement, MPWMD stated that the steeply-tiered rate design in the Monterey District results in frequent customer contact related to bills, leaks, and water pressure, and that waiting a full year to see the customer complaint statistics in Cal-Am's GO-103A reports would be a disservice to Monterey customers. MPWMD suggested that Cal-Am could sort the customer complaints and only provide quarterly reports for the Monterey District.[541]

We find the Settlement, as it relates to Special Request #14, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest because it eliminates duplicative reporting and administrative requirements. MPWMD has not adequately illustrated how a quarterly report of customer service requests and disposition would provide greater benefit to Cal-Am's Monterey District customers than the already-required annual

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[539] Exhibit CalPA-4 at 61-65; Exhibit MPWMD-2 at 16.

[540] Exhibit CAW-23 at 13-14.

[541] MPWMD response to the Settlement at 5.

GO 103-A compliance reporting. Further, MPWMD and/or the Commission can request specific customer complaint data from Cal-Am when necessary. Cal-Am is authorized to eliminate the Monterey District rebate and audit reports and the customer complaint reports, as requested in Special Request #14.

14.15. Proposed Operational Tariff Modifications

As Special Request #15, Cal-Am requested to modify several of its tariffs to better clarify the responsibilities of its customers and reduce inequities between customers. Specifically, Cal-Am requested operational modifications related to the following tariffs:

A. The AMR/AMI Opt-Out Program;
B. The Residential Fire Protection Service Multi-Use Customer Discount;
C. Tariff Rule 10, as it regards billing errors;
D. Tariff Rule 18, as it regards meter errors;
E. Schedule CA-4 and CA-4H, as they regard Private Fire Services;
F. Tariff CA-FEES to eliminate the connection fee; and
G. A new statewide metered construction service meter tariff.[542]

Cal Advocates argued that the Commission should require Cal-Am to report any revenues resulting from the tariff modifications in its steps filings, GRCs, and any other reports of recorded revenue, and that the requested Rule 10 and Rule 18 modifications should be denied because those changes could limit customers' ability to be refunded for billing errors. Cal Advocates also recommended the Commission deny any changes to the construction service meter tariff that would require customers to pay any outstanding balances in full

[542] A.19-07-004 at 13; Exhibit CAW-5 at 115-125; Exhibit CAW-9 Attachment 5.

before any deposit is returned. Cal Advocates recommended that customers should instead be allowed to deduct outstanding balances from their deposits.[543]

Cal-Am argued that incentivizing contractors to return construction meters is challenging, and that its proposed modification to the construction service meter tariff would allow Cal-Am to replace the meter if it is not returned. Cal-Am further disagreed with Cal Advocates' proposed recommendations related to the operational tariff modifications, arguing that if connection fees are reported as revenues, Cal-Am's rate base would increase to recover them. Cal-Am stated that its treatment of service connection fees as contributions-in-aid-of-construction (contributions) offsets the addition to existing utility plant-in-service and creates no impact on customers' bills.[544]

Rather than litigating Special Request #15, the Settlement provides the following agreements:

1. For the AMI/AMR opt-out tariff revisions, Cal-Am will:
    a. Offer customers the option to opt-out of the AMI before any new AMI meters are installed. Customers that opt-out will be charged a $13.00 monthly charge once AMI billing is fulling implemented but will not face the $70.00 initial fee that is provided on Schedule CA-OUT.
    b. File a Tier 1 Advice Letter to make Schedule CA-OUT effective no more than 90 days prior to the start of billing utilizing AMI meters.
    c. Treat revenues generated through the monthly charges provided in Schedule CA-OUT as Other Revenue. However, because revenues received through the opt-out tariff will be minimal in this GRC cycle, they

[543] Exhibit CalPA-10 at 5-36 to 5-40 and Attachments 7-9.

[544] Exhibit CAW-19 at 31-34; Exhibit CAW-22 at 77-79.

cannot be accurately forecasted for inclusion in the authorized revenue requirement.

2. For new service connection fees, connection charges paid by new customers should be considered contributions and should offset the costs of the new connection.
3. For construction meter tariffs, Cal-Am should use construction meter deposits to offset the cost of a replacement meter, rather than offsetting any unpaid bill(s).
4. Cal-Am will withdraw its requests to modify Rules 10 and 18 related to meter and billing errors.[545]

We find the Settlement, as it relates to Special Request #15, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, because it ensures Cal-Am does not overcharge customers for replacement meters or new service connections and allows customers to opt-out of the AMI/AMR tariff.

Cal-Am shall file a Tier 1 Advice Letter making Schedule CA-OUT effective for customers seeking to opt-out of AMR/AMI 90 days prior to the date it anticipates using AMI meters for billing, so that customers that choose not to enroll in AMI can begin paying the $13.00 monthly fee to cover meter-reader related labor costs. The fees collected through Schedule CA-OUT, which are expected to be minimal in 2021-2023, shall be treated as revenues during this GRC cycle. New service connection fees shall be treated as contributions and used to offset the cost of the new connections; construction meter deposits shall be used to offset the cost of replacement meters, if necessary; and Cal-Am's Rules 10 and 18 shall remain unchanged for this GRC cycle.

[545] Settlement at 123-124.

14.16. Lead Service Line Replacement Program

As Special Request #16, Cal-Am requested authorization to create a new Lead Service Line Replacement Program to expand its existing, ongoing main replacement program to replace all lead portions of its service lines, including Cal-Am- and customer-owned sections.[546]

Cal Advocates recommended the Commission require Cal-Am to maintain detailed records regarding all lead service line replacements including the location, length, and cost of each customer-owned service line replaced. Further, Cal Advocates argued the rate treatment of the costs associated with this Special Request should be considered in the next GRC, once Cal-Am has improved information about the program's costs.[547]

The Settlement adopts Special Request #16 as requested, with the caveat that Cal-Am be required to maintain detailed records about all lead service line replacements.[548]

We find the Settlement, as it relates to Special Request #16, to be reasonable in light of the whole record, consistent with the law, and in the public interest, because it will allow Cal-Am to continue replacing its lead service lines and improve data about the cost and location of service line replacements.

Cal-Am shall (1) create a new Lead Service Line Replacement Program as part of its existing, ongoing main replacement program; (2) track cost information about the utility- and customer-side costs associated with each lead service line replacement that occurs; and (3) provide that detailed information

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[546] Exhibit CAW-5 at 29-34 and Attachment D; Exhibit CAW-9 at 45-47.

[547] Exhibit CalPA-5 at 103-109 and Attachment 11.

[548] Settlement at 124.

related to lead service line replacements when seeking recovery of these costs in its next GRC.

14.17. High-Cost Fund for Active Wastewater Customers

As Special Request #17, Cal-Am requested authorization to create a new high-cost fund for its Central Division active wastewater service customers. Specifically, Cal-Am proposed to implement a flat surcharge of $0.29/month for all of its non-low-income customers, both water and wastewater, that are not located in the proposed high-cost area to offset the costs for customers in the high-cost area. Cal-Am stated that rates for customers in the proposed high-cost area are significantly higher than those for passive wastewater customers in the same Division and are expected increase over time, because the related facilities require significant investments for maintenance or replacement.[549]

Cal Advocates argued this request is substantially the same as one the Commission declined to adopt in a settlement reached between Cal-Am, LPWC, and MPWMD in A.16-07-002.[550] Las Palmas supported Cal-Am's Special Request #17, arguing that it would offset the rate increases in its service territory.[551]

Cal-Am disagreed with Cal Advocates and provided an examination of adjustments to the wastewater LIRA program and possible re-allocations that could be implemented to reduce the impacts of the high-cost fund on Cal-Am's active wastewater customers.[552]

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[549] A.19-07-004 at 14; Exhibit CAW-6 at 91-94 and Attachment 9; Exhibit CAW-2 at 17.

[550] Exhibit CalPA-10 at 5-40 to 5-41.

[551] Exhibit LPWC-1 at 2-3.

[552] Exhibit CAW-16 at 7-11 and Attachment 1; Exhibit CAW-20 at 88-94 and Attachment 6.

The Settlement provides an agreement that Cal-Am will withdraw this request for this GRC.[553]

We find the Settlement's provision to withdraw Special Request #17 is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, because it prevents the implementation of a flat surcharge on customers' bills that may not be necessary to provide reliable service.

Cal-Am shall not create a new high-cost fund or implement a new surcharge to offset the costs of its active wastewater customers in the Central Division. Additionally, we agree that the cost allocation between passive and active wastewater customers in Monterey County should be updated to better reflect current system costs. Cal-Am shall implement the new factors agreed upon in Section 3.2 of the Cal-Am-Las Palmas Settlement as follows:

A. General Office and Service Company allocated costs shall be reduced to 50% of the previously-established level;

B. Costs associated with waste disposal, power, and chemicals shall be tracked and reported separately between the passive and active systems; and

C. Labor cost allocation shall be 80% to active and 20% to passive, to acknowledge the additional labor necessary to support treatment facilities.[554]

15. Other Miscellaneous Issues

There are several outstanding issues in the scope of this proceeding, and they are addressed below.

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[553] Settlement at 124-125; Cal-Am-Las Palmas Settlement at 5-6.

[554] *Ibid*.

15.1. AMI for Ventura and Central Division Customers

Cal-Am estimated that the cost to deploy AMI in its Ventura County and Central Divisions would be $3.7 million through 2022. Issue 3 of the Scoping Memo concerns whether the $3.7 million in costs requested by Cal-Am is reasonable. Provisions in the Settlement suggest different outcomes for this GRC dependent on the Commission's resolution of Issue 3 of the Scoping Memo.

There was little testimony on this issue, beyond Cal-Am's request and discussion of the tariff opt-out provisions, described in Section 14.15 above. Cal-Am sought to install AMI for approximately 62,000 water customers spanning the residential, industrial, and commercial classes, to better understand whether a two-way AMI system could better inform the utility and customers of leakages and other potential sources of water waste.[555]

Cal-Am described recent, smaller-scale pilot AMI projects it has conducted to evaluate the technology, which have occurred in the same service territories as this proposed program.[556] The utility estimated that over 20 years, it could see up to $130.5 million in cost savings compared to a more standard, individual meter-reading technology.[557]

Cal-Am further suggested that "many of the meters being replaced as part of the AMI program would have been replaced due to [loss of service] within the next 2-10 years."[558]

We have reviewed the record of this proceeding as it relates to Cal-Am's proposed AMI deployment in its Ventura and Central Divisions and find its

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[555] Exhibit CAW-5C at 77-115.

[556] *Ibid* at 99-106.

[557] Exhibit CAW-5C at 204-209.

[558] *Ibid* at 116.

proposal is reasonable and in the interest of ratepayers. Cal-Am's provided testimony and evaluation of its AMI pilots suggest the potential for improved ratepayer experience and lower overall costs should the AMI proposal be implemented.

Cal-Am shall allocate the costs associated with this program as set forth in the Settlement and provide the option for Ventura and Central Division customers to opt-out of AMI as discussed in Section 14.15 above.[559]

15.2. Safety

Issue 7 of the Scoping Memo concerns whether the Commission should address any safety issues within this GRC proceeding. Cal Advocates argued Cal-Am should update its Emergency Response Plans (ERPs), resume conducting and documenting annual emergency evacuation drills, and implement a comprehensive portable generator program.[560]

Cal-Am argued that it has already updated its ERPs and will continue conducting evacuation drills.[561]

The Settlement provides that issues related to Cal-Am's ERPs and its annual emergency evacuation drills were adequately addressed in the utility's rebuttal testimony.[562]

We find the Settlement, as it relates to safety and Cal-Am's ERPs, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, because it provides for continued evacuation

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[559] Settlement at 30-31 and Attachment G-2.

[560] Exhibit CalPA-9C, Chapter 1 at 1-26. Cal-Am's ERPs were described in Exhibit CAW-5 at 34-52.

[561] Exhibit CAW-19 at 23-27.

[562] Settlement at 125-126.

drills and updates to Cal-Am's ERPs and supports a comprehensive evaluation of alternatives for stationary back-up generation units. Details about the scope and budget for the Standby Generator Improvement Program and the associated Portable Generator Planning Study are described in Sections 8.1.10, 8.3.2, 8.4.6, and 8.7.4 of the Settlement and Section 10 of this Proposed Decision.

15.3. Water Quality

Issue 5 of the Scoping Memo requires an evaluation of whether Cal-Am is complying with all statutory and regulatory requirements. Under an August 15, 2018 U.S. Environmental Protection Agency compliance order, Cal-Am is required to inspect all of its tanks on a semi-annual basis. Cal-Am stated that it has been implementing enhancements to its sampling and monitoring system (SAMS) and is designing smartphone applications that would allow water system operators to enter real-time data, so it is immediately accessible to Cal-Am and others. Cal-Am also stated its system automatically creates monthly and quarterly reports that streamline its water sample testing and reporting processes.[563]

Cal Advocates noted some inconsistencies with Cal-Am's Consumer Confidence Reports and suggested some steps that may ensure sampling and monitoring standards are fully incorporated and reported through Cal-Am's automated SAMS.[564]

Cal-Am agreed with Cal Advocates' recommendations regarding its SAMS program and corrected a typo related to prior Consumer Confidence Reports.

[563] Exhibit CAW-5 at 16-29 and Attachment A.

[564] Exhibit CalPA-9 Chapter 2 at 27-35.

Cal-Am also suggested the use of drones for biannual tank inspections can sometimes be unfeasible or unreliable.[565]

The Settlement provides an agreement that (1) adopts Cal-Am's requested cost recovery for biannual tank inspections, which will continue to incorporate unmanned drone inspections where feasible, and (2) requires Cal-Am to incorporate a notification system for water quality sampling and reporting throughout its SAMS programs and the company-wide Horizon Laboratory Information Management System.[566]

We find the Settlement, as it relates to Issue 5 of the Scoping Memo and Cal-Am's water quality sampling and testing and associated costs, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest. Cal-Am shall continue to conduct biannual tank inspections, utilize unmanned drones where feasible and implement a notification system to improve water quality sampling and reporting as proposed in Exhibit CAW-5.

15.4. Customer Service

Issue 4 of the Scoping Memo concerns Cal-Am's adequacy in responding to customer concerns. Cal-Am provided an overview of its customer service team, a summary of customer inquiries and complaints received in 2016-2018, and a description of changes the utility implemented to improve customer satisfaction.[567] Cal Advocates noted that while Cal-Am has a generally reasonable rate of customer complaints and inquiries, it should still be required

[565] Exhibit CAW-19 at 27-31.

[566] Settlement at 126-127.

[567] Exhibit CAW-5 at 16-29 and Attachment A.

to reduce its abandoned call rate and increase the percentage of bills rendered in seven days to meet the standards established in GO 103-A.[568]

Cal-Am described extensive technology upgrades it conducted in 2018 which could have contributed to the lagging customer service metrics it reported that year but argued there were improved customer service metrics in 2019.[569]

The Settlement reached an agreement that notes Cal-Am's improved customer service metrics and requires Cal-Am to continue reporting the same customer service metrics in its next GRC application.[570]

We find the Settlement, as it relates to Issue 4 of the Scoping Memo and Cal-Am's customer service metrics and reporting, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest. While Cal-Am's customer service metrics have improved from the levels reported in 2018, it is reasonable to require continued tracking and reporting of the same metrics to track further improvement or new issues that arise related to its customer service. Therefore, Cal-Am shall continue to track and annually report its customer service performance metrics as required under GO-103A, and those annual metrics shall be reviewed in its next GRC application.

15.5. Regulatory and Statutory Compliance

Issue 5 of the Scoping Memo concerns whether Cal-Am has complied with all regulatory and statutory requirements. Cal-Am noted that it has complied with the requirements established in Ordering Paragraphs 21 and 22 of D.18-12-021 by rehabilitating the following tanks:

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[568] Exhibit CalPA-9 Reed Public Chapter 2 at 27-35.

[569] Exhibit CAW-23 at 9-11.

[570] Settlement at 127.

A. Lower Pasadera Tank
B. Upper Pasadera Tank #1
C. Upper Pasadera Tank #2
D. Huckleberry Tank #2
E. Boots Tank
F. Forest Lake Tank #2
G. High Meadows Tank #1[571]

Cal Advocates agreed that Cal-Am has complied with Ordering Paragraphs 21 and 22 of D.18-12-021, and the Settlement provides that Cal-Am is in compliance with Ordering Paragraphs 21 and 22 of D.18-12-021.[572]

Cal-Am also stated that it has performed a comprehensive review of all compliance items, documented the actions it has taken to ensure all historic compliance items were addressed, and that it is in full regulatory compliance.[573] No party directly addressed this issue in testimony.

The Settlement provides an agreement that Cal-Am's documentation fully demonstrates compliance, and that the process Cal-Am has defined to track and ensure compliance is reasonable.[574]

We find the Settlement, as it relates to Issue 5 of the Scoping Memo, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, because it aligns with the requirements established in D.18-12-021. No further action is necessary for Cal-Am to comply with Ordering Paragraphs 21 and 22 of D.18-12-021. Cal-Am shall remove the

[571] Exhibit CAW-9 at 69-79.

[572] Exhibit CalPA-9 at 39-41; Settlement at 127-128.

[573] Exhibit CAW-9 at 32-35 and Attachment 1.

[574] Settlement at 128-129.

items listed as "complete" in Exhibit CAW-9 from the list of compliance items to be provided in its next GRC.

15.6. 100-Day Update for Workpapers

Cal-Am requested that its 100-Day Update be used as the base template for the workpapers adopted in this decision.[575] No party objected to this request and the Settlement adopts Cal-Am's 100-Day Update as the baseline to develop forecasted rates and revenue requirements in this GRC.[576]

We find the Settlement term, as it relates to the use of Cal-Am's 100-Day Update for workpapers, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, because the tables in Cal-Am's 100-Day update are more accurate and correct errors identified after the filing of A.19-07-004. The tables describing forecasted rates and revenue requirements, as included in the Settlement, are based off the 100-Day Update filed by Cal-Am and are adopted in this decision.

15.7. Cap on Surcharges

Cal Advocates recommended that the Commission should limit the amount of surcharges Cal-Am can collect on residential customers' bill to 20% of the total bill amount.[577] Cal-Am argued that the revenue required for authorized costs is often recovered through surcharges, based on longstanding Commission policy associated with uncertain costs.[578]

The Settlement provides for capping surcharges to 20% of residential customers' total bills for the 2021 test year, with the following exceptions:

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[575] Exhibit CAW-22 at 2-7.

[576] Settlement at 128.

[577] Exhibit CalPA-7 at 9-11

[578] Exhibit CAW-25 at 9-25.

A. For the Monterey District, the 20% cap applies but with adjustments made to exclude water supply-related surcharges;

B. For the Hillview District, the impact of the existing SRF surcharge is excluded;

C. Interim rates are excluded from the forecast of surcharges; and

D. Any surcharge that would go above the 20% cap would be deferred for future recovery through rates.

We find the Settlement, as it relates to the cap on surcharges, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest, because it limits the amount of uncertain costs Cal-Am can recover from customers and puts higher precedence on appropriate rate design across Cal-Am's service districts. Cal-Am shall cap the surcharge costs on residential customers' bills at 20% of the total bill, with the four exceptions described above.

We agree with BRECA that this cap on surcharges "should not be normalized as the automatic 'ask,' and all surcharges should be taken into account."[579] Cal-Am shall include details on the surcharges in each district, the customer bill impacts related to the surcharges, and the improvements and efficiencies each surcharge is intended to fund, for review in its next GRC.

15.8. Earnings Test for Surcharges

Cal Advocates suggested that Cal-Am should be required to implement an earnings test to ensure that recovery of surcharge account balances will not produce a rate of return higher than authorized.[580]

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[579] Exhibit BRECA-1 at 2-3.

[580] Exhibit CalPA-7 at 11-13.

Cal-Am argued that the requirement for an earnings test was eliminated by D.06-04-037 and that there have been no circumstantial changes that warrant revisiting the applicability of the earnings test.[581] In the Settlement, Cal Advocates agreed to withdraw its requested earnings test for surcharges.[582]

We find the Settlement term, wherein Cal Advocates withdrew its request concerning the earnings test, is reasonable in light of the whole record of this proceeding, consistent with the law, and in the public interest.

15.9. San Marino Joint Conservation Program

San Marino argued that Cal-Am's estimate of rate increases in San Marino exceeds those that would occur in other Cal-Am California Districts.[583] Cal-Am stated that San Marino and Duarte customers currently have the lowest rates because their purchased water costs are consolidated, and the only reason customers in San Marino have higher bills is that they have the highest usage statewide.[584]

The Settlement provides a consolidated Southern Division rate design that will create service charges that are consistent and quantity rates that vary based on allocation of purchased water costs.[585] Only a subset of districts – San Diego, Ventura, and LA-Baldwin Hills, will receive an additional purchased water charge, and San Marino and Duarte customers will have the lowest forecasted rates based on the consolidated purchased water allocation methodology and

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[581] Exhibit CAW-25 at 25-32.

[582] Settlement at 129-130. Also *see* Cal Advocates comments on the Proposed Decision at 1-3.

[583] Exhibit San Marino-1 at 1-5.

[584] Exhibit CAW-24 at 36.

[585] Settlement at 130-131.

rate design described in Sections 4.2, 4.3, and 12.1 of the Settlement and Section 14.1 above.

Because San Marino customers see higher bills associated with higher consumption, Cal-Am and San Marino reached an agreement to provide a joint conservation program with the following provisions:

A. The Metropolitan Water District of Southern California (MWD) provides a member-funded, agency-administered incentive program for commercial and residential rebates, based on contract terms reached by the agencies or up to the project costs, whichever is lower. All projects are intended to enhance water savings;

B. Through the MWD's program described in (A) above, San Marino has a total allocation of $22,000 for fiscal years 2020/21 and 2021/22;

C. Cal-Am shall match, dollar-for-dollar, any funds San Marino receives from the MWD program and assist San Marino City staff with applying for and reporting program(s) to MWD;[586]

D. Cal-Am shall work with San Marino to implement a community outreach program using a variety of media and communication types to educate and inform residents on the programs and classes they can participate in to lower indoor and outdoor water use to reduce their monthly water bills; and

E. Cal-Am and San Marino will meet prior to Cal-Am's next GRC filing in July 2022 to discuss potential new projects or infrastructure improvements that would further benefit the San Marino water system.

We find the San Marino Joint Conservation Program as provided in the Settlement is reasonable in light of the whole record, consistent with the law, and in the public interest because it will support efforts to help San Marino District

[586] Cal-Am intends to match the MWD funds with funding from its conservation budget.

customers reduce water usage. Cal-Am shall work with San Marino to encourage customers in that District to implement water conservation measures, and Cal-Am shall use part of its conservation budget, as discussed in Section 7.11 above, to match the funds San Marino receives from the MWD's incentive program during this GRC cycle. Further, Cal-Am and San Marino shall meet and confer before Cal-Am's next GRC is filed to discuss potential upgrades that could benefit the San Marino system.

15.10. MPWMD User Fee

This issue was not directly addressed in the Settlement but in its opening brief, MPWMD requested clarification as to whether the 8.325% user fee is a water utility revenue source calculated as part of Cal-Am's annual gross receipts as opposed to a pass through.[587]

Cal-Am explained that the MPWMD user fee is applied by MPWMD, and that while Cal-Am collects the fee through customer bills, the amount collected is remitted to MPWMD to conduct the environmental mitigation projects, conservation activities, and other water-related services, as authorized in D.17-01-013.[588] Cal-Am stated the surcharge collected to support the authorized MPWMD environmental mitigation projects is computed based on water utility revenues, and the calculation does not include any pass-throughs, as required in Resolution M-4841.[589]

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[587] MPWMD opening brief at 12.

[588] Cal-Am reply brief at 14-15.

[589] Resolution M-4841, adopted July 16, 2020, established user fees based on the projected revenue base for water utilities. Also *see* MPWMD's comments on the Proposed Decision explaining that user fees in the Monterey service territory can be used to support environmental mitigation, conservation, and other water-related services.

We have reviewed the record of this proceeding and find Cal-Am's explanation of the MPWMD user fee calculation is appropriate. Cal-Am's collection of the 8.325% user fee, which does not include any pass-throughs and is remitted to MPWMD to support authorized environmental mitigation projects in the Monterey District, is reasonable to continue for this GRC cycle.

16. Conclusion

As detailed above, the Settlement addresses majority of the issues identified in the Scoping Memo and incorporates the other agreements reached with Las Palmas and MPWMD related to issues in their specific regions of Cal-Am's service territory. The parties to the Settlement have demonstrated that the terms align with the requirements of Rule 12.1, through information provided in the Settlement itself, the Settlement's references to the whole record of this proceeding, and the documents filed in response to the ALJ's March 25, 2021 Ruling seeking additional information. Pursuant to Rule 12.1(d), this decision approves and adopts the three settlements, which collectively, resolve the majority of the issues in this proceeding and find that they are reasonable in light of the whole record, consistent with the law, and in the public interest.

This decision also resolves the remaining disputed issues, adopts a revenue requirement of $271,997,800 for Test Year 2021 and authorizes the utility's general rate increases for 2021, 2022, and 2023 as summarized in the table below for the 2021-2023 GRC Cycle:

Ratemaking District	Adopted Revenue Requirement		
	TY 2021	Escalation Year 2022	Escalation Year 2023
Northern	$72,718,400	$75,966,500	$78,740,800
Central	$72,739,300	$75,633,200	$77,590,900
Southern	$122,990,800	$124,875,700	$127,741,400
Monterey Wastewater	$3,549,300	$3,649,700	$3,747,000
Total	$271,997,880	$280,125,100	$287,820,100

This Decision, including the Settlement it approves and adopts, authorizes Cal-Am to recover a revenue requirement that exceeds its initial request in A.19-07-004 by approximately $756,000. The increased costs are related to the Settlement's terms on Cal-Am's purchased water, purchased power, and additional operating expenses in Other Administrative and General accounts due to the acquisition of Rio Plaza, Fruitridge Vista, and Hillview systems. In the future, parties seeking adoption of a settlement agreement should provide an explanation as to why the Settlement would result in a higher revenue requirement than initially requested by a utility.

Further, as noted throughout this proceeding, Cal-Am is not authorized to recover any costs associated with the Bellflower system until or unless its application to acquire Bellflower is approved by the Commission.

We also note, pursuant to Rule 12.5, our approval and adoption of the Settlement's terms does not bind or otherwise impose a precedent in this or any future proceeding. Neither Cal-Am nor any party to any of the three settlements may presume in any subsequent applications that the Commission would deem the outcome adopted herein to be presumed reasonable and it must, therefore, fully justify every request and ratemaking proposal without reference to, or reliance on, the adoption of these settlements.

17. Comments on Proposed Decision

The proposed decision of ALJ Carolyn Sisto in this matter was mailed to the parties in accordance with Section 311 and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on November 8, 2021, by Cal-Am, Cal Advocates, and MPWMD, and reply comments were filed on November 15, 2021, by Cal-Am.

18. Assignment of Proceeding

Genevieve Shiroma is the assigned Commissioner and Carolyn Sisto is the assigned ALJ in this proceeding.

Findings of Fact

1. On July 1, 2019, Cal-Am filed A.19-07-004 to increase revenues for water and wastewater service in each of its districts statewide for the years 2021 through 2023.

2. Cal Advocates, the City of Duarte, the Central Coast Coalition of Communities for Wastewater Equity, and MPWMD filed timely protests to A.19-07-004.

3. Cal-Am noticed customers of its proposed revenue requirement increase and the associated bill impacts on September 4, 2019.

4. Numerous public participation hearings were held throughout Cal-Am's service territory from December 2019 through February 2020.

5. From September to November of 2020, the parties to A.19-07-004 actively engaged in the Commission's ADR process.

6. Between January and February of 2021, the parties filed three separate motions for adoption of three separate partial settlements as follows:

Partial Settlement 1: The joint settlement between Cal-Am, Cal Advocates, and the Cities of Duarte,

San Marino, and Thousand Oaks (the Settlement);

Partial Settlement 2: The settlement between Cal-Am and MPWMD (Cal-Am-MPWMD Settlement); and

Partial Settlement 3: The settlement between Cal-Am and Las Palmas Wastewater Committee (LPWC or Las Palmas) (Cal-Am-Las Palmas Settlement).

7. *Partial Settlement 1* is referred to in this decision as the Settlement, and the tariffs and rates proposed in it, incorporate the terms of the other two settlements, *Partial Settlements 2 and 3*.

8. The Settlement resolves all but two outstanding disputed issues:

   (a) Normalization of the Larkfield District wildfire recovery and future catastrophic event costs; and

   (b) Allocation of the UPAA for Cal-Am's acquisitions of Fruitridge Vista, Rio Plaza, and Hillview.

9. The Settlement results in the following public interest benefits:

   (a) The Parties represent both sides of this case: the utility and the ratepayers and the Settlement balances those interests at stake;

   (b) The Settlement serves the public interest by resolving competing concerns in a collaborative and cooperative manner;

   (c) The Settlement avoids the costs of evidentiary hearings and resources of the Commission, thus saving public and ratepayer funds to litigate the dispute;

   (d) The Settlement will provide efficient resolution of the majority of the contested issues, thus saving unnecessary litigation expenses and Commission resources;

   (e) The Settlement is consistent with the Commission's long-standing policy favoring the settlements of disputes to avoid costly and protracted litigation; and

(f) The Settlement ensures that customers have continued access to an affordable, safe, and reliable water supply system.

10. There are no terms within the Settlement that would bind the Commission in the future or that would violate existing law.

11. Cal-Am's Hardship Assistance Program, which was initially grant-funded for customers in Monterey County, can provide ratepayers in other Cal-Am service territories relief from the potential of water service shut-offs.

12. Cal-Am will evaluate alternatives to installing stationary generators to supply essential power at its facilities, and treat any costs associated with its portable generator planning study as an expense in TY 2021.

13. D.89-11-058 did not consider the more sophisticated technology and computation tools available today to calculate forecasted CCFT and TY FIT.

14. D.21-06-015 requires Cal-Am to share customer information with electric investor-owned utilities to provide customers with increased access to and education about various hardship assistance programs.

15. The Commission is currently considering whether to further modify the current requirements for water and energy utilities to share low-income customer data in Phase II of R.17-06-024.

16. D.13-04-015 granted Cal-Am authority to recover the costs of water produced and delivered from the Sand City Desalination Plant from customers in its Monterey Service District.

17. Cal-Am's ability to utilize the Sand City Desalination Plant may decline without a new well being drilled.

18. Cal-Am's request to drill a new well at its Sand City Desalination Plant is not consistent with the authority granted in D.13-04-015.

19. The evidence in this proceeding supports a new well at Sand City Desalination Plant as a reasonable, prudent expense to be recovered from ratepayers.

20. D.19-07-015 authorized all Class A water utilities to recover any approved costs associated with any incident(s) declared by the federal or state government to be a state of emergency through rates across their entire customer base.

21. MPWMD did not demonstrate how a quarterly report of customer service requests and disposition would provide greater benefit to Cal-Am's Monterey District customers than the already-required annual GO 103-A compliance reporting.

22. The customer complaint reporting requirements adopted in D.06-11-050 are duplicative of Cal-Am's annual customer service reporting required as part of GO 103-A.

23. Cal-Am has improved customer service metrics since 2018 and will continue tracking and reporting metrics associated with customer service.

24. Incremental surcharges have an impact on customer bills that is not easily forecasted for future GRC evaluation.

25. The MPWMD user fee is collected by Cal-Am on customer bills based on water utility revenues and remitted to MPWMD to conduct the environmental mitigation projects, conservation activities, and other water-related services.

26. The calculation of the MPWMD user fee does not include any pass-throughs, as required in Resolution M-4841.

Conclusions of Law

1. Cal-Am should be authorized to increase its rates to recover the revenue requirements for 2021, 2022, and 2023, as follows: $271,997,880 in 2021; $280,125,100 in 2022; and $287,820,100 in 2023.

2. The Settlement is reasonable in light of the whole record, consistent with law and in the public interest, and should be adopted, as modified in this Decision.

3. The Parties complied with the provisions of Rule 12.

4. Pursuant to Rule 12.5, the Settlement does not bind or otherwise impose a precedent in this or any future proceeding.

5. It is reasonable to require Cal-Am to complete a comprehensive study considering alternative back-up power resources in its service territories before authorizing any request to deploy and recover costs for new stationary generators at its facilities.

6. Cal-Am should include its conservation budgets in base rates at the General Office level, with allocation to its Districts, and should have flexibility to utilize its authorized conservation budget where needed, and within the three-year rate case cycle, as authorized for other forecasted capital or expense budgets. However, Cal-Am should only allocate the conservation budget authorized for its Monterey District to costs incurred within the Monterey District in 2021-2023.

7. It is reasonable to require Cal-Am to develop a methodology to calculate forecasted CCFT and TY FIT deductions for its next GRC filing.

8. Cal-Am's request to use ratepayer funds to drill a new well at the Sand City Desalination Plant is consistent with the authorization regarding Cal-Am's production and delivery of water from the facility adopted in D.13-04-015.

9. If Cal-Am receives any monetary compensation from the U.S. Air Force through its ongoing litigation, Cal-Am should file a Tier 2 Advice Letter seeking

approval of a proposed recovered cost allocation to its ratepayers in the Sacramento District.

10. Cal-Am should provide the depreciation study information required by D.18-12-021 when it files its next GRC.

11. It is reasonable to require Cal-Am to include details on its surcharges in each district, the customer bill impacts related to the surcharges, and the improvements and efficiencies each surcharge is intended to fund, for review in its next GRC.

12. It is reasonable to require Cal-Am to regularly share data with electric IOUs to identify customers that may be eligible to enroll in its low-income assistance programs, pursuant to D.21-06-015.

13. Cal-Am should consolidate its Southern Division with the provisions and adjustments identified in the Settlement that ensure that no customer with usage rates that are equal or lower to the system-average will not pay more than the average system-wide rate increase, as detailed in Section 13.1 above.

14. Cal-Am should recover costs associated with the 2017 Larkfield District fires, net of any received insurance claim payouts, on a statewide basis, pursuant to D.19-07-015.

15. Additional wildfire related costs and potential 2018-2020 lost-quantity revenues associated with state-of-emergency events should be tracked and reviewed in Cal-Am's next GRC application for recovery on a statewide basis.

16. Costs associated with Cal-Am's proposed acquisitions should be requested through specific acquisition applications.

17. Cal-Am should not recover any costs associated with its proposed Bellflower acquisition until or unless the Commission approves the proposed Bellflower acquisition.

18. It is reasonable for Cal-Am to eliminate its annual and quarterly reports that are duplicative of the reporting requirements in GO 103-A.

19. It is reasonable for Cal-Am to provide further details about the surcharges applied to customers' bills in each district, including the customer bill impacts related to the surcharges and the improvements and efficiencies each surcharge is intended to fund, for review in its next GRC.

20. Cal-Am should use its conservation budget to match any funds San Marino receives from the MWD program, assist San Marino City staff with applying for and reporting program(s) to MWD, work with San Marino to implement a community outreach program to educate and inform residents on the programs and classes they can participate in to lower indoor and outdoor water use to reduce their monthly water bills and meet with the City of San Marino prior to Cal-Am's next GRC filing to discuss potential new projects or infrastructure improvements that would further benefit the San Marino water system.

21. Cal-Am should continue collecting the MPWMD user fee in this GRC cycle, and remit the amount collected to MPWMD to fund environmental mitigation projects, conservation activities, and other water-related services.

22. This proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. California America Water Company is authorized to increase its rates to recover the revenue requirements, as follows: $271,997,880 in 2021; $280,125,100 in 2022; and $287,820,100 in 2023.

2. The Settlement reached between California American Water Company (Cal-Am), the Public Advocates Office of the California Public Utilities Commission, and the Cities of Duarte, San Marino, and Thousand Oaks, which

incorporates the two partial settlements reached between Cal-Am and Las Palmas Wastewater Committee and Cal-Am and the Monterey Peninsula Water Management District, is attached and incorporated hereto as Appendix B, and is approved and adopted, as modified in this Decision.

3. No later than 30 days following the issuance of this Decision, California American Water Company (Cal-Am) shall file its Tier 1 General Rate Case implementation advice letter, including updated tariffs as necessary to reflect all of the agreements related to capital expenditures and projects in the Los Angeles County, San Diego County, Ventura County, Central Division, Monterey County Wastewater, Sacramento County, and Larkfield Districts reached between the Public Advocates Office of the California Public Utilities Commission; the Cities of Duarte, San Marino, and Thousand Oaks; the Las Palmas Wastewater Committee; the Monterey Peninsula Water Management District; and Cal-Am. Given the timing of the issuance of the decision, the 2021 authorized rates and tariff changes shall be implemented concurrently with California American Water's escalation filing for attrition year 2022.

4. California-American Water Company (Cal-Am) is authorized to revise tariff schedules and to concurrently cancel its present schedules for such service upon the effective date of its 2022 escalation filing. The revision of tariff schedules for authorized rates in 2021 shall be included and subsumed in Cal-Am's escalation filing for attrition year 2022.

5. Decision 07-05-062 requires escalation filings to be filed no later than 45 days prior to the start of the escalation year. In light of the effective date of this decision, California-American Water Company shall submit its 2022 escalation advice letters within 60 days from the effective date of this decision. The 2022 escalation advice letters shall be effective 45 days from the date of filing.

6. California-American Water Company shall submit its 2023 escalation advice letters no later than 45 days prior to their effective date on January 1, 2023.

7. The Annual Consumption Adjustment Mechanism (ACAM) filings for 2022 shall be filed concurrently with the 2022 Escalation filings via Tier 2 advice letters as approved in Settlement 1. The ACAM filings shall be submitted 60 days from the effective date of this decision. Upon approval of the Tier 2 advice letter, California American Water will file a Tier 1 advice letter to implement new rates effective 45 days after the Tier 2 filing.

8. The Annual Consumption Adjustment Mechanism (ACAM) filings for 2022 shall be filed concurrently with the 2022 Escalation filings via Tier 2 advice letters as approved in Settlement 1. The ACAM filings shall be submitted 60 days from the effective date of this decision. Upon approval of the Tier 2 advice letter, California American Water will file a Tier 1 advice letter to implement new rates effective 45 days after the Tier 2 filing.

9. California American Water Company shall not recover any costs associated with its proposed Bellflower acquisition until or unless it is ultimately approved by the Commission.

10. California American Water Company shall continue to regularly share data with electric investor-owned utilities to identify customers that may be

eligible to enroll in its low-income assistance programs, pursuant to Decision 21-06-015.

11. California American Water Company shall prepare a Portable Generator Planning Study to consider alternatives to installing stationary generators at its facilities and budget $150,000 or $50,000 per Division, as a planning study expense in Test Year 2021 to complete this portable generator planning study.

12. California American Water Company shall not seek recovery of costs associated with drilling a new well at the Sand City Desalination Plant.

13. California American Water Company shall coordinate with Monterey Peninsula Water Management District to identify and prioritize projects to improve service and lower costs in the Monterey District prior to filing its next General Rate Case application.

14. California American Water Company shall consolidate its Southern Division as agreed to in Section 12.1 of the Settlement and shall design its Southern Division rates so customers with median and below-median consumption will not see more than the average system-wide increase in monthly bills.

15. California American Water Company shall recover the 2017 Larkfield Wildfire related costs, net of received insurance claims, on a statewide basis.

16. California American Water Company shall seek recovery of any wildfire-related costs incurred after May 31, 2019, on a statewide basis, pursuant to the provisions adopted in Decision 19-07-015.

17. In its next General Rate Case application, California American Water Company shall report details on the surcharges in each district, the customer bill impacts related to the surcharges, and the improvements and efficiencies each surcharge is intended to fund.

18. California American Water Company (Cal-Am) shall use conservation budget funds to match any funds San Marino receives from the Metropolitan Water District of Southern California (MWD) incentive program, assist San Marino City staff with applying for and reporting program(s) to MWD, work with San Marino to implement a community outreach program to educate and inform residents on the programs and classes they can participate in to lower indoor and outdoor water use to reduce their monthly water bills, and meet with the City of San Marino prior to Cal-Am's next General Rate Case filing to discuss potential new projects or infrastructure improvements that would benefit the San Marino water system.

19. California American Water Company shall continue collecting the Monterey Peninsula Water Management District user fee during this General Rate Case cycle to support environmental mitigation, water conservation, and other water service-related programs that were authorized in Decision 17-01-013.

20. Application 19-07-004 is closed.

This order is effective today.

Dated November 18, 2021, at San Francisco, California.

MARYBEL BATJER
President
MARTHA GUZMAN ACEVES
CLIFFORD RECHTSCHAFFEN
GENEVIEVE SHIROMA
DARCIE HOUCK
Commissioners

APPENDIX A

Acronym List

APPENDIX B

Settlement between California American Water, the Public Advocates Office at the California Public Utilities Commission; and the Cities of Duarte, San Marino, and Thousand Oaks

APPENDIX C

Settlement between California American Water and Las Palmas Wastewater Committee

APPENDIX D

Settlement between California American Water and the Monterey Peninsula Water Management District

APPENDIX E

Corrected Pages to Attachment E-1 and Attachment G-1 of the Settlement Agreement

ALJ/CS8/nd3 **Date of Issuance 1/18/2022**

Decision 22-01-020 January 14, 2022

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by $25,999,900 or 10.60% in the year 2021, by $9,752,500 or 3.59% in the year 2022, and by $10,754,500 or 3.82% in the year 2023.	Application 19-07-004

EXECUTIVE DIRECTOR'S ORDER CORRECTING ERROR

It has come to the Commission's attention that Decision (D.) 21-11-018 dated November 23, 2021, included an error in Ordering Paragraph 12 and attached a version of Appendix E containing several inadvertent errors that were likely caused by text being corrupted during file formatting.

The discussion in D.21-11-018 was revised to reflect a consensus reached in comments on the proposed decision related to recovery of costs associated with California American Water's planned project to drill a new well at the Sand City Desalination Plant. Consistent therewith, the language in Ordering Paragraph 12 also should have been revised but was not.[1] Further, the correct version of Appendix E (Corrected Pages to Attachment E-1 and Attachment G-1 of the Settlement Agreement) is attached to this order and supersedes and replaces in

[1] *See* D.21-11-018 at 80-82 and Ordering Paragraph 12.

whole the version of Appendix E (Corrected Pages to Attachment E-1 and Attachment G-1 of the Settlement Agreement) attached to D.21-11-018.

Therefore, pursuant to Resolution A-4661 and Rule 16.5 of the Commission's Rules of Practice and Procedure, which provides for the correction of obvious errors or omissions in a Commission decision:

IT IS ORDERED that:

1. Ordering Paragraph 12 of Decision 21-11-018 is corrected to state: "California American Water may recover costs associated with drilling a new well at the Sand City Desalination Plant."
2. Decision 21-11-018 is modified to replace Appendix E (Corrected Pages to Attachment E-1 and Attachment G-1 of the Settlement Agreement), in its entirety, with the version of Appendix E (Corrected Pages to Attachment E-1 and Attachment G-1) attached to this Order.
3. Application 19-07-004 is closed.

This order is effective today.

Dated January 14, 2022, at San Francisco, California.

/s/ RACHEL PETERSON
Rachel Peterson
Executive Director

APPENDIX E

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY-AMERICAN WATER COMPANY FOR AN ADJUSTMENT OF RATES, A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR INSTALLATION OF ADVANCED METERING INFRASTRUCTURE, APPROVAL OF REGULATORY AND ACCOUNTING TREATMENTS, AND TARIFF REVISIONS	))))))))	CASE NO. 2023-00191

O R D E R

On May 3, 2023, the Commission issued a final Order addressing Kentucky-American Water Company's (Kentucky-American) application for an adjustment of water rates, a Certificate of Public Convenience and Necessity (CPCN) for Advanced Metering Infrastructure (AMI) meters, modifications to its Qualified Infrastructure Program (QIP), establishment of regulatory assets and liabilities, establishment of an alternative level of unaccounted for water loss, a universal affordability tariff, and revised tariffs.[1] On May 16, 2024, Kentucky-American filed a petition, pursuant to KRS 278.400, requesting a rehearing to correct five different material calculations of the final Order entered May 3, 2024. Two of the issues were resolved by Orders issued on May 17, 2024,[2] and May 28, 2024.[3] On May 16, 2024, Kentucky-American also filed a motion for an informal conference (IC) pursuant to 807 KAR 5:001, Section 9(4). On May 21, 2024, the Attorney

[1] The Application was deemed filed on July 7, 2023.

[2] Order (Ky. PSC May 17, 2024).

[3] Order (Ky. PSC May 28, 2024).

General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General), and Lexington-Fayette Urban County Government (LFUCG) filed a joint petition for rehearing (Joint Petition for Rehearing).[4] On May 23, 2024, LFUCG filed a response to Kentucky-American's petition for rehearing with no objections.[5] On May 23, 2024, Kentucky-American filed a response to the Attorney General and LFUCG's Joint Petition for Rehearing.[6]

The Commission addressed both petitions for rehearing in an Order issued May 28, 2024. In the May 28, 2024 Order, the Commission granted, in part, and denied, in part, Kentucky-American's petition. The Commission granted the Attorney General and LFUCG's Joint Petition for Rehearing.[7] The Commission also issued a procedural schedule for the rehearing portion of the proceeding.[8] On May 29, 2024, an IC was held.[9] On May 31, 2024, Kentucky-American filed a motion to suspend the refund process until after the rehearing process is complete.[10] Kentucky-American also requested to suspend consideration of the revised tariff that it submitted until the conclusion of the rehearing process.[11] On June 27, 2024, the Commission issued an Order denying Kentucky-

[4] The Attorney General and LFUCG's Joint Petition for Rehearing (Joint Petition for Rehearing) (filed May 21, 2024).

[5] LFUCG's Response to Kentucky-American's Petition for a Rehearing (LFUCG's Response) (filed May 23, 2024).

[6] Kentucky-American's Response to Attorney General and LFUCG's Joint Petition for Rehearing (Kentucky-American's Response) (filed May 23, 2024).

[7] Order (Ky. PSC May 28, 2024).

[8] Order (Ky. PSC May 28, 2024).

[9] IC Memo (filed Aug. 8, 2024).

[10] Kentucky-American's Motion to Suspend the Refund Process Until After the Rehearing Process is Complete (Motion to Suspend Refund Process) (filed May 31, 2024) at 1.

[11] Motion to Suspend Refund Process at 4.

American's requests citing that KRS 278.190(4) requires a utility to issue refunds within 60 days after a final determination of the proceeding.

Kentucky-American responded to two additional requests for information from Commission Staff.[12] On July 15, 2024, Kentucky-American filed a request to submit the rehearing matter on the record. On July 25, 2024, the Attorney General and LFUCG filed a joint request to submit the rehearing matter on the record. The matter now stands for a decision on the record.

DISCUSSION AND FINDINGS

Kentucky-American's Petition

1. Effective Date for Amended Rates

Kentucky-American requested that any new rates approved through rehearing be effective for service rendered on and after February 6, 2024.[13] Kentucky-American argued that the Commission has consistently held that such relief is appropriate.[14] Kentucky-American cited two cases to support its argument: Case No. 2023-00154[15] and Case No. 2011-00036.[16] In Case No. 2023-00154, Kentucky-American stated that the Commission issued an order correcting errors and ordered the utility to collect any under collection or issue any refunds for differences between the rates placed into effect in the

[12] Kentucky-American's Response to Commission Staff's First Rehearing Request for Information (Staff's First Rehearing Request) (filed June 14, 2024); Kentucky-American's Response to Commission Staff's Second Rehearing Request for Information (Staff's Second Rehearing Request) (filed July 1, 2024).

[13] Kentucky-American's Petition for Rehearing (Petition for Rehearing) (filed May 16, 2024) at 2.

[14] Petition for Rehearing at 3.

[15] Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. for an Alternative Rate Adjustment* (Ky. PSC Mar. 25, 2024).

[16] Case No. 2011-00036, *Application of Big Rivers Electric Corporation for a General Adjustment in Rates* (Ky. PSC Jan. 29, 2013).

original order and the rates placed into effect in the subsequent order.[17] Kentucky-American stated that in Case No. 2011-00036, the Commission held that two clerical errors (error of omission and mathematical error) were plainly shown in the record and rates should be adjusted retroactively to correct those errors.[18]

LFUCG stated that the issue appeared to be straightforward and did not object to a substantive determination by the Commission.[19]

Having reviewed the relevant record, the rehearing pleadings, and being otherwise sufficiently advised, the Commission finds that Kentucky-American's request that new rates approved through this rehearing Order be effective for service on and after February 6, 2024, should be denied. The Commission distinguishes the cases cited by Kentucky-American and the present case. In Case No. 2023-00154,[20] the adjustment related to typographical errors in a rate appendix that were corrected through a *nunc pro tunc*, and in Case No. 2011-00036,[21] the adjustment pertained to clerical errors—specifically, an error of omission and a simple mathematical mistake.[22] Both cases involved clerical errors that were plainly shown in the record, which justified the correction of rates retroactively.

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[17] Case No. 2023-00154, *Electronic Application of Harrison County Water Association, Inc. for an Alternative Rate Adjustment* (Ky. PSC Mar. 25, 2024).

[18] Case No. 2011-00036, Feb. 21, 2013 Order at 15.

[19] LFUCG's Response at 2.

[20] Case No. 2023-00154, Mar. 25, 2024 Order at 1.

[21] Case No. 2011-00036, Jan. 29, 2013 Order at 14–15.

[22] The error of omission was the failure to update rate case expense when updates had been filed. The simple mathematical error was a typographical error in the difference between the test-period and pro forma depreciation expense, which correctly cited the expense numbers but understated the adjustment by $450,000.

However, in the present case, Kentucky-American provided incorrect data in response to a data request, specifically related to its QIP.[23] The distinction is critical. If the utility supplies erroneous figures, any subsequent calculations or conclusions drawn by the Commission based on that data cannot be viewed as a clerical or mathematical error on the part of the Commission. Instead, the errors stem from the utility's own incorrect information.

Kentucky-American's incorrect information affected the overall revenue requirement calculation. In this case, Kentucky-American was responsible for the mistake that led to these errors. The Commission cannot subsequently be expected to extrapolate the individual items this incorrect information impacted in order to allow retroactive recovery of the difference in rates on a piecemeal basis. There was no requirement in this case for Kentucky-American to implement rates prior to a final Order.

Therefore, Kentucky-American's request to relate the effective date back to the suspension date is not analogous to the circumstances in the cited cases. In this instance, the utility's inclusion of incorrect data means the Commission's conclusions were not the result of an error on its part. The Commission did not make a clerical or typographical error. Kentucky-American recognized as much when it did not request a *nunc pro tunc* and in response to a request for information from Commission Staff, claimed the error resulted in a punitive mismatch which would deprive Kentucky-American of the opportunity to earn the return on equity established in the May 3, 2024 Order.[24] A typographical or clerical error is not punitive in nature. As such, the effective date of any

[23] Kentucky-American's Response to Commission Staff's Third Request for Information (filed Sept. 21, 223), Item 1.

[24] Kentucky-American's Response to Staff's First Rehearing Request, Item 1.

new rates approved through rehearing should not be retroactive back to February 6, 2024, and Kentucky-American's request should be denied. The rates set out in Appendix B are found to be fair, just and reasonable and have an effective date of the issuance date of this Order. The Commission notes that no further refunds are required apart from those ordered by the Commission on May 3, 2024, as modified on May 17, 2024.

2. Annual Qualified Infrastructure Program (QIP) In Present Rate Revenues

In its application, Kentucky-American requested that the Commission incorporate the rate base, expenses, and revenues associated with the QIP mechanism into base rates.[25] In the May 3, 2024 final Order, the Commission denied Kentucky-American's request to roll the QIP into base rates.[26] Kentucky-American argued that while the final Order removed the roll-in of QIP items in the revenue requirement to account for the reduction in rate base and for the reduction in operating expenses, it failed to reduce Kentucky-American's annual revenues related to QIP that Kentucky-American included within its present rate revenues.[27] Kentucky-American stated that, because of the inclusion of annual revenues related to QIP, the final Order understated Kentucky-American's required revenue increase.[28] Kentucky-American argued that the effect of failing to remove the annual QIP revenues from base rates materially overstated its present rate revenues by $9,851,113 and understated its annual revenue increase in base rates by $1,489,822.[29] Kentucky-American argued that this error created a punitive

[25] Application, Exhibit 3, page 52.

[26] Final Order (Ky. PSC May 3, 2024) at 13 and 75.

[27] Petition for Rehearing at 4.

[28] Petition for Rehearing at 4.

[29] Petition for Rehearing at 4.

mismatch, whereby the revenues received from the QIP are counted as base rates, but the expenses and rate base have been removed thereby depriving it of an opportunity to earn the 9.70 percent return on equity (ROE) awarded by the Commission.[30]

Having reviewed the relevant record, the rehearing pleadings, and being otherwise sufficiently advised, the Commission finds that, although the May 3, 2024 final Order made the $8,361,292 adjustment that Kentucky-American provided in discovery, the $9,851,113 proposed revenue adjustment is reasonable and should be made. However, the Commission finds that the effect on the revenue requirement increase is not the $1,489,822 difference in the revenue and expense adjustments because the expense reductions were already included in the May 3, 2024 final Order revenue requirement increase. The Commission finds the test-year revenues should be reduced by $9,851,113, as shown in Appendix A.

3. Income Tax Expense

In its petition for rehearing, Kentucky-American argued that the final Order materially understated its income tax expense, and the Commission's adjustments result in an increase of Kentucky-American's taxable income at present rate revenues, through decreases to operating expenses, depreciation expense, and general taxes.[31] Kentucky-American stated that, despite utilizing a taxable income amount greater than that proposed, the Commission decreased Kentucky-American's state income tax expense by $565,343 and federal income tax expense by $2,255,717.[32] Kentucky-American stated

[30] Petition for Rehearing at 4–5.

[31] Petition for Rehearing at 5.

[32] Petition for Rehearing at 5.

there was no explanation in the final Order regarding the adjustments to tax expense.[33] Kentucky-American argued that, given its state statutory tax rate is 5 percent of taxable income and its federal statutory tax rate is 21 percent, the Commission's increase in Kentucky-American's taxable income should result in a corresponding increase in Kentucky-American's tax expense.[34] Kentucky-American further argued that the Commission's calculation of Kentucky-American's income tax expense results in an effective tax rate of only 9 percent- far below its actual statutory tax rate of 24.95 percent,[35] resulting in an understatement in the necessary income tax expenses within rates.[36]

Having reviewed the relevant record, the rehearing pleadings, and being otherwise sufficiently advised, the Commission finds that Kentucky-American is correct that the income tax expense was miscalculated in the May 3, 2024 final Order and it should be corrected. However, the adjustments to QIP revenues, operating expenses, and the capital structure discussed herein will alter the income tax expense. The Commission, therefore, has included all revenue requirement items approved by this Order in the revised calculation, as shown in Appendix A, which uses the statutory rates for income taxes.

[33] Petition for Rehearing at 5.

[34] Petition for Rehearing at 5.

[35] Application, Exhibit 37, Schedule H. Excluding the Bad Debt Rate and Utility Regulatory Assessment Fee, the composite statutory rate is 24.95 percent.

[36] Petition for Rehearing at 6.

4. Capital Structure

Kentucky-American proposed a 13-month average capital structure at January 31, 2025, of 0.96 percent short-term debt, 46.21 percent long-term debt, 0.38 percent preferred stock, and 52.45 percent common equity in its application.[37] During the pendency of the case, Kentucky-American revised its proposed capital structure to include 1.54 percent short-term debt, 45.87 percent long-term debt, 0.38 percent preferred stock, and 52.22 percent common equity.[38] Kentucky-American stated these revisions were proposed due to a timing shift in the issuance of long-term debt.[39] In the final Order, the Commission noted that Kentucky-American revised its capital structure as part of its base period update and rebuttal testimony, and found that Kentucky-American's revised capital structure accurately projected the test-year capitalization requirements.[40] The final Order also found that Kentucky-American's pre-tax rate of return was 9.07 percent.[41]

In its petition for rehearing, Kentucky-American stated that it appeared the Commission utilized the as-filed capital structure in calculating the pre-tax rate of return instead of the revised capital structure. Kentucky-American argued that the revised capital structure would result in a pre-tax rate of return of 9.01 percent.

Having reviewed the relevant record, the rehearing pleadings, and being otherwise sufficiently advised, the Commission finds that Kentucky-American is correct that the

[37] Direct Testimony of Nicholas Furia at 4. Petition for Rehearing at 6.

[38] Rebuttal Testimony of Nicholas Furia at 6–7.

[39] Rebuttal Testimony of Nicholas Furia at 4–5.

[40] May 3, 2024 final Order at 28.

[41] May 3, 2024 final Order at 40.

capital structure and rate of return were incorrect in the May 3, 2024 final Order revenue requirement calculation and they should be corrected to use a pre-tax rate of return of 9.01 percent. The Commission has included all revenue requirement items approved by this Order in the revised calculation, as shown in Appendix A, which uses the rate of return proposed in Kentucky-American's rebuttal testimony and approved in the May 3, 2024 final Order.

Attorney General and LFUCG's Petition

1. Capital Structure

In the Joint Petition for Rehearing, the Attorney General and LFUCG stated that the Commission used a rate of return of 9.07 percent to calculate Kentucky-American's awarded revenue requirement increase.[42] The Attorney General and LFUCG argued that based upon their calculations the correct rate of return should have been 9.007 percent.[43] The Attorney General and LFUCG argued that if the Commission had used the correct 9.007 percent rate of return to calculate Kentucky-American's awarded revenue requirement increase the rate increase would have been reduced by approximately $308,339.[44] The Attorney General and LFUCG requested that the Commission correct the rate of return from 9.07 percent to 9.007 percent.[45]

In its response, Kentucky-American agreed that the math in the Joint Petition for Rehearing was correct.[46] However, Kentucky-American stated that the calculation

[42] May 3, 2024 final Order at 40.

[43] Joint Petition for Rehearing at 2.

[44] Joint Petition for Rehearing at 3.

[45] Joint Petition for Rehearing at 3.

[46] Kentucky-American's Response at 2.

provided by the Attorney General and LFUCG relied on a revenue conversion factor of 1.342559 or 134.2559 percent.[47] Kentucky-American argued that the correct revenue conversion factor is 1.342300 or 134.2300 percent.[48] Kentucky-American further argued that using the revenue conversion factor of 1.342300 or 134.2300 percent would make the Attorney General and LFUCG's suggested rate of return 9.006[49] percent or 9.01 percent, if rounded.[50]

Having reviewed the relevant record, the rehearing pleadings, and being otherwise sufficiently advised, the Commission finds that the rate of return was incorrect in the May 3, 2024 final Order revenue requirement calculation and should be corrected. However, the Commission disagrees with the Attorney General and LFUCG's suggested rate of return of 9.007 because the revenue conversion factor was not updated; although with rounding, both calculations result in a rate of return of 9.01 percent. As discussed above, the Commission finds that the correct rate of return is 9.01 percent, and it is included in the revised revenue requirement calculation shown in Appendix A.

2. Revenue Requirement Calculation

In their Joint Petition for Rehearing, the Attorney General and LFUCG noted that Kentucky-American requested a $26,051,990 revenue requirement increase in its application that was revised downward to $25,563,294.[51] The Attorney General and LFUCG stated that the Commission approved and utilized Kentucky-American's revised

[47] Kentucky-American's response at 2.

[48] Kentucky-American's Response at 2.

[49] The Attorney General and LFUCG requested a 9.007 rate of return.

[50] Kentucky-American's Response at 2.

[51] Joint Petition for Rehearing at 3.

capital structure and noted the reduced, revised rate increase request,[52] however the original requested rate increase was utilized to determine the awarded revenue requirement increase.[53] The Attorney General and LFUCG requested clarification as to whether the Commission incorporated the $503,644 reduction to set the awarded revenue requirement.[54] The Attorney General and LFUCG argued if the updated reduction of $503,644 was not incorporated to set the awarded revenue requirement, that Kentucky-American's awarded revenue requirement increase should be recalculated utilizing the revised requested revenue requirement increase of $25,563,644 instead of the original requested revenue requirement increase of $26,051,990.[55]

Kentucky-American agreed with the Attorney General and LFUCG that the as-filed revenue requirement increase was $26,051,990 and that it was revised to $25,563,294 during the case.[56] Kentucky-American further asserted that it had demonstrated that its corrected total base rate revenue requirement was $123,140,707, which accounted for both issues raised by the Attorney General and LFUCG's Petition.

Kentucky-American made discrete adjustments to its original revenue requirement increase in its rebuttal testimony and base period update.[57] These adjustments were to miscellaneous expenses, customer account expenses, Board of Director expenses, and

[52] May 3, 2024 final Order at 28.

[53] Joint Petition for Rehearing at 3.

[54] Joint Petition for Rehearing at 5.

[55] Joint Petition for Rehearing at 5.

[56] Kentucky-American's Response at 2.

[57] Base Period Update (filed Nov. 8, 2023), unnumbered page 1 and Rebuttal Testimony of Jeffery Newcomb (filed Nov. 8, 2023) at 2.

the capital structure. The adjustments to miscellaneous expenses were already included in the May 3, 2024, final Order[58] and the revised capital structure is addressed above. Having reviewed the relevant record, the rehearing pleadings, and being otherwise sufficiently advised, the Commission finds that the adjustments to customer account expenses and Board of Director expenses should be made, as both Kentucky-American and Joint Intervenors support these adjustments for known errors and changes in estimates. Therefore, the Commission finds that the Board of Directors expenses should be reduced by $149,023[59] and increase customer accounting expenses for e-checks by $73,359,[60] for a net expense reduction of $75,664.

Total Revenue Requirement

The effect of the Commission's adjustments is a total revenue requirement increase of $17,335,374, as shown in Appendix A, which includes all items discussed above. This is an increase of $6,728,857 from the final Order increase of $10,606,517. This reflects a $8,716,616 decrease of Kentucky-American's requested revenue increase of $26,051,990.

IT IS THEREFORE ORDERED that:

1. Kentucky-American's request that any new rates through the rehearing period be effective for service rendered on and after February 6, 2024 is denied.

2. Kentucky's petition for rehearing as it relates to annual QIP revenue in present rate revenues, income tax expense, and capital structure is granted.

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[58] May 3, 2024 final Order at 22.

[59] Kentucky-American's Response to the Attorney General's First Request for Information, Item 6.

[60] Kentucky-American's Response to the Attorney General's Second Request for Information, Item 27.

3. The Attorney General and LFUCG's petition for a rehearing requesting a rate of return of 9.007 is denied.

4. The Attorney General and LFUCG's petition for a rehearing is granted as it relates to the revenue requirement calculation, as discussed herein.

5. The Commission's May 3, 2024 final Order, as modified by the May 17, 2024 Order, is amended to reflect the modifications discussed in this Order.

6. All other provisions of the May 3, 2024 final Order, as modified by the May 17, 2024 Order; May 28, 2024 Order, and June 27, 2024 Order not in conflict with this Order shall remain in full force and effect.

7. Within 20 days of the date of service of this Order, Kentucky-American shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rates approved herein and reflecting that they were approved pursuant to this Order.

8. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

Chairman

Commissioner

Commissioner

ENTERED

Nov 06 2024 rcs

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00191 DATED NOV 06 2024

Operating Revenues at Present Rates	104,998,231
Less Total Expenses	82,380,546
Present Rate Operating Income	22,617,684
Net Rate Base	489,426,491
Rate of Return	7.26%
Operating Income Required	35,532,363
Less: Present Rate Operating Income	22,617,684
Deficiency	12,914,679
Gross Revenue Conversion Factor	134.2300%
Required Revenue Increase	17,335,374

	Base Period	Kentucky-American Adjustments	Commission Adjustments	Forecasted Year at Present Rates	Adjustment for Proposed Rates	Forecasted Test Year at Proposed Rates
Operating Revenues						
Water Revenues	110,021,445	2,014,209	(9,542,816)	102,492,838	17,335,374	119,828,211
Other Revenues	2,455,328	50,065	-	2,505,393		2,505,393
AFUDC	-	1,672,091	(1,672,091)	-		-
Total Revenues	112,476,773	3,736,365	(11,214,907)	104,998,231	17,335,374	122,333,604
Operating Expenses:						
Purchased Water	379,970	(10,996)	(20,573)	348,401		348,401
Fuel and Power	5,363,786	300,828	(786,604)	4,878,010		4,878,010
Chemicals	4,498,283	1,126,309	(313,653)	5,310,939		5,310,939
Waste Disposal	459,292	220,112	(37,888)	641,516		641,516
Salaries and Wages	8,933,356	34,265	(403,637)	8,563,984		8,563,984
Pension	30,661	106,242	-	136,903		136,903
OPEB	(698,945)	98,630	-	(600,315)		(600,315)
Group Insurance	1,412,762	159,912	-	1,572,674		1,572,674
Other Benefits	733,653	42,254	-	775,907		775,907
Support Services	11,996,359	523,069	(245,688)	12,273,740		12,273,740
Contract Services	1,226,754	210,930	(122,602)	1,315,082		1,315,082
Building Maintenance and Services	844,101	67,736	(67,736)	844,101		844,101
Telecommunications	217,280	57,769	-	275,049		275,049
Postage, Printing, and Stationary	14,087	(2,000)	-	12,087		12,087
Office Supplies and Services	283,848	(44,437)	(30,090)	209,321		209,321
Advertising and Marketing	-	-	-	-		-
Employee Related Expense	160,214	16,550	(19,777)	156,987		156,987
Miscellaneous Expense	708,688	98,626	(261,894)	548,574	22,571	571,145
Rents	37,581	9,598	(9,598)	37,581		37,581
Transportation	603,279	51,019	-	654,298		654,298
Uncollectible Accounts	488,418	188,276	(34,672)	642,003	104,706	746,709
Other Customer Accounting	126,998	351,974	(279,170)	199,802		199,802
Regulatory Expense	224	660,295	(328,272)	332,247		332,247
Insurance Other Than Group	1,416,883	236,421	-	1,653,304		1,653,304
Maintenance Supplies and Services	2,410,967	314,254	(123,962)	2,601,259		2,601,259
Total Operating Expenses	41,648,499	4,817,636	(3,085,814)	43,383,457	127,276	43,510,733
Other Expenses:						
Depreciation	21,356,111	7,384,226	(1,399,628)	27,340,709		27,340,709
Amortization of UPAA	23,284	(8,561)	-	14,723		14,723
Amortization Expense	63,980	(6,900)	-	57,080		57,080
State Income Taxes	1,417,262	(549,180)	(285,284)	582,641	860,405	1,443,046
Federal Income Taxes	4,859,514	(2,346,483)	(1,138,285)	1,374,121	3,433,015	4,807,136
Investment Tax Credits	(11,833)	11,833	-	-		-
General Taxes	8,817,187	1,834,407	(1,023,778)	9,627,816		9,627,816
Total Other Expenses	36,525,505	6,319,342	(3,846,975)	38,997,090	4,293,420	43,290,510
Total Expenses	78,174,004	11,136,978	(6,932,789)	82,380,546	4,420,697	86,801,243
Operating Income	34,302,769	(7,400,613)	(4,282,119)	22,617,684	12,914,677	35,532,361

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00191 DATED NOV 06 2024

The following rates and charges are prescribed for the customers in the area served by Kentucky-American Water Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Service Charge

Meter Size		
5/8" – Meter	$17.55	Minimum Bill
3/4" - Meter	26.20	Minimum Bill
1" – Meter	43.60	Minimum Bill
1 1/2" – Meter	87.30	Minimum Bill
2" – Meter	139.70	Minimum Bill
3" – Meter	261.90	Minimum Bill
4" – Meter	436.60	Minimum Bill
6" – Meter	873.00	Minimum Bill
8" – Meter	1,396.80	Minimum Bill

Volumetric Charge

Service Type		
Residential	$0.0067291	Per Gallon
Commercial	0.0060875	Per Gallon
Industrial	0.0050324	Per Gallon
Other Public Authority	0.0056070	Per Gallon
Sales for Resale	0.0049527	Per Gallon
Judy Water	0.0049527	Per Gallon

Monthly Public or Private Fire Connections

2" Diameter	$10.25	Per Month
4" Diameter	41.25	Per Month
6" Diameter	92.80	Per Month
8" Diameter	165.00	Per Month
10" Diameter	257.85	Per Month
12" Diameter	385.90	Per Month
14" Diameter	371.80	Per Month
16" Diameter	660.20	Per Month

Hydrant Charge

Public Hydrant	$56.94	Per Month
Private Hydrant	89.53	Per Month

Bulk Sales (Through Loading Stations)

Rate per 50 Gal	$0.20000
Rate per 100 Gal	0.40000

Attachment 10

*Angela M Goad
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Larry Cook
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Honorable David J. Barberie
Managing Attorney
Lexington-Fayette Urban County Government
Department Of Law
200 East Main Street
Lexington, KENTUCKY 40507

*Mary Ellen Wimberly
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

*J. Michael West
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Jeffrey Newcomb
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

*Monica Braun
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*James W Gardner
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street
Suite 1400
Lexington, KENTUCKY 40507

*Rebecca C. Price
Sturgill, Turner, Barker & Moloney
155 East Main Street
Lexington, KENTUCKY 40507

*John G Horne, II
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Susan Speckert
Lexington-Fayette Urban County Government
Department Of Law
200 East Main Street
Lexington, KENTUCKY 40507

*Honorable Lindsey W Ingram, III
Attorney at Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*M. Todd Osterloh
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street
Suite 1400
Lexington, KENTUCKY 40507

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY-AMERICAN WATER COMPANY FOR AN ADJUSTMENT OF RATES, A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR INSTALLATION OF ADVANCED METERING INFRASTRUCTURE, APPROVAL OF REGULATORY AND ACCOUNTING TREATMENTS, AND TARIFF REVISIONS	)	CASE NO. 2023-00191

O R D E R

On July 7, 2023,[1] Kentucky-American Water Company (Kentucky-American), pursuant to KRS 278.180, KRS 278.190, and 807 KAR 5:001, Section 16(1)(b)(1), filed an application requesting (1) an increase to its rates; (2) approval of a Certificate of Public Convenience and Necessity (CPCN) for Advanced Metering Infrastructure (AMI) meters pursuant to KRS 278.020(1) and 807 KAR 5:001, Section 15(2); (3) approval of a proposed modification to its Qualified Infrastructure Program (QIP); (4) approval to establish regulatory assets or liabilities; (5) establishment of an alternative level of unaccounted for water loss; (6) approval of a universal affordability tariff; (7) and approval of its revised tariffs.

[1] Kentucky-American tendered its application on June 30, 2023. By letter dated July 7, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on July 7, 2023. On July 14, 2023, Kentucky-American filed a motion for a ruling from the Commission regarding sufficiency of the June 30, 2023 application. On July 25, 2023, the Commission entered an order denying Kentucky-American's motion and finding the application deemed filed on July 7, 2023.

BACKGROUND

Kentucky-American, a wholly owned subsidiary of American Water Works Company, Inc. (American Water), is a jurisdictional utility that distributes and sells water across three divisions, including its Central Division, which consists of Bourbon, Clark, Fayette, Harrison, Jessamine, Nicholas, Scott, and Woodford counties; its Northern Division, which consists of Gallatin, Owen, Grant, and Franklin counties; and its Southern Division, which consists of Rockcastle and Jackson counties.[2] Kentucky-American provides water service to more than 138,000 customers throughout its three divisions.[3] Kentucky-American last applied for a general rate adjustment in 2018.[4]

In its application, Kentucky-American requested an increase in water revenues of $26,051,990 for the forecasted test period,[5] compared to the operating revenues for the forecasted test period under existing water rates. This would result in a 22.7% increase in water service revenues, net of QIP revenues.[6] On November 8, 2023, Kentucky-American filed a base period update (Base Period Update) that the requested annual increase was revised to $25,563,294.[7]

[2] Application at 2; Application.

[3] Direct Testimony of Jeffrey Newcomb (Newcomb Direct Testimony) at 4.

[4] Case No. 2018-00358, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates*.

[5] Application, Exhibit 37, Schedule A at 2.

[6] Application at 3; Application Item 9.

[7] Base Period Update (filed Nov. 8, 2023), unnumbered page 1.

PROCEDURE

By Order entered July 21, 2023, the Commission suspended the proposed rates up to and including February 5, 2024. Following discovery, the Commission held an evidentiary hearing on December 11, 2023, and December 13, 2023, in Frankfort, Kentucky. All parties filed simultaneous post-hearing briefs on January 5, 2024. Kentucky-American and Lexington-Fayette Urban County Government (LFUCG) filed response briefs on January 12, 2024. On February 5, 2024, Kentucky-American filed a notice of intent to implement proposed rates on or after February 6, 2024.[8] The Commission issued an Order on February 9, 2024, requiring Kentucky-American to maintain its records in such a manner as to allow it, the Commission, or any customer to determine the amounts to be refunded, and to whom, in the event a refund is ordered.[9] The Commission denied Kentucky-American's request for approval of a CPCN for AMI meters in its April 9, 2024 Order. All other matters now stand submitted to the Commission for a decision.

There are two intervenors in this matter: the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General), and LFUCG. The Attorney General and LFUCG entered into a joint participation agreement and co-sponsored one witness (jointly Attorney General/LFUCG).

[8] Kentucky-American's Notice of Intent to Implement Proposed Rates (filed Feb. 5, 2024) at 1.

[9] Order (Ky. PSC Feb. 9, 2024) at 3.

LEGAL STANDARD

Kentucky-American filed its application pursuant to KRS 278.180, KRS 278.190, and 807 KAR 5:001, Section 16(1)(b)(1). The Commission's standard of review for a utility's request for a rate increase is whether the proposed rates are "fair, just and reasonable."[10] Kentucky-American bears the burden of proof to show that the proposed rates are just and reasonable under the requirements of KRS 278.190(3).

Kentucky-American additionally requested approval for a new tariff identified as a Universal Affordability Tariff. KRS 278.170(1) provides that no utility shall, as to rates or service, give any unreasonable preference or advantage to any person or subject any person to any unreasonable prejudice or disadvantage, or establish or maintain any unreasonable difference between localities or between classes of service for doing a like and contemporaneous service under the same or substantially the same conditions.

Kentucky-American further requested approval for a deviation from an unaccounted-for water loss level of 15 percent for ratemaking purposes. Commission regulation 807 KAR 5:066, Section 6(3) provides that for ratemaking purposes, a utility's unaccounted-for water loss shall not exceed 15 percent of total water produced and purchased, excluding water used by a utility in its own operations.

Kentucky-American also requested approval to establish regulatory assets or liabilities for various expenses that have not previously been provided such accounting treatment. KRS 278.220 sets out that the Commission may establish a uniform system of accounts (USoA) for utilities and, in Kentucky-American's case, that system of accounts shall conform as nearly as practicable to the system adopted or approved by

[10] KRS 278.300; *Pub. Serv. Comm'n v. Com. Ex rel. Conway*, 324 S.W.3d 373, 377 (Ky.2010).

the National Association of Regulatory Utility Commissioners (NARUC). The NARUC USoA provides for regulatory assets, or the capitalization of costs that would otherwise be expensed but for the actions of a rate regulator. It must be probable that the utility will recover approximately equal revenue through the inclusion of these costs for ratemaking purposes, with the intent to recover the previously incurred cost not a similar future cost.[11] The Commission has historically approved regulatory assets where a utility has incurred: (1) an extraordinary, nonrecurring expense, which could not have reasonably been anticipated or included in the utility's planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry sponsored initiative;

[11] The Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, which was codified as Accounting Standards Codification (ASC) 980, Regulated Operations, provides the criteria for recognition of a regulatory asset. ASC 980-340-25-1 provides, in full, as follows:

> **25-1** Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:
>
> a. It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.
>
> b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.
>
> A cost that does not meet these asset recognition criteria at the date the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date.

or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.[12]

TEST PERIOD

Kentucky-American used as its forecasted test period the 12-month period ending January 31, 2025.[13] Its base period is the 12-month period ending September 30, 2023.[14] The base period and test year period meet the requirements in KRS 278.192 and KAR 5:001, Sections 16(6), (7), and (8) and the Commission finds that it is reasonable to use the 12-month period ending January 31, 2025, as the test period in this case.

VALUATION

Pursuant to KRS 278.290(1), the Commission is empowered to "ascertain and fix the value of the whole or any part of the property of any utility," and in doing so is given guidance by the legislature "in establishing value of utility property in connection with rates," and the Commission must "give due consideration" to a number of factors, including capital structure, original cost and "other elements of value recognized by law" in order to ascertain the value of any property under KRS 278.290 "for rate-making purposes."[15]

Rate Base

[12] Case No. 2008-00436, *The Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages* (Ky. PSC Dec. 23, 2008), Order at 4.

[13] Application at 2-3, paragraph 5.

[14] Application at 3, paragraph 6.

[15] *National Southwire Aluminum Co. v. Big Rivers Elec.*, 785 S.W.2d 503, 512 (Ky. App. 1990).

In its application, Kentucky-American proposed to use the rate base method to calculate its revenue requirement and required increase rather than the capitalization method.[16] Kentucky-American proposed a rate base of $588,397,566.[17] However, on November 9, Kentucky-American filed a Base Period update of a proposed rate base of $588,437,566.[18] The Attorney General/LFUCG proposed an appropriate rate base of $580,294,681.[19] As explained below, the Commission has weighed the evidence filed in the case and finds that Kentucky-American's base rates should be based on a rate base of $489,426,491.

REVENUE REQUIREMENT

Rate Base Adjustments

Cash Working Capital – Cash Working Capital recognizes that cash supplied by shareholders, on behalf of the utility's customers, may be needed to finance operating costs incurred between when a utility disburses cash to vendors in its accounts payable and when revenues are collected from customers for accounts receivable. If shareholders supply that capital, they should be compensated for their investment. A positive Cash Working Capital amount indicates shareholders supplied the working capital, whereas a negative Cash Working Capital amount means that the utility has excess cash available to pay bills. Assuming a higher Cash Working Capital than actually exists results in rates that overstate a utility's costs.

[16] Application, Exhibit 37, Schedule A at 2.

[17] Application, Exhibit 37, Schedule A at 2.

[18] Base Period Update, Exhibit 37, Schedule B-1 at 2.

[19] As discussed below, the Attorney General/LFUGC proposed one adjustment to rate base, a revised cash working capital amount. $588,397,566 – 8,102,885 = $580,294,681.

Kentucky-American based its cash working capital on a lead/lag study and included $3,141,000 in rate base.[20] This lead/lag study was based on historical data from the 12-month period ending September 30, 2023.[21] Kentucky-American provided updated cash working capital in the base period update of $3,181,000.[22] The Attorney General/LFUCG argued two items were inappropriate in the calculation of working capital. First, that Kentucky-American included non-cash items in the lead/lag study and recommended removing regulatory expense, amortization, uncollectibles, depreciation and amortization, deferred income taxes, and net income.[23] The Attorney General/LFUCG also argued that Kentucky-American is proposing that its service company charges be treated as a prepayment and recommended that the service company charges receive the same expense lead as the contracted services charges.[24] The Attorney General/LFUCG recommended a final cash working capital of ($4,961,885).[25]

Kentucky-American argued that its methodology for calculating the cash working capital has been approved since its 1992 rate case and while the expenses are non-cash items, they are still expenses to Kentucky-American.[26] Additionally, Kentucky-American argued that the service company lead days are based on the actual payment schedule

[20] Application, Exhibit 37, Schedule B-1 at 2.

[21] Application, Exhibit 37, Schedule B-5, 2 at 4.

[22] Base Period Update, Exhibit 37, Schedule B-5, 2 at 4.

[23] Direct Testimony of Greg Meyer (Meyer Direct Testimony) (filed Sept. 29, 2023) at 32.

[24] Meyer Direct Testimony at 35–36.

[25] Meyer Direct Testimony, Exhibit GRM-2.

[26] Kentucky-American's Post-Hearing Brief at 22–25.

and should not be adjusted because the charges are made at cost and do not include a mark-up.[27]

The Commission finds no reason to depart from recent precedent to remove non-cash items from cash working capital.[28] Although the Commission recognizes that Kentucky-American used a methodology that had been previously approved in their rate cases, the Commission has given weight in other rate applications to removing the items that are not cash expenditures to the utility, and agrees that the non-cash items should be removed.

Additionally, the Commission finds that Kentucky-American has not provided any reasoning for service company expenses to be collected in revenues from customers and paid before the actual service is performed. The Commission finds that the Attorney General/LFUCG's adjustment to cash working capital included in rate base is reasonable and should be accepted. This adjustment will reduce the rate base amount by $8,102,885. This adjustment, at Kentucky-American's proposed weighted average cost of capital of 7.87 percent, will reduce the revenue requirement by $637,697.[29]

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[27] Kentucky-American's Post-Hearing Brief at 21.

[28] Case No. 2021-00183, *Electronic Application of Columbia Gas of Kentucky, Inc. for an Adjustment of Rates; Approval of Depreciation Study; Approval of Tariff Revisions; Issuance of a Certificate of Public Convenience and Necessity; and Other Relief* (Ky. PSC Dec. 28, 2021), Order at 14; Case No. 2021-00214, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC May 19, 2022), Order at 20; Case No. 2022-00372, *Electronic Application of Duke Energy Kentucky, Inc. for (1) An Adjustment of Electric Rates; (2) Approval of New Tariffs; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and (4) All Other Required Approvals and Relief* (filed Oct. 12, 2023), Direct Testimony of Paul Norman at 6 and Attachment PMN-1 at 1; Case No. 2023-00159, *Electronic Application of Kentucky Power Company for (1) a General Adjustment of ITS Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) a Securitization Financing Order; and (5) All Other Required Approvals and Relief* (filed June 29, 2023), Application, Section V, Exhibit 1 at 89.

[29] $3,141,000 – ($4,961,885) = ($8,102,885). ($8,102,885) x 7.87% = ($637,697).

Slippage – Beginning with Kentucky-American's first forecasted test year in 1992, the Commission has applied a "slippage" factor to Kentucky-American's construction expenditures based on a ten-year average of actual to budget expenditures. The purpose of the slippage factor "is to produce a more accurate, reasonable, and reliable level of forecasted construction."[30] As early as 2012, Kentucky-American included a "reverse slippage" in its calculations with slippage factors for recurring projects above 100 percent. The Commission notes that in this case, Kentucky-American calculated a slippage factor of 119.48 percent[31], while consistently underestimating construction spending in all of the last ten years. The Commission is concerned that the applied slippage factor has not produced a more accurate, reasonable, and reliable level of forecasted construction for Kentucky-American and it is appropriate in this case to eliminate the slippage factor. The Commission puts Kentucky-American on notice that producing accurate, reasonable and reliable levels of forecasted construction is necessary.

CWIP/AFUDC – Construction work in progress (CWIP) is a plant account for capital projects that have not yet been completed and cleared to utility plant in service. While a construction project is classified as CWIP, it accrues an allowance for funds used during construction (AFUDC) to account for the use of cash for construction expenditures rather than for other purposes during the construction phase. Once the project is completed and placed in service, the AFUDC is included in the total account balance of the project. When CWIP is included in rate base, the utility earns a return on the CWIP balance that compensates the utility for financing costs during the construction period.

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[30] Case No. 2010-00036, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by a Fully Forecasted Test Year* (Ky. PSC Dec. 14, 2010), Order at 7.

[31] Kentucky-American's Response to Staff's First Request for Information, Item 14(b), Attachment.

Kentucky-American has previously used a hybrid approach to CWIP in its rates and included that approach in its application. Kentucky-American included $21,980,639 of CWIP in rate base, which included projected AFUDC.[32] In this hybrid approach, Kentucky-American made an adjustment to increase revenues by $1,672,091 to account for AFUDC included in CWIP during the forecasted period.[33] However, the adjustment does not include AFUDC from before the forecasted test period. Kentucky-American stated that it has used this approach for over a decade and the Commission has expressly approved it in Kentucky-American's 2010 rate case.[34]

Solely from its 2018 rate case, Kentucky-American's AFUDC for projects previously recovered in CWIP is $840,908, which is included in rate base for this proceeding.[35] Kentucky-American did not provide the amount of AFUDC from previous rate cases and stated it does not have the information to do so.[36] Kentucky-American argued that AFUDC for plant previously included in CWIP is an appropriate component of rate base because the AFUDC is rolled into plant in service. Kentucky-American also argued that the previously capitalized AFUDC is not included in the "return on" component of its revenue requirement, and rather only the "return of" component through depreciation.[37]

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[32] Application, Exhibit 37, Schedule B-1 at 2.

[33] Application, Exhibit 37, Schedule C-2, unnumbered page 59.

[34] Kentucky-American's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Sept. 21, 2023), Item 3(a).

[35] Kentucky-American's Response to Staff's Third Request, Item 2(a), Attachment.

[36] Kentucky-American's Response to Commission Staff's Post-Hearing Request for Information (Staff's Post-Hearing Request) (filed Dec. 22, 2023), Item 6(d).

[37] Kentucky-American's Post-Hearing Brief at 55.

The Commission finds that CWIP should be removed from Kentucky-American's rate base. The benefit of including CWIP in rate base is that financing costs are concurrently recovered, negating the need to recognize AFUDC for ratemaking purposes, which reduces financing costs and rate base. Kentucky-American is not removing the previous AFUDC amounts for projects included in rate base as CWIP. This means that customers are prepaying for the construction financing through including CWIP in rate base and then Kentucky-American is including those same financing costs through AFUDC in rate base in subsequent rate cases. Kentucky-American's adjustment to revenues only serves to not include the financing costs in both the CWIP balance and the "return on" component on base rates for the forecasted period. The "return on" component of base rates, i.e., the full rate base multiplied by the weighted average cost of capital, includes the previously removed AFUDC in subsequent rate cases. In other words, although Kentucky-American removes the AFUDC in the current rate case, it includes that same AFUDC in rate base in later rate cases. The Commission notes that Kentucky-American's proposed treatment of AFUDC and CWIP is inequitable. Removing CWIP from rate base will reduce the revenue requirement by $1,729,876[38] to account for the reduction in rate base and increase the revenue requirement by $1,672,091 to remove the AFUDC offset revenues, for a net revenue requirement reduction of $57,785.

AMI Meters – The Commission denied Kentucky-American's request for a CPCN for AMI meters in the April 9, 2024 Order. Removing the differential between the AMI meters and Kentucky-American's current meters will result in revenue requirement

[38] $21,980,639 x 7.87% = $1,729,876.

reductions of $113,196[39] to account for the reduced rate base and $375,051 to account for decreased depreciation expenses.[40] .

QIP Roll-In – As discussed below, the Commission denies the roll-in of the QIP into base rates. Removing the roll-in of QIP results in revenue requirement reductions of $5,308,254 to account for the reduction in rate base and $3,053,037 to account for the reduction in operating expenses.[41]

The total adjustments to rate base are as follows:

Total Rate Base as Filed	588,397,566
Adjustments:	
Reduce Cash Working Capital	(8,102,885)
Remove CWIP	(21,980,639)
Remove AMI Meters	(1,438,321)
Reject QIP Roll-In	(67,449,230)
Final Rate Base	489,426,491

Operating Income Adjustments

For the base period, Kentucky-American reported operating revenues and expenses of $112,476,773 and $78,174,006, respectively.[42] Kentucky-American proposed several adjustments to revenues and expenses to reflect the anticipated operating conditions during the forecasted period, resulting in forecasted operating revenues and expenses of $116,213,137 and $89,310,982, respectively.[43] The Attorney General/LFUCG proposed adjustments to Kentucky-American's revenue requirement

[39] $1,438,321 x 7.87% = $113,196.

[40] Kentucky-American's Response to Staff's Third Request, Item 6.

[41] Kentucky-American's Response to Staff's Third Request, Item 1, Attachment.

[42] Application, Exhibit 37, Schedule C-1.

[43] Application, Exhibit 37, Schedule C-1.

totaling $12,856,999. After weighing the evidence submitted in the case, the Commission accepts Kentucky-American's forecasted operating revenues and expenses, with several additional adjustments as discussed in further detail below.

Water Revenues – The Attorney General/LFUCG argued that, while Kentucky-American's forecasted customer count is reasonable, it's forecasted usage per customer is lower than the last five years and is unreasonably low.[44] The Attorney General/LFUCG recommended an adjustment to increase the forecasted usage to use a three-year average, net of variable expenses related to increased water sales. The Attorney General/LFUCG's net adjustment is a revenue requirement reduction of $1,875,547.[45]

Kentucky-American argued that the Attorney General/LFUCG's average usage assumption created unreasonable results compared to the actual usage from 2013 to 2022, which it used to populate a linear regression model that accounted for weather normalization, declining usage trends, and the impact of COVID-19.[46]

The Commission is not persuaded by the Attorney General/LFUCG's proposed reduction, which does not appear to address declining usage trends. However, the Commission finds that Kentucky-American's regression model slightly understates the residential customer usage and that the appropriate residential usage should be based on the linear trend line from 2013 to 2022, or approximately 5,810,000 thousand gallons,

[44] Meyer Direct Testimony at 20–22.

[45] Meyer Direct Testimony at 22.

[46] Rebuttal Testimony of Charles Rea at 5.

which is 61,551 thousand gallons above Kentucky-American's proposed residential customer usage. The resulting revenue requirement impact is a reduction of $308,297.[47]

Labor Adjustments – The Attorney General/LFUCG recommended not including the labor cost of unfilled positions in the revenue requirement, for a revenue requirement reduction of $347,956.[48] The Attorney General/LFUCG also recommended adopting a three-year average of the expensed/capitalized payroll ratio from 2020-2022 which decreases payroll expense by $1,830,785.[49] The Attorney General/LFUCG's capitalization ratio adjustment was based on an incomplete subset of capitalization ratios and the Attorney General/LFUCG rescinded the proposed adjustment. The Attorney General/LFUCG proposed an adjustment related to payroll taxes and other labor related overhead expenses related to the proposed reduction in payroll expenses but was unable to provide the amount of the adjustment.[50] Kentucky-American stated that it could not provide a general overhead factor for a reduction to payroll expense because it "forecasted each employee in the rate case based on their employee benefits and payroll information."[51]

The Commission finds both portions of the adjustment are unreasonable and should be denied. Precedent suggests that unfilled positions be included as Kentucky-American is actively seeking to fill those positions, the vacancies are not an unreasonable amount, and the Attorney General/LFUCG's adjustment does not account for an increase

[47] 61,551 x 5.0088 = 308,297.

[48] Meyer Direct Testimony at 13, Table GRM-5.

[49] Meyer Direct Testimony at 13, Table GRM-5.

[50] Meyer Direct Testimony at 16.

[51] Kentucky-American's Response to Staff's Post-Hearing Request, Item 7.

in overtime or contractor labor to offset unfilled positions.[52] The capitalization adjustment was based on incomplete data. The actual capitalization ratios have been fairly consistent since 2018, although they have been trending upwards for the last decade. The Commission puts Kentucky-American on notice that the Commission will monitor Kentucky-American's capitalization ratios going forward because increased capitalization ratios primarily benefit shareholders through lower expenses and higher rate base amounts. The significant increases of capitalization ratios between rate cases is a cause for concern when they are not reviewed over a longer trend and supported with specific reasoning for the increases.

Incentive Compensation – Kentucky-American included $712,961 in incentive compensation in the test year.[53] The Attorney General/LFUCG recommended removing 50 percent of Kentucky-American's Annual Performance Plan (APP) that is driven by earnings per share and proposes to remove the entirety of Kentucky-American's Long-Term Performance Plan (LTPP).[54] The Attorney General/LFUCG proposed that shareholders, who are the beneficiaries of the incentive compensation, bear the responsibility, resulting in a revenue requirement reduction of $373,598.

Kentucky-American argued that the APP and LTPP benefit customers because it allows Kentucky-American to lower other forms of compensation and still provide market

[52] See Case No. 95-554, *Application of Kentucky-American Water Company to Increase Its Rates* (Ky. PSC Sept. 11, 1996); Case No. 2004-00103, *Adjustment of the Rates of Kentucky-American Water Company* (Ky. PSC Feb. 28, 2005); Case No. 2010-00036, Dec. 14, 2010 Order; and Case No. 2018-00358, Aug. 8, 2019 Order.

[53] Kentucky-American's Response to Commission Staff's First Request, Item 33.

[54] Meyer Direct Testimony at 16.

competitive compensation and attract competent employees.[55] Kentucky-American also argued that the APP and LTPP encourage employees to perform more efficiently.[56] Kentucky-American also argued that the Attorney General/LFUCG proposed to remove an arbitrary amount of the APP.[57] Finally, Kentucky-American asked that the Commission revisit the precedent to remove incentive compensation tied to financial performance metrics.[58]

While Kentucky-American contended that the total compensation is market competitive, the Commission finds that the adjustment to remove incentive compensation based on financial performance metrics should be approved, consistent with precedent. The Commission disallowed recovery of the cost of employee incentive compensation plans tied to fiscal measurements in Case No. 2018-00358 and explained that the decision is based on the performance measures that result in incentive compensation payouts.[59] Incentive compensation tied to financial performance measures overwhelmingly benefit shareholders over customers, and customers should not bear the expense of those plans. The resulting revenue requirement impact is a reduction of $373,598.

Inflation Factors – Kentucky-American applied an inflation adjustment to 10 of its expenses based on the Consumer Price Index (CPI) from the Bureau of Labor Statistics

[55] Kentucky-American's Post-Hearing Brief at 14.

[56] Kentucky-American's Post-Hearing Brief at 14.

[57] Kentucky-American's Post-Hearing Brief at 14.

[58] Kentucky-American's Post-Hearing Brief at 16.

[59] Case No. 2018-00358, June 27, 2019 Order.

(BLS).[60] The inflation indexes are granular to each cost component for seven expenses and a broad general CPI for three expenses. Kentucky-American stated that it incorporated an inflation factor in its prior rate case but used more specific inflation factors in the instant case.[61]

The Commission finds that the inflation factors should be removed from the forecasted test year. Kentucky-American stated in its application that its expenses have increased below inflation.[62] Kentucky-American stated that removing the inflation factors would reduce the revenue requirement by $970,674 but did not provide a calculation.[63] The Commission has previously held a general CPI inflation factor is not an appropriate forecasting method and even the granular inflation factors are not specific to Kentucky-American's experience.[64] Use of general inflation factors fails to satisfy Kentucky-American's burden that its proposed rates are just and reasonable, as they are not, in and of themselves, reflective of Kentucky-American's costs. The Commission expects a utility such as Kentucky-American, with the shared resources of American Water, to develop and implement more robust forecasting methodologies for expenses than general CPI inflation factors with a review of specific factors impacting costs. For example, Kentucky-American applied an inflation factor to its fuel and power costs

[60] Kentucky-American's Response to Staff's Post-Hearing Request, Item 10, Attachment.

[61] Kentucky-American's Response to Staff's Third Request, Item 25.

[62] Application, Direct Testimony of William Lewis (Lewis Direct Testimony) at 21, Direct Testimony of Kathryn Nash (Nash Direct Testimony) at 7, and Direct Testimony of John Watkins (Watkins Direct Testimony) at 2.

[63] Kentucky-American's Response to Staff's Post-Hearing Request, Item 11.

[64] Case No. 2013-00148, *Application of Atmos Energy Corp. for an Adjustment of Rates & Tariff Modifications*, (Ky. PSC Apr. 22, 2014), Order at 16-17.

through the end of the test period, although its largest power provider, Kentucky Utilities Company, has a commitment for a base-rate "stay-out" for any base rate increases to not take effect until after July 1, 2025, beyond the end of the test period.[65] Removing the inflation factors from the individual worksheets in which they were applied provided an overall revenue requirement reduction of $1,009,889.[66]

Water Loss – As discussed below, the Commission denies Kentucky-American's request to increase the allowable water loss percentage. Kentucky-American proposed an allowable water loss percentage of 20 percent,[67] but did not make any adjustments in the forecasted test period for expenses even when projected non-revenue water was 20.96 percent[68]. Kentucky-American did not meet its burden of proof in requesting a

[65] Case No. 2020-00349, *Electronic Application of Kentucky Utilities Company for an Adjustment of Its Electric Rates, a Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-Year Surcredit* (Ky. PSC June 30, 2021).

[66]

Expense	As filed	Inflation Removed	Difference
Fuel & Power	5,664,614	5,166,090	498,524
Support Services	12,519,428	12,394,857	124,572
Contract Services	1,437,684	1,394,512	43,172
Building Maintenance & Services	911,837	844,101	67,736
Office Supplies & Services	239,411	209,321	30,090
Employee Related Expense	176,764	156,988	19,777
Miscellaneous Expense	807,314	719,101	88,213
Rents	47,180	37,581	9,598
Other Customer Accounting	478,972	474,727	4,245
Maintenance Supplies & Services	2,725,221	2,601,260	123,962
Total	25,008,425	23,998,536	1,009,889

[67] Direct Testimony of William A. Lewis (Lewis Direct Testimony) at 39.

[68] KYAW Revenue tab, KAWC 2023 Rate Case – Exhibits (25, 26, 37) Revenue WP Support.xls. 3,163,096 gallons non-revenue/15,089,470 gallons system delivery = 20.96%,

deviation and did not offer an alternative water loss amount to the proposed non-revenue water amount. However, as described in the testimony of Kentucky-American witness, William A. Lewis, Kentucky-American has not achieved water loss levels of less than 20 percent in the last four years.[69] The total impact of reducing the unaccounted-for water percentage from 20.96 percent to 15 percent is an expense reduction of $660,193. The impact of these reductions will be addressed in each expense component.

Fuel & Power – In addition to removing the inflation factor, the Commission has reduced Fuel & Power expenses due to water loss. Fuel & Power expenses once the inflation factor is removed is $5,166,090 or a reduction of $498,524. The Commission increased the forecasted residential water sales as described above, which will increase Fuel & Power expenses. Assuming a per thousand gallon Fuel & Power expense of $0.3424,[70] Fuel & Power would increase by $21,075.[71] Removing 5.96 percent of expense for water loss reduces the Fuel & Power expense another $309,155.[72] The total net adjustment to Kentucky-American's Fuel & Power expense is a reduction of $786,604.

Chemical Expense – Kentucky-American proposed a forecasted Chemical expense of $5,624,592. The Commission increased the forecasted residential water sales as described above, which will increase Chemical expenses. Assuming a per thousand gallon Chemical expense of $0.3727,[73] Chemical expenses would increase by

[69] Lewis Direct Testimony at 38-39.

[70] Fuel & Power expense: $5,166,090/15,089,470 thousand gallons = $0.3424/thousand gallons.

[71] Fuel & Power expense: $0.3424 x 61,551 = $21,075.

[72] Fuel & Power expense: ($5,166,090 + $21,075) x 5.96% = $309,155.

[73] Chemical expense: $5,624,592/15,089,470 thousand gallons = $0.3727/thousand gallons.

$22,940.[74] The Commission further finds that a reduction for water loss of 5.96 percent above the 15 percent allowed for ratemaking purposes reduces the expense by $335,226.[75] The total net adjustment to Kentucky-American's Chemical expense is a reduction of $312,286.

Purchased Water – Kentucky-American proposed a forecasted test year expense of [redacted]. The Commission increased the forecasted residential water sales as described above, which will increase Purchased Water expenses. Assuming a per thousand gallon Purchased Water expense of [redacted],[76] Purchased Water expenses would increase by [redacted][77] The Commission finds that a reduction for water loss of 5.96 percent above the 15 percent allowed for ratemaking purposes reduces the expense by [redacted].[78] The total net adjustment to Kentucky-American's Purchased Water expense is a reduction of [redacted].

Waste Disposal – Kentucky-American proposed in the forecasted test year an expense of $679,404. The Commission increased the forecasted residential water sales as described above, which will increase Waste Disposal expenses. Assuming a per thousand gallon Waste Disposal expense of $0.0450[79], Waste Disposal expenses would increase by $2,770.[80] The Commission further finds that a reduction for water loss of

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[74] Chemical expense: $0.3727 x 61,551 = $22,940.

[75] Chemical expense: ($5,624,592 + $22,940) x 5.96% = $313,653.

[76] Purchased Water expense: $[redacted]/15,089,470 thousand gallons = $[redacted]/thousand gallons.

[77] Purchased Water expense: $[redacted] x 61,551 = $[redacted].

[78] Purchased Water expense: ($[redacted] + $[redacted]) x 5.96% = $[redacted]

[79] Waste Disposal expense: $679,404/15,089,470 thousand gallons = $0.0450/thousand gallons.

[80] Waste Disposal expense: $0.0450 x 61,551 = $$2,770.

5.96 percent above the 15 percent allowed for ratemaking purposes reduces the expense by $40,658.[81] The total net adjustment to Kentucky-American's proposed Waste Disposal expense is a reduction of $37,888.

Miscellaneous Expenses – The Attorney General/LFUCG recommended removing miscellaneous expenses of $121,116, which includes food, gifts, charitable donations, and membership dues.[82] The bulk of the adjustment, $106,069, is shared services business development expenses that were not specifically justified.

Kentucky-American argued that only $9,348 should be removed, for $6,799 of promotional gifts and $2,549 of membership dues.[83] Kentucky-American argued that the $5,699 of food expenses are de minimis and similar expenses have been allowed recovery for electric cooperatives' annual meetings.[84] Kentucky-American also argued that allocated business development expenses benefit customers.[85]

The Commission finds that the Attorney General/LFUCG's adjustment is reasonable and should be approved. Providing employees with food is not analogous to an electric cooperative annual meeting and allocated business development expenses are not specific to Kentucky-American's development efforts.

Rate Case Expense – Kentucky-American proposed a two-year amortization period for rate case expense of $1,321,037, for a test-year expense of $660,519.[86]

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[81] Waste Disposal expense: ($679,404 + $2,770) x 5.96% = $40,658.

[82] Meyer Direct Testimony at 27–29.

[83] Rebuttal Testimony of Jeffrey Newcomb (Newcomb Rebuttal Testimony) at 4.

[84] Kentucky-American's Post-Hearing Brief at 31.

[85] Kentucky-American's Post-Hearing Brief at 33.

[86] Application, Exhibit 37, Schedule D-2 at 5.

The Commission finds that rate case expenses should be based on the actual expenses of $1,059,527, less witness preparation expenses of $62,787, and amortized over three years.[87] The Commission has found that witness preparation expenses should not be recovered from ratepayers as they receive no benefit from these expenses.[88] Additionally, a three-year amortization period is standard and Kentucky-American has stated that the QIP will delay rate cases, such that a two-year amortization period is unreasonable. The net impact of these adjustments is a revenue requirement reduction of $328,272.[89]

Credit Card Fees – Kentucky-American proposed to remove payment processing fees as a separate charge that is paid directly by the customer and include those costs in base rates.[90] Kentucky-American stated that it proposed to include these fees in base rates to make it more convenient for customers to pay their bills.[91]

The Attorney General/LFUCG recommended removing credit card fees from base rates, which results in a revenue requirement reduction of $348,284.[92] The Attorney

[87] Kentucky-American's Supplemental Response to Staff's Post-Hearing Request, Item 12 (filed Jan. 12, 2024).

[88] Case No. 2020-00174, *Electronic Application of Kentucky Power Company for (1) A General Adjustment of Its Rates for Electric Service; (2) Approval of Tariffs and Riders; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; (4) Approval of a Certificate of Public Convenience and Necessity; and (5) All Other Required Approvals and Relief* (Ky. PSC Jan. 13, 2021), Order at 19–20.

[89] 1,059,527 - 62,787 = 996,740 / 3 = 332,247. 660,519 – 332,247 = 328,272.

[90] Newcomb Direct Testimony at 13.

[91] Newcomb Direct Testimony at 13.

[92] Meyer Direct Testimony at 10.

General/LFUCG argued that including these fees in base rates would require all customers to subsidize the cost of these transactions.[93]

The Commission agrees that the credit card fees should be removed from base rates. Neither the Attorney General/LFUCG nor Kentucky American provided persuasive evidence regarding their position. In light of that, the Commission denies the inclusion of credit card fees in base rates because Kentucky-American did not propose any offsetting adjustments to late payments or uncollectible accounts. Additionally, Kentucky-American did not provide evidence that there would be a decrease in transaction costs, an overall benefit to customers, or increased revenues if Kentucky-American pays the processing fee and there is no convenience fee.

Legal Fees for Investigation – Kentucky-American forecasted its contracted services legal fees based on 2022 expenses and an inflation factor. As discussed above, the Commission will remove the inflation factor. Included in the 2022 expenses are also $28,928 of legal expenses incurred for the Commission investigation in Case No. 2022-00299.[94] The Commission finds that these expenses should be removed from the legal fees included in the forecasted period, resulting in a revenue requirement reduction of $28,928.

Employee Stock Purchase Program – Kentucky-American employees can participate in the American Water Employee Stock Purchase Program (ESPP), in which they are able to purchase American Water stock at 85 percent of the market value of the

[93] Meyer Direct Testimony at 10.

[94] Case No. 2022-00299, *Electronic Investigation of Kentucky-American Water Company's Alleged Violation of a Tariff and Commission Regulations Regarding Meters and Monitoring Customer Usage* (Ky. PSC Sept. 27, 2022). Kentucky-American's Response to Commission Staff's Post-Hearing Request (filed July 10, 2023), Item 15, Attachment 1.

share on the purchase date with certain limits on timing and contributions to the plan. The differential between the market price and the price paid by the employee through the ESPP is included in the proposed revenue requirement in this case in the amount of $30,039.[95]

The Commission finds that Kentucky-American's ESPP discounts should be removed from the test year because it is not reasonable to recover from ratepayers as they do not benefit from the program.

Depreciation – Kentucky-American proposed new depreciation rates in this proceeding, supported by a depreciation study based on Kentucky-American's water plant in service as of December 31, 2022.[96] Kentucky-American proposed to increase the composite depreciation rate from 2.61 percent to 3.29 percent.[97]

LFUCG recommended that meter depreciation expense be reduced from $2,243,128 to $326,595, a reduction of $1,916,533 to reflect a more reasonable approach to Kentucky-American's routine meter replacement schedule.[98] Additionally, the Attorney General stated that Kentucky-American proposed to "drastically increase and accelerate the depreciation rates for the existing meters" in order to reduce the stranded assets associated with the proposed AMI meter project.[99]

LFUCG appears to interchange the meter testing period, replacement cycle, and depreciation rates. Kentucky-American's proposed depreciation rates are based on

[95] Kentucky-American's Response to Staff's Post-Hearing Request, Item 5.

[96] Application, Direct Testimony of Larry Kennedy (Kennedy Direct Testimony) at 2–3.

[97] Kennedy Direct Testimony at 6.

[98] LFUCG's Post-Hearing Brief (filed Jan. 5, 2024) at 5.

[99] Attorney General's Post-Hearing Brief at 27.

actual retirements and additions as of December 31, 2022, and the proposed depreciation rate for meters do not include the proposed AMI meters. The depreciation rates for Kentucky-American's meters are increasing because the last depreciation rates were set significantly lower than the actual useful life of the current meters.[100] The Commission finds that Kentucky-American's proposed depreciation rates are reasonable and should be approved.

RATE OF RETURN

Capital Structure

Kentucky-American's proposed capital structure, based on the projected 13-month average balances for the forecasted test period and the costs assigned to each capital component, is shown in the table below:[101]

Class of Capital	13-Month Average Net Carrying Amount	Ratio	JDITC	Adjusted Capital	Cost Rate	13-Month Average Weighted Cost
Short-Term Debt	$5,752,848	0.96%	-	$5,752,848	3.818%	0.040%
Long-Term Debt	$275,967,192	46.21%	$0.30	$275,967,193	4.681%	2.160%
Preferred Stock	$2,245,236	0.38%	-	$2,245,236	8.510%	0.030%
Common Equity	$313,228,976	52.45%	$0.34	$313,228,976	10.75%	5.640%
Total	$597,194,252		$0.64	$597,194,252		7.870%

When submitting its Base Period Updates, Kentucky-American proposed the following revisions to its forecasted capital structure to reflect (1) an updated projected long-term debt of $28 million in May of 2024 divided evenly between 10-year and 30-year taxable bonds with coupons of 5.904 percent and 6.201 percent; (2) an increase in projected retained earnings from $12,912,433 to $15,155,445; and (3) an increase in

[100] Case No. 2015-00418, *Application of Kentucky-American Water Company for an Adjustment of Rates* (Ky. PSC Aug. 23, 2016), Application, Direct Testimony of John Spanos, Exhibit JJS-1 at unnumbered page 310. Meter accounts had an average composite remaining life of 35.9 years.

[101] Application, Exhibit 37, Schedule J-1.

projected short-term debt balance of $4,263,202 due to the timing shift of the long-term debt issuance.[102] Kentucky-American's revised forecasted capital structure and assigned cost rates are shown in the table below.[103]

Class of Capital	13-Month Average Net Carrying Amount	Ratio	JDITC	Adjusted Capital	Cost Rate	13-Month Average Weighted Cost
Short-Term Debt	$9,168,090	1.54%	-	$9,168,090	5.354%	0.080%
Long-Term Debt	$273,581,929	45.87%	$0.29	$273,581,929	4.544%	2.080%
Preferred Stock	$2,245,236	0.38%	-	$2,245,236	8.510%	0.030%
Common Equity	$311,462,178	52.22%	$0.33	$311,462,178	10.75%	5.610%
Total	$596,457,432		$0.64	$596,457,432		7.800%

The Attorney General agreed with Kentucky-American regarding its proposed costs of short-term debt, long-term debt, and preferred stock.[104] However, the Attorney General argued that Kentucky-American's proposed common equity ratio of 52.45 percent is excessively high when compared to recent historical equity percentages and recommended a common equity ratio of 50.00 percent and rebalance the long-term debt ratio to 48.66 percent.[105] Additionally, the Attorney General accepted the proposed short-term debt and preferred stock ratios.[106]

The Attorney General argued that Kentucky-American's average common equity ratios ranged from 46.90 percent in 2019 to 49.30 percent in 2022 and that its proposed common equity ratio of 52.45 percent represents a sharp increase from its historical

[102] Rebuttal Testimony of Nicholas Furia (Furia Rebuttal Testimony) at 4-5.

[103] Base Period Update, Exhibit 37, Schedule J-1.

[104] Direct Testimony of Richard A. Baudino (Baudino Direct Testimony) at 33.

[105] Baudino Direct Testimony at 34.

[106] Baudino Direct Testimony at 34.

capitalization ratios and a significant increase over 2022.[107] The Attorney General noted that a common equity ratio of 52.45 percent would inflate the revenue requirement for Kentucky-American's ratepayers and should therefore be reduced.[108]

Kentucky-American argued that the Attorney General only cited to historical information and provided no credible basis for utilizing a common equity ratio of 50.00 percent for the forecasted test-year ending January 31, 2025.[109] Kentucky-American also argued that the Attorney General did not consider how it has been financed in recent periods or how it is projected to be financed for the forecasted test year.[110]

Upon review of the record and being otherwise sufficiently advised, the Commission finds that Kentucky-American's revised capital structure accurately projects the test-year capitalization requirements. However, the Commission has an expectation that utilities in Kentucky should have a capital structure that is reasonably balanced between equity and debt such that it does not over burden its ratepayers to the benefit of shareholders.[111] Also, the Commission notes that Kentucky-American has control over its capital structure and financing such that it chooses the amounts of debt and equity to be issued. The Commission agrees with the Attorney General that Kentucky-American's common equity ratio has increased almost every year since 2019.[112] The Commission

[107] Baudino Direct Testimony at 34.

[108] Baudino Direct Testimony at 34.

[109] Furia Rebuttal Testimony at 8.

[110] Furia Rebuttal Testimony at 8.

[111] *See* Case No. 2022-00372, *Electronic Application of Duke Energy Kentucky, Inc. For (1) an Adjustment of Electric Rates; (2) Approval of New Tariffs; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and (4) All Other Required Approvals and Relief* (Ky. PSC Oct. 12, 2023), Order at 35. *See also* Baudino Direct Testimony at 34.

[112] Baudino Direct Testimony at 34.

puts Kentucky-American on notice that Kentucky-American is expected to exercise prudent control over the amount of equity that is issued so that it maintains a more balanced capital structure and places less of a burden on its ratepayers.

Return on Equity

In its application, Kentucky-American proposed an ROE using the discounted cash flow model (DCF), the capital asset pricing model (CAPM), and the empirical CAPM (ECAPM). The modeling utilized a Combined Utility Proxy Group, which included water, natural gas distribution utilities, and combination electric and gas utilities. Kentucky-American noted that both proxy group model results exclude American Water.[113] Kentucky-American is requesting an ROE of 10.75 percent based upon a range from 10.00 percent to 11.00 percent.[114]

Kentucky-American stated that it based its decision upon multiple factors including its capital expenditure program relative to proxy groups, flotation costs associated with American Water, environmental risks, regulatory risks, and its proposed capital structure as compared to the proxy groups.[115] Additionally, Kentucky-American noted that the analyses rely on forward-looking inputs and assumptions.[116] The table below summarizes the range of Kentucky-American's ROE estimates:[117]

Method	Low Growth Rate	Average Growth Rate	High Growth Rate

[113] Application, Direct Testimony of Ann E. Bulkley (Bulkley Direct Testimony) at 27.

[114] Bulkley Direct Testimony at 7.

[115] Bulkley Direct Testimony at 3.

[116] Bulkley Direct Testimony at 5. Kentucky-American noted specifically that the forward-looking analyses are the projected analyst growth rates in the DCF model, forecasted risk-free rate, and market risk premium in the CAPM analysis.

[117] Bulkley Direct Testimony at 5.

DCF			
Mean Results			
30-Day Average	8.13%	9.31%	10.66%
60-Day Average	8.10%	9.28%	10.63%
180-Day Average	8.13%	9.31%	10.65%
Average	8.12%	9.30%	10.65%
Median Results			
30-Day Average	8.36%	9.95%	10.52%
60-Day Average	8.38%	9.93%	10.51%
180-Day Average	8.41%	9.97%	10.55%
Average	8.39%	9.95%	10.52%

	Current 30-day Average 30-Year Treasury Bond Yield	Near-Term Forecast 30-Year Treasury Yield	Longer-Term Forecast 30-Year Treasury Yield
CAPM			
Current Value Line Beta	10.49%	10.50%	10.53%
Current Bloomberg Beta	10.07%	10.09%	10.12%
Long-Term Average Beta	9.76%	9.78%	9.82%
ECAPM			
Current Value Line Beta	10.87%	10.88%	10.90%
Current Bloomberg Beta	10.55%	10.56%	10.59%
Long-Term Average Beta	10.32%	10.34%	10.37%

The Attorney General provided an ROE analysis that employed the DCF and the CAPM while utilizing Kentucky-American's proposed proxy group.[118] The Attorney General's DCF analyses are based on the standard constant growth form that employs four different growth rate forecasts from the Value Line Investment Survey, Yahoo! Finance, and Zacks.[119] Additionally, the Attorney General employed the CAPM analyses

[118] Baudino Direct Testimony at 15.

[119] Baudino Direct Testimony, at 15.

using both historical and forward-looking data.[120] The Attorney General recommended an ROE of 9.40 percent and the range of reasonableness of 8.70 percent to 10.00 with giving more emphasis to the DCF results but still supported by the CAPM analysis.

For the DCF model, the Attorney General employed the average dividend yield and earnings growth rates, and calculated DCF estimates using two methods.[121] The first applied average growth rates and the second, median growth rates.[122] Average growth rates ROE estimates range from 8.67 to 9.94 percent and median growth rates ROE estimates range from 8.41 to 9.52 percent, with the average of the two methods being 9.04 percent.[123] The Attorney General noted that given the persistently high rate of inflation and the increasing long-term bond yields so far this year, that the 8.41 percent for the median growth rate is too conservative and that the lower DCF result should be 8.70 percent and the highest DCF result should be 10.00 percent.[124]

For the CAPM model, the Attorney General employed three approaches. The first approach used the forward-looking expected return on the market, the second approach used historical market risk premiums (MRP) based on actual stock and bond returns, and the third approach used public sources that estimate current investor required MRP.[125] When determining the risk-free rate, the Attorney General utilized two different rates. The first measure was a six-month average of the 30-year Treasury bond yields from March

[120] Baudino Direct Testimony at 15.

[121] Baudino Direct Testimony at 21.

[122] Baudino Direct Testimony at 21-22.

[123] Baudino Direct Testimony at 21.

[124] Baudino Direct Testimony at 22.

[125] Baudino Direct Testimony at 25.

through August 2023 resulting in a 3.90 percent bond yield.[126] The second measure was a three-month average from July to August 2023. The 31-basis point increase in the 30-Year Treasury yield resulted in a 4.30 percent risk-free rate.[127] The following table summarizes the Attorney General's results:[128]

Method	Average
DCF	
Average Growth Rates	
High	9.94%
Low	8.67%
Average	9.07%
Median Growth Rates	
High	9.52%
Low	8.41%
Average	9.04%
CAPM	
Forward-looking Market Return	12.77%
Historical Risk Premium	
Arithmetic Mean	10.04%
Supply side MRP	9.44%
Supply side less WWII Bias[129]	8.64%
Kroll MRP	8.75%
Damodaran MRP	8.20%

The Attorney General argued that the Commission should adopt an ROE range of 8.70 percent to 10.00 percent for Kentucky-American considering the range is formed mainly by the DCF results but supported by the CAPM analyses.[130] Additionally, the Attorney General took issue with multiple assumptions used in the ROE calculations by Kentucky-American and still concluded that based on the DCF analysis, excluding the

[126] Baudino Direct Testimony at 30.

[127] Baudino Direct Testimony at 30.

[128] Baudino Direct Testimony at 32.

[129] *See* Baudino Direct Testimony at 31.

[130] Baudino Direct Testimony at 32.

12.77 percent CAPM ROE as a viable ROE result, and consideration of current financial market conditions, an ROE for Kentucky-American of 9.40 percent is appropriate and near the midpoint of the recommended range.[131]

Regarding Kentucky-American's DCF calculation, the Attorney General argued that both approaches were very similar in that the same proxy group was used, six-month or 180-day averages of stock prices were used, the same three sources for the growth rates were utilized, and the same method to calculate the expected dividend yield were used.[132] However, the Attorney General's witness, Baudino, noted that the reason why his DCF calculation was lower was due to the decline in Yahoo! Finance earnings growth rates.[133]

Regarding the CAPM and ECAPM calculations, the Attorney General argued that Kentucky-American used only one source to estimate the recommended MRP and that the MRP range is overstated, which leads to an overestimation of the CAPM ROE.[134] Also, the Attorney General argued that the main issue with Kentucky-American's CAPM analysis is the sole reliance on a forward-looking market return for the S&P 500.[135] The Attorney General noted that the projected market return of 12.00 percent is overstated due to Kentucky-American's reliance on an average Value Line long-term projected growth rate of 10.19 percent, which is simply unsustainable in the long run.[136] The

[131] Baudino Direct Testimony at 32-33.

[132] Baudino Direct Testimony at 37.

[133] Baudino Direct Testimony at 38.

[134] Baudino Direct Testimony at 39.

[135] Baudino Direct Testimony at 39.

[136] Baudino Direct Testimony at 39.

Attorney General argued that Kentucky-American's unsustainable earnings growth forecast is not supportable when further consideration is given to both historical and forecasted Gross Domestic Product (GDP) growth for the United States.[137] The Attorney General argued that the ECAPM is designed to account for the possibility that the CAPM understates the ROE for companies with betas less than 1.0 and that the argument that an adjustment factor is needed to "correct" the CAPM results for companies with betas less than 1.0 is further evidence of the lack of accuracy inherent in the CAPM itself and with beta measures in particular.[138] Therefore, the Attorney General recommended that due to the constant growth DCF requiring a sustainable long-run growth rate, Kentucky-American's projected market return and MRP estimate are overstated and should be rejected.[139]

The Attorney General noted that Kentucky-American presented risks and other considerations when setting the ROE such as floatation costs, its capital expenditure program, environmental risks, and regulatory risks. The Attorney General argued that the Commission should reject the use of floatation costs based on past precedent[140] and that Kentucky-American did not provide any new evidence to warrant the Commission changing its historical stance on this issue.[141] In addition, the Attorney General argued that it is up to Kentucky-American to prudently manage the timing and amount of its capital

[137] Baudino Direct Testimony at 39.

[138] Baudino Direct Testimony at 42.

[139] Baudino Direct Testimony at 41.

[140] Baudino Direct Testimony at 43. *See* Case No. 2021-00214, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC May 19, 2022), Order at 48.

[141] Baudino Direct Testimony at 43.

expenditures in conjunction with the timing of its rate cases to ensure that it collects its prudent costs of providing service to its ratepayers while maintaining a competitive return on its investments. Therefore, the Attorney General argued, the Commission should not consider Kentucky-American's capital expenditure program.[142] Lastly, the Attorney General argued that it did not believe the additional risks articulated by Kentucky-American significantly affected its risk as compared to the proxy group and is not a basis for the Commission to give it a higher return.[143]

In rebuttal testimony, Kentucky-American disputed the Attorney General's analyses for the following reasons: (1) the use of dividend growth rates in the constant growth DCF model; (2) the application of the constant growth DCF model to the proxy group; (3) reliance on the constant growth DCF results without consideration of how current market conditions are affecting the constant growth DCF model; (4) the market risk premium relied upon to estimate the CAPM analysis; (5) the relevance of the ECAPM analysis; (6) the effect of company-specific risks on the cost of equity for KAWC; and (7) the appropriate equity ratio for Kentucky-American.[144]

Kentucky-American noted overall that even with updating the cost of equity estimation models, the results continue to support the recommended ROE of 10.75 percent and that capital market conditions that have contributed to an increase in the cost

[142] Baudino Direct Testimony at 44.

[143] Baudino Direct Testimony at 44.

[144] Rebuttal Testimony of Ann E. Bulkley (Bulkley Rebuttal Testimony) at 16.

of equity are expected to remain during the period in which Kentucky-American's rates will be in effect.[145]

In its post-hearing brief, Kentucky-American argued that its proposed 10.75 percent ROE creates a reasonable opportunity for capital investors to earn a risk-comparable return, allows Kentucky-American to maintain its financial integrity, and enables it to attract necessary capital investment for the benefit of its customers.[146] Additionally, Kentucky-American noted that its proposed ROE recognizes the increase in interest rates that has occurred since its previous rate case and reflects the changes in modeling results as the utility sector underperformed the market and the dividend yields increased throughout this case.[147]

In its post-hearing reply brief, the Attorney General argued that if the Commission were to approve Kentucky American's inflated ROE proposal of 10.75 percent, it would cause rates to increase to an unreasonable level and harm ratepayers.[148] Therefore, the Attorney General requested that the Commission adopt its recommendation of a 9.40 percent ROE for Kentucky-American and, if the Commission accepts its proposed ROE, it would reduce Kentucky-American's requested rate increase by approximately $5,608,705 million.[149]

In evaluating the ROE for Kentucky-American, the Commission must evaluate and review each model and all parties' positions and balance the financial integrity of the utility

[145] Bulkley Rebuttal Testimony at 4.

[146] Kentucky-American's Post-Hearing Brief at 53.

[147] Kentucky-American's Post-Hearing Brief at 53.

[148] Attorney General's Post-Hearing Brief at 24.

[149] Attorney General's Post-Hearing Brief at 24.

with the interests of the consumer and the statutory obligation that rates be fair, just and reasonable. The Commission notes that in recent cases including Case Nos. 2020-00349/2020-00350,[150] 2022-00147,[151] 2022-00222,[152] and 2022-00372,[153] the Commission has discussed that it is appropriate for utilities to present, and for the Commission to evaluate, multiple methodologies to estimate ROEs, and each approach has its own strengths. As demonstrated in the respective ROE testimonies in this proceeding, there is considerable variation in both data and application within each modeling approach, which can lead to different results. The Commission's role is to conduct a balanced analysis of all presented models, while giving weight to current economic conditions and trends.

The Commission notes that Kentucky-American supported a forward-looking model with relatively high forecasted interest rates and bond yields.[154] Whereas, the

[150] *See generally* Case No. 2020-00349, *Electronic Application of Kentucky Utilities Company for an Adjustment of its Electric Rates, A Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-Year Surcredit* (Ky. PSC June 30, 2021); Case No. 2020-00350 *Electronic Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Rates, A Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-Year Surcredit*, (Ky. PSC June 30, 2021).

[151] *See generally* Case No. 2022-00147, *Electronic Application of Water Service Corporation of Kentucky for A General Adjustment in Existing Rates and A Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure* (Ky. PSC June 13, 2022).

[152] *See generally* Case No. 2022-00222, *Electronic Application of Atmos Energy Corporation to Establish PRP Rider Rates for The Twelve Month Period Beginning October 1, 2022,* (Ky. PSC May 25, 2023), Order.

[153] *See generally* Case No. 2022-00372, *Electronic Application of Duke Energy Kentucky, Inc. For (1) an Adjustment of Electric Rates; (2) Approval of New Tariffs; (3) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and (4) All Other Required Approvals and Relief* (Ky. PSC Dec. 14, 2022).

[154] Bulkley Rebuttal Testimony at 5-6.

Attorney General argued that the forecasted rates are projected to decline.[155] The Commission found in Case No. 2018-00281, that forecasted interest rates were not reliable and that the most current interest rates which embody investors' expectations of the future are the best estimate when discussing capital markets.[156] Additionally, in Kentucky-American's previous rate case, the Commission found that it continues to view forecasted interest rates as unreliable and frequently inaccurate.[157] While the Commission acknowledges the arguments that Kentucky-American raised in regard to expected capital market conditions, the Commission agrees with the Attorney General's arguments regarding interest rates and still agrees with its previous findings and will support models that utilize current interest rates and data.

The Commission is not persuaded by Kentucky-American's argument that a 10.75 percent ROE is reasonable. The Commission notes that Kentucky-American's argument regarding its capital expenditure program, environmental risks, and regulatory risks are factors that should be considered when determining a fair ROE is not persuasive. Kentucky-American has control over the amount and timing of its capital expenditures program and many of the other factors are mitigated through the use of a forecasted test year and Kentucky-American's QIP rider program, which is approved in this Order with modifications. Both mechanisms lower regulatory lag and allow for a timelier recovery of capital investments. Additionally, the Commission further reiterates that it continues to reject the use of flotation cost adjustments, financial risk adjustments, and explicit size

[155] Baudino Direct Testimony at 10-11.

[156] Case No. 2018-00281, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC May 7, 2019), Order at 43-44.

[157] Case No. 2018-00358, June 27, 2019 Order at 64.

adjustments in the ROE analyses considering a business risk or size adjustment has not been approved previously.

The Commission notes that while it has previously allowed Kentucky-American's proxy group to utilize different types of utilities, including natural gas and electric, in previous rate cases, the argument that when determining the proxy group, the utilities possess similar operating and financial risk to that of Kentucky-American is flawed. The Commission acknowledges Kentucky-American's argument that the sample size for water utilities is relatively small, however, the Commission notes that gas and electric utilities assume and absorb far more financial, environmental, and regulatory risk than a water utility. While the distribution and operational characteristics of the natural gas utilities may be similar to that of a water, the market volatility and procurement process for energy resources of electric and gas utilities are far more unpredictable and pronounced. For example, when calculating the DCF and CAPM in this case, the dividend yields, betas, and CAPM ROE for electric and gas utilities are drastically higher when compared to the dividend yields, betas, and CAPM ROE for water utilities.[158] The Commission notes that the inclusion of gas and electric utilities in the proxy group tends to inflate the resulting ROE analyses over the results from a water utility only proxy group. In addition, gas and electric capital structure equity ratios are drastically higher than water utilities. The Commission finds that Kentucky-American should provide sufficient justification for continuing to include gas and electric utilities in its proxy group in its next base rate case. Kentucky-American's proposed 10.75 percent ROE is far above the industry average, the proxy group average of 9.51 percent, and is far greater than recent

[158] Bulkley Direct Testimony, Exhibit AEB-3 at 1 and Exhibit AEB-4 at 1-2.

returns awarded by this Commission and not in line with the Commission's objective to balance the needs of the utility and the customer.

For the reasons set forth above, the Commission finds that a ROE of 9.70 percent, which appropriately balances the needs of Kentucky-American and its customers and addresses the current economic state of the capital markets. Furthermore, this ROE is within the mean and median results of Kentucky-American's DCF models, is supported by Kentucky-American's revised DCF and CAPM models and is within the range of the DCF models presented by the Attorney General.

Total Revenue Requirement

The effect of the Commission's adjustments is a total revenue requirement increase of $10,606,517, as shown in Appendix A, which includes the return on equity (ROE) discussed above. This reflects a $15,445,482 decrease of Kentucky-American's requested revenue increase of $26,051,999.

Operating Revenues at Present Rates	114,849,344
Less Total Expenses	81,064,878
Present Rate Operating Income	33,784,465
Net Rate Base	489,426,491
Rate of Return	9.07%
Operating Income Required	44,390,983
Less: Present Rate Operating Income	33,784,465
Required Revenue Increase	10,606,517

COST-OF-SERVICE STUDY

Kentucky-American filed a cost-of-service study (COSS) using the base-extra capacity method as outlined in the American Water Works Association (AWWA), "Principles of Water Rates, Fees and Charges," (AWWA M1 Manual). The methodology

discussed in the AWWA M1 Manual is widely recognized within the water industry as an acceptable methodology for allocating costs.[159] The Commission notes that it previously accepted the use of this methodology for cost allocation and development of water service rates in Kentucky-American's previous rate case.[160] Therefore, the Commission finds the COSS to be acceptable for use as a guide in allocating the revenue increase granted herein.

However, the Commission notes that it has some concern in regard to the allocation of the Public Fire service. With Kentucky-American's proposed revenue increase, it reduced the Public Fire service revenue increase by $8,695,502 and allocated that amount between the other classes. The majority of the increase was allocated mostly between residential with an additional allocation amount of $6,669,926 and commercial with $1,668,650, overall increasing the residential and commercial's overall increase and the amount allocated to each class.[161] The COSS supported an approximate 200 percent increase to the Public Fire service.[162] Therefore, due to the changed allocation of the Public Fire service, the total revenue allocation of residential class is now 53.51 percent with a proposed 19.1 percent increase.[163]

In Case No. 2010-00036, the Commission found that allocating public fire hydrant service costs to general service rates also increases the likelihood that pricing signals will

[159] Application, Direct Testimony of Wesley E. Selinger (Selinger Direct Testimony) at 11-12.

[160] Case No. 2018-00358, June 27, 2019 Order at 67-68.

[161] Application, Exhibit 36 at 4. From the COSS the initial residential allocation was 48.68% and commercial allocation was 24.17%. However, the updated allocation with subsidizing the Public Fire service is 53.51% for residential and 25.38% for commercial.

[162] Application, Exhibit 36 at 4.

[163] Application, Exhibit 36 at 4. $73,793,458 / $137,898,823 = $53.51%.

be distorted, and public accountability will be lessened.[164] Additionally, the Commission also found that allocating public fire hydrant service costs to general service users effectively hides these costs from the public view and discussion and renders informed public decisions on the availability and appropriateness of such service more difficult.[165] Finally, the Commission determined in Case No. 2010-00036 that with a unified rate structure serves areas outside of Fayette County for which no fire protection service is provided, the potential exists that Kentucky-American customers who reside outside of Fayette County will be subsidizing through their rates fire protection services for Fayette County residents.[166] Kentucky-American provided no evidence to refute these previous findings.

While the Commission acknowledges that the COSS is used as a guide, it notes that Kentucky-American only stated that it has proposed a revenue increase to public fire consistent with the overall revenue increase requested in this case and that any additional revenue requirement for fire hydrants that is over and above the requested increase has been allocated back to other customer classes on the same basis as the revenue requirement for the metering cost category.[167] The Commission acknowledges that an approximate 200 percentage increase to one class is extremely high and unreasonable and would potentially create rate shock. However, the Commission disagrees with subsidizing the Public Fire service by such a substantial amount and allocating a large

[164] Case No. 2010-00036, Dec. 14, 2010 Order at 79.

[165] Case No. 2010-00036, Dec. 14, 2010 Order at 79.

[166] Case No. 2010-00036, Dec. 14, 2010 Order at 78.

[167] Selinger Direct Testimony at 23.

amount of the revenue to the residential class without sufficient evidence as to why it is reasonable to do so. Lack of any evidence otherwise, the Commission also still agrees with its concerns and findings in Kentucky-American's 2010 rate case regarding free/reduced public hydrant fees as discussed above. Therefore, the Commission will address the allocation of its approved revenue below.

RATE DESIGN

For all general water service, Kentucky-American separates customers by classification. Kentucky-American currently charges a monthly service charge and a flat volumetric fee that is varies only by meter size. Kentucky-American distinguishes the amount of the service charges only between residential users, and all other customers. The monthly meter charge is intended to recover the cost of customer facilities such as meters and services, and the cost of customer accounting, including billing and collecting and meter reading.[168] Each customer class then has a different volumetric charge for water per 100 gallons. The volumetric fee is intended to recover the cost of producing, transporting, and distributing the water.[169]

In developing its proposed rates, Kentucky-American used the COSS as the basis to propose an increase in the customer charge.[170] As seen in the table below, the COSS is less in most meter customer charges than those being proposed by Kentucky-American.

[168] Selinger Direct Testimony at 15.

[169] Selinger Direct Testimony at 15.

[170] Selinger Direct Testimony at 17.

Monthly Service Charge

Meter Size	Current Rate	COSS Rate	Proposed Rate
5/8”	$15.00	$18.00	$20.00
3/4”	$22.40	$23.46	$29.80
1”	$37.30	$37.27	$49.60
1 1/2”	$74.70	$65.14	$99.40
2”	$119.50	$100.79	$158.90
3”	$224.00	$188.12	$297.90
4”	$373.00	$287.24	$496.60
6”	$746.70	$561.61	$993.10
8”	$1,194.70	$892.29	$1,589.00
10”		$1,285.38	
12”		$2,378.79	

LFUCG raised the objection to the higher customer charges and argued that Kentucky-American has compounded the customer charges for the residential customers but also for the customers that use a meter larger than 1” meter.[171] As illustrated above, for meters 1” and larger the differences between the COSS and the proposed rates are even more pronounced. Additionally, LFUCG argues that the calculated monthly service charge is based upon the expenses allocated to the service charge from meter expenses, service expenses and customer service expenses.[172]

The Attorney General raised an objection to the increase being proposed by Kentucky-American to the residential monthly customer charge.[173] The Attorney General believes the increase will be a financial hardship to customers who are finding it difficult to pay their current utility bills.[174] Additionally, the Attorney General discussed the

[171] LFUCG Post-Hearing Brief at 2.

[172] LFUCG Post-Hearing Brief at 3.

[173] Attorney General’s Post-Hearing Brief at 37.

[174] Attorney General’s Post-Hearing Brief at 37-38.

Commission's previous acceptance of gradualism, and this is a prime example where an increase of 33 percent should be such a time for the Commission to limit the increase to the COSS rate of $18.00.[175]

In its reply brief, Kentucky-American, argued that its forecasted revenue deficiencies indicate that an increase in both the volumetric charge and its monthly service charge is necessary so that it can gradually move its rate design towards a Straight Fixed Variable design.[176] Additionally, Kentucky-American noted that a change to one of the components will necessitate that the other component would need to be adjusted to offset the change.[177]

The Commission acknowledges LFUCG's argument that the proposed rates are out of line with the COSS. The Commission also acknowledges that the inherent fallacy in Kentucky-American's argument, that if one component is increased at a lower level than proposed, then the other component would need to be increased at a higher level than proposed.[178] Additionally, the Commission agrees with the Attorney General that the increase to the residential customer service charge is high for an increase to this customer classification. The Commission notes that while Kentucky-American argues that the proposed rates are within the range of reasonableness, the effect of the percentage increase over current charges are remarkably higher than the rates compared to the COSS rates, as illustrated above.

[175] Attorney General's Post-Hearing Brief at 38.

[176] Kentucky-American's Reply Brief at 14.

[177] Kentucky-American's Reply Brief at 14.

[178] Kentucky-American's Post-Hearing Brief at 14.

The Commission acknowledges that any alterations in the amount of the customer charge rates would necessitate a change in the volumetric rates and therefore the delicacy this represents to Kentucky-American and its customer's monthly bill. The Commission finds that the argument raised by LFUCG, and the Attorney General has some merit and should be considered. The Commission notes that the residential water sales from the test year should be increased from 5,748,449 to 5,810,000. Additionally, the Commission finds that with the reduction in the revenue requirement and the decrease to the water sales revenues from the base period to the test year, Kentucky-American's proposed allocation is reasonable with certain modifications.

With the Commission's approved revenue increase of $10,606,517 or 9.44 percent, the Commission will allocate an across-the-board percentage of its approved increase to all customer/service charges with the exception of the Fire service class. The Commission will then apply an approximate 10.75 percent to all volumetric charges including the Fire service class to offset the remaining revenue increase. Additionally, the Commission expects Kentucky-American in its next base rate case to provide sufficient evidence for subsidizing the Public Fire service by a substantial amount. The Commission also expects Kentucky-American to utilize the COSS as intended and attempt to move each class to its cost-to-serve in a reasonable and cost-effective manner.

The changes in the rates and in the revenue requirement found to be reasonable in this case results in the average bill for a residential customer using 3,800 gallons per month increasing by $4.45, from $40.77 to $45.08, or 10.94 percent with the inclusion of the QIP rate.

MODIFICATIONS TO QIP

In Case No. 2018-00358, the Commission approved the QIP and found that Kentucky-American established the need for an infrastructure replacement tariff due to its infrastructure deteriorating at a faster rate than the replacement rate.[179] In that proceeding, Kentucky-American stated that it would prioritize the replacement of cast iron and galvanized steel mains, which represented 15 percent of the distribution system but accounted for 64.2 percent of annual main breaks.[180]

In its application, Kentucky-American requested to expand the QIP from the current annual replacement of 10-13 miles of cast iron main to 27-34 miles of any type of main.[181] Kentucky-American asserted that while the existing scope of the QIP has allowed it to accelerate some replacement of its aging infrastructure, it is not sufficient to address the pace at which the aging infrastructure should be replaced to best serve the long-term interest of its customers.[182] Additionally, Kentucky-American explained that it currently replaces approximately 0.5 percent of its system annually through the QIP, which at that accelerated replacement rate would take nearly 204.5 years to replace the entire distribution system.[183] Kentucky-American explained that in order to replace the entirety of the system while keeping up with the pipe's life expectancy, the recommended rate is to replace 29 miles of main annually would be a replacement rate of 1.1 percent to 1.4 percent annually.[184]

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[179] Case No. 2018-00358, June 27, 2019 Order at 83-84.

[180] Case No. 2018-00358, June 27, 2019 Order at 76.

[181] Application, Direct Testimony of Krista E. Citron (Citron Direct Testimony) at 2.

[182] Citron Direct Testimony at 5.

[183] Citron Direct Testimony at 9.

[184] Citron Direct Testimony at 7.

Kentucky-American explained that it utilizes a pipeline prioritization model (PPM) to help determine which mains should be replaced each year and that the criteria for consideration is low pressure, number of breaks/leaks, fire flow, age, material type, size of main, water quality, and customer impact.[185] Kentucky-American stated that it has continued grouping projects in geographical proximity to control the cost-per-foot and to assist with design and construction efficiency.[186]

In addition, Kentucky-American proposed that the first post-case QIP test period be the full eleven months following the forecasted test year, February 2025 to December 2025.[187] Kentucky-American also proposed to make its first Annual Filing at least 120 days prior to the commencement of this first QIP Period, by October 4, 2024, and that subsequent filings would be the first full 12 months.[188]

Kentucky-American explained that currently the return on net QIP-eligible plant in-service, at the overall rate of return on capital authorized in its previous base water rate case, is only grossed up for federal and state income taxes, and is therefore proposing that the return on net-QIP eligible plant in-service, at the overall rate of return on capital, be grossed up by applying the gross revenue conversion factor based on the previous rate case.[189] Kentucky-American asserted that by applying the gross revenue conversion factor to the return on component of the QIP revenue requirement is appropriate because

[185] Citron Direct Testimony at 10.

[186] Citron Direct Testimony, at 18.

[187] Newcomb Direct Testimony at 20.

[188] Newcomb Direct Testimony at 20.

[189] Newcomb Direct Testimony at 21.

it accounts for the additional uncollectible and PSC fee expense it can expect to experience as a result of incremental QIP revenues.[190]

Kentucky-American proposed that the QIP percentage be calculated by dividing the QIP revenue requirement by the total authorized water revenue, then multiplied by number of days the QIP percentage will be in effect, and then divided by 365 days.[191] Kentucky-American explained that the total authorized water would continue to include meter fees, volumetric water sales, fire service fees, and public/private fire hydrants. Kentucky-American stated that this percentage calculation will yield a rate that is designed to recover from customers the QIP revenue requirement over the rate effective period but that the QIP Rider Surcharge would continue to be cumulative and remain in place until reset to zero on the effective date of new base rates.[192]

Kentucky-American explained that currently the Balancing Adjustment filings are made annually within 90 days after the conclusion of each completed QIP Period and is therefore proposing that the Balancing Adjustment Filings be filed contemporaneously with the annual filing for each completed QIP period with the intention of establishing a Balancing Adjustment after each QIP period.[193] Kentucky-American stated that it would continue to include a detailed listing of each qualifying QIP project completed and placed in service during the immediately preceding QIP period, including any project modifications resulting from changing priorities.[194]

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[190] Newcomb Direct Testimony at 21.

[191] Newcomb Direct Testimony at 21.

[192] Newcomb Direct Testimony at 22.

[193] Newcomb Direct Testimony at 22.

[194] Newcomb Direct Testimony at 22.

The Attorney General/LFUCG does not support the continuation of the QIP.[195] The Attorney General/LFUCG argued that: Kentucky-American did not give thought to rate affordability; there is not a provision for the decline of the previous QIP investments rolled into rate based on what is established as base rates in the previous rate case; there is no consumer-protection mechanism; and Kentucky-American profits are enhanced.[196] The Attorney General/LFUCG noted that in the alternative, if the Commission does continue the QIP, it recommends including a depreciation offset to capture the decline in value associated with QIP rolled into rate base.[197]

Kentucky-American disagreed with the Attorney General/LFUCG stating the need for pipeline replacement is significant and the QIP is a well-suited mechanism for the cost recovery of that replacement.[198] Additionally, Kentucky-American argued that it has the advantages of faster but more gradual cost recovery which smooths out rate impacts for customers and the approval of the QIP in its 2018 rate case is one of the reasons it was able to avoid filing a rate case for over five years.[199]

In its post-hearing brief, Kentucky-American reiterated that while the existing scope of the QIP has allowed it to accelerate some replacement of its aging infrastructure, it is not sufficient to address the pace at which the aging infrastructure should be replaced to best serve the long-term interest of its customers.[200] Kentucky-American explained that

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[195] Meyer Direct Testimony at 41.

[196] Meyer Direct Testimony at 43.

[197] Meyer Direct Testimony at 44.

[198] Rebuttal Testimony of Krista E. Citron (Citron Rebuttal Testimony) at 2.

[199] Citron Rebuttal Testimony at 2.

[200] Kentucky-American's Post-Hearing Brief at 66.

expanding the QIP will smooth out rate impacts for customers and avoid rate shock, allow for a faster but more gradual cost recovery, enable Kentucky-American to avoid rate cases frequently, and allow the Commission a greater opportunity to examine pipeline replacement projects with more detail than would typically occur in a general rate case.[201]

In its post-hearing brief, the Attorney General argued that the Commission should deny Kentucky-American's request to expand the QIP because the proposed expansion will cost approximately $177 million from 2025 to 2028 which would be over-bearing to customers and that the cost per mile to replace the infrastructure flowing through the QIP has drastically increased.[202] The Attorney General reiterated that if the Commission allows for the continuation of the QIP, the Attorney General recommends implementing a depreciation offset to capture the decline in value of those QIP investments rolled into base rates, rather than only recognizing the effect of the accumulated depreciation for investments currently being recovered through the QIP.[203]

In its post-hearing brief, LFUCG stated that Kentucky-American has not demonstrated that the implementation of the QIP has improved Kentucky-American's non-revenue water percentages and questions if the QIP is necessary in order to continue to replace, maintain, and upgrade its infrastructure to ensure that Kentucky-American continues to provide safe and reliable service.[204] LFUCG asserted that if the QIP is necessary for Kentucky-American to replace the mains in order to maintain safe and

[201] Kentucky-American's Post-Hearing Brief at 70-71.

[202] Attorney General's Post-Hearing Brief at 29-30.

[203] Attorney General's Post-Hearing Brief at 32.

[204] LFUCG's Post-Hearing Brief at 8.

reliable service, it should have been annually replacing more than 2.5 miles of main from 2013 to 2017 even without the QIP. Rather, Kentucky-American did not accelerate main replacement under "traditional" ratemaking mechanisms and only did so upon implementation of the QIP.[205] Therefore, LFUCG recommended that the Commission deny the expansion of the QIP.[206]

It is well established that KRS 278.030 and KRS 278.040 expressly grant the Commission plenary ratemaking authority to regulate and investigate utilities and to establish fair, just and reasonable rates.[207] In the absence of any statute that requires a particular procedure to determine whether rates are fair, just and reasonable, the Commission has the authority to consider and decide ratemaking issues such as the QIP and any expansions or modifications proposed by Kentucky-American and that the same statutory authority that permits the Commission to authorize a QIP also grants the authority to terminate or limit the QIP.[208]

The Commission acknowledges Kentucky-American's argument that aging water system infrastructure is an issue with utilities, customers, and regulators across the nation. Specifically, as noted in the case record, the Kentucky Section of the American Society of Civil Engineers issued a 2019 Report Card for Kentucky's Infrastructure that explains that Kentucky has an estimated funding need of $8.2 billion to address drinking

[205] LFUCG's Post-Hearing Brief at 9.

[206] LFUCG's Post-Hearing Brief at 10.

[207] *Public Serv. Comm'n v. Commonwealth ex. Rel. Jack Conway*, 324 S.W .3d 373, 383 (Ky. 2010).

[208] *Public Serv. Comm'n v. Commonwealth ex. Rel. Jack Conway*, 324 S.W .3d 373, 383 (Ky. 2010). *See* Case No. 2018-00358, June 27, 2019 Order at 80.

water infrastructure.[209] This Commission is cognizant of the need to prudently and timely replace aging infrastructure to provide adequate, efficient, and reasonable water service to customers. The Commission notes that it also has a statutory duty to protect ratepayers from excessive rates.

Therefore, based upon the case record and being otherwise sufficiently advised, the Commission is not persuaded by Kentucky-American's arguments regarding expanding the QIP and finds that it should be denied. In Case No. 2021-00090 the Commission stated, "[a]ny future deviations from the QIP approved by the Commission, such as an accelerated replacement cycle, accelerated spending totals, or including standalone non-main plant replacement projects, will be looked upon with extreme disfavor".[210] Additionally, in that same case, the Commission stated that, "[a]ny future requests to include replacement of non-main plant other than plant replaced incidental to the replacement of aging main will be looked upon with extreme disfavor."[211] The Commission expressed its concern and skepticism about the QIP in Case No 2021-00090 and Kentucky-American failed to recognize the import of the Commission's language. The Commission is concerned that Kentucky-American's disregarded previous Commission findings and therefore questions Kentucky-Americans long-term plans and intentions for the QIP. The QIP has appeared to compound Kentucky-American's lack of ability to accurately forecast construction expenditures year-over-year. The Commission

[209] Citron Direct Testimony at 2.

[210] Case No. 2021-00090, *Electronic Application of Kentucky-American Water Company to Amend Tariff to Revise Qualified Infrastructure Program Charge* (Ky. PSC June 21, 2021), Order at 12.

[211] Case No. 2021-00090, *Electronic Application of Kentucky-American Water Company to Amend Tariff to Revise Qualified Infrastructure Program Charge* (Ky. PSC June 21, 2021), Order at 14.

is concerned that the QIP has not produced a reduction in water loss in the first four years of implementation. To the extent that the pipeline eligible for recovery poses a safety risk to the utility's customers, service areas, and employees, the Commission has allowed accelerated replacement and would carefully consider any proposals by Kentucky-American. Additionally, the Commission notes that Kentucky-American has the burden to provide sufficient evidence and testimony that pipeline acceleration is reasonable. Kentucky-American failed to provide sufficient evidence that expanding the QIP is reasonable, and the potential future costs associated with the expansion are fair, just and reasonable and would not cause rate shock to its customers.

The Commission notes that the QIP was designed to address high-failure pipes within the system, not to replace the traditional approach of replacing infrastructure through the normal course of business. The Commission reiterates that the QIP is designed to operate within specific parameters as described above and the Commission has no interest, at this time, for any deviation from the QIPs parameters established in the 2018 rate case and subsequent QIP proceedings. The Commission cautions Kentucky-American that proposing multiple modifications to the QIP causes unnecessary changes and potential confusion to the mechanism and is not consistent with the Commission's intentions in approving the QIP. The QIP is an infrastructure program which allows the Commission to balance Kentucky-American's need to make prudent infrastructure replacement investments and to ensure that ratepayers receive adequate, efficient, and reasonable water service, and the mandate that rates be fair, just and reasonable. The Commission has an expectation for Kentucky-American to operate the QIP within the parameters that were set in the 2018 rate case and that should any future

modifications arise, Kentucky-American should defer those proposals to its QIP Rider Surcharge true-ups rather than the rate case. The Commission reiterates that any future deviations from the QIP will be looked upon with extreme disfavor.

The Commission acknowledges that there are some modifications that could make the QIP easier to calculate and allow for a more thorough Commission review. The Commission agrees with Kentucky-American's proposal that the return on net-QIP eligible plant in-service, at the overall rate of return on capital be grossed up by applying the gross revenue conversion factor based on the previous rate case and should be approved. The Commission notes that the return on net-QIP eligible plant in-service should be utilizing the gross WACC rather than the ROE component for the overall rate of return. The Commission also agrees with Kentucky-American's proposal that the QIP percentage be calculated by dividing the QIP revenue requirement by the total authorized water revenue then multiplied by number of days the QIP percentage will be in effect and then divided by 365 days (366 days in a leap year) and should be approved. Lastly, the Commission agrees that the Balancing Adjustment Filings be filed contemporaneously with the annual filing for each completed QIP period with the intention of establishing a Balancing Adjustment after each QIP period and should be approved. The Commission notes that Kentucky-American's proposal that the first post-case QIP test period be the full eleven months following the forecasted test year in this case, and the subsequent annual filings would follow a similar schedule, is moot considering the Commission is denying rolling the QIP in rate base.

ALTERNATIVE LEVEL OF UNACCOUNTED FOR WATER LOSS

Kentucky-American requested that the Commission establish an alternative level of reasonable unaccounted-for water loss of 20 percent for rate-making purposes. Kentucky-American stated that its current extensive water loss control interventions and limited ability to manage and influence Special Connections' water loss provide a justifiable showing as to why an alternate level should be approved pursuant to 807 KAR 5:066, Section 6(3).[212]

Kentucky-American argued that a deviation of 20 percent is reasonable because it would satisfy the regulatory policy goal of incentivizing Kentucky-American to continue promoting efficient management as demonstrated by Kentucky-American's robust water loss control programs and it is more appropriately tailored to the system specific challenges.[213] Kentucky-American also stated that it has taken the following steps to mitigate and reduce water loss: pressure management; accelerated infrastructure replacement; active leak detection; rapid response to breaks; fire service and water loss audits; large metering testing; and profiling.[214] Kentucky-American further argued that other water utilities across the state utilize a water loss surcharge mechanism as an alternative approach to recover water loss expenses in excess of fifteen percent.[215] Additionally, Kentucky-American recently reached an agreement to outsource water line location requests which results in Kentucky-American being able to re-dedicate four employees to specialize in addressing non-revenue water (NRW) loss beginning in

[212] Lewis Direct Testimony at 38-39.

[213] Kentucky-American's Post-Hearing Brief at 37.

[214] Lewis Direct Testimony 31-34.

[215] Kentucky-American's Response Brief at 13.

January 2024.[216] Kentucky-American's primary reason for the requested deviation is because many of special connections, which make up 4 percent of the distribution system, have multiple valve connections with Kentucky-American mains.[217] Kentucky-American further argued that it is unable to repair or replace mains if leaks occur in Special Connections as it does not have legal access to the property and argued that it is unable to accurately track and prevent unauthorized use of privately owned fire hydrants and unauthorized connections to be metered between the connection to Kentucky-American's water distribution system and the downstream individual unit meters.[218] Kentucky-American argued that there is no uniform approach to combating water loss, that it should not be held to unrealistic standards for unaccounted-for water loss for rate making purposes, and that it has met its burden of proving the current threshold for unaccounted-for water loss of 15 percent is unreasonable in as applied to their circumstance and that 20 percent is a reasonable deviation.[219] However, Kentucky-American noted that there is no formal plan for addressing water loss for the special connections.[220]

The Attorney General stated that it is unaware of any water utility in the state that has received a deviation for unaccounted-for water loss and Kentucky-American was unable to provide one.[221] Additionally, the Attorney General argued that it would be

[216] Kentucky-American's Post-Hearing Brief at 37.

[217] Lewis Direct Testimony at 39.

[218] Lewis Direct Testimony at 39.

[219] Kentucky-American's Post-Hearing Brief at 41.

[220] Kentucky-American's Response to Attorney General's Second Request for Information, Item 21.

[221] Attorney General's Post-Hearing Brief at 13.

unreasonable for a large, sophisticated, investor-owned company to be allowed a 20 percent unaccounted-for water loss while smaller, less sophisticated water districts and water associations are held to the established 15 percent unaccounted-for water loss standard.[222] The Attorney General argued that Kentucky-American performed limited surveys on the special connections water loss issue and that Kentucky-American admitted to not having implemented any formal plan to address this issue.[223] The Attorney General further asserted that it would be unfair to require the customer base to pay increased water rates when Kentucky-American alone has the ability to rectify the significant unaccounted-for water loss associated with the special connection customers.[224]

LFUCG argued that Kentucky-American has not produced sufficient evidence to support a special exemption for Kentucky-American that would separate Kentucky-American from other water utilities, many of which provide service in mountainous territory that presents unique challenges.[225] LFUCG further argued that, regardless of the source of its water loss, it is prudent for Kentucky-American to investigate water loss while still considering the cost benefit analysis in its decision making.

Pursuant to 807 KAR 5:066, Section 6(3), Kentucky-American has the burden of proof to establish that an alternative threshold for unaccounted-for water loss is more reasonable than the regulatory standard of 15 percent. Kentucky-American has not

[222] Attorney General's Post-Hearing Brief at 13.

[223] Attorney General's Post-Hearing Brief at 14.

[224] Attorney General's Post-Hearing Brief at 14.

[225] LFUCG's Post-Hearing Brief at 10.

shown good cause to explain why their water loss has continually increased, nor has it shown strong evidence that the special connections are as significant of a contributor to the water loss issue as it has claimed. Despite continuous increases in water loss percentages in the last seven years, the Commission notes that Kentucky-American has not developed a formal plan for identifying the source of increasing water loss or reducing water loss. Kentucky-American brought no request for additional resources into this case either through additional personnel or equipment. This signals to the Commission that Kentucky-American does not appear to take the increasing water loss as a serious matter. This is a cause for serious concern. In 2019, the Commission established Case No. 2019-00041 to investigate jurisdictional water utilities that recorded water loss of more than 35% in their most recent annual reports. The Commission found in 2019 that "[a] water utilities inability to reduce excessive water loss over time is a symptom of other significant problems plaguing the utility, such as poor financial management and operational practices."[226] The Commission previously denied a similar request in Kentucky-American's last general rate case, Case No. 2018-00358.[227] Additionally, the Commission notes that Kentucky-American's unaccounted-for water loss has been nearly 20 percent since 2018. Specifically, the unaccounted-for water loss percentage historically has been as follows:[228]

Kentucky-American's Water Loss Percentage

[226] Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order, Appendix L, An Investigative Report by the Kentucky Public Service Commission, November 2019, at ii.

[227] Case No. 2018-00358, June 27, 2019 Order.

[228] Lewis Direct Testimony at 36-37.

Year	Unaccounted-for-Water Loss Percentage
2018	19.95%
2019	21.10%
2020	20.47%
2021	21.09%
2022	21.59%

The Commission further notes that the last time Kentucky-American was in compliance with 807 KAR 5:066, Section 6(3) was in 2015, when Kentucky-American had unaccounted for water loss of 14.4283 percent.[229]

While Kentucky-American is now dedicating four employees to address NRW loss as of January 2024, the Commission notes that there does not appear to have been any prior effort to address water loss issues until the beginning of 2024, after this case was established.[230] The Commission agrees with the Attorney General that it would be unreasonable for a large, sophisticated, investor-owned company to be allowed a 20 percent unaccounted-for water loss while smaller, less sophisticated water districts and water associations are held to the established 15 percent unaccounted-for water loss standard and is dismayed that Kentucky-American requested this deviation in consecutive cases without any effort to address water loss. While Kentucky-American pointed out that the Commission has authorized water loss surcharge mechanisms, the purpose of those mechanisms is to provide water utilities adequate financial resources to address excessive water loss. Those surcharge mechanisms require specific plans to address water loss and all expenditures from those revenues must be individually

[229] *Annual Report of Kentucky-American to the Public Service Commission for the Calendar Year Ended December 31, 2015* (2015 Annual Report) at 61.

[230] Kentucky-American's Post-Hearing Brief at 37.

approved by the Commission – the mechanisms are not simply an alternative approach to recover water loss revenues in excess of 15 percent. The Commission also agrees with the Attorney General and LFUCG that Kentucky-American has failed to meet its burden of proof, and therefore finds that Kentucky-American's proposed alternative 20 percent threshold should be denied. Additionally, as discussed above, the Commission will make an adjustment related to the unaccounted-for water loss above 15 percent and remove it from the revenue requirement.

ACCOUNTING DEFERRAL

Kentucky-American is requesting authority to defer the amount above or below base rates for production expenses, pension, and other post-employment benefits (OPEB) expenses, taxes other than income (excluding sales tax), and income taxes.[231] Kentucky-American proposed to recover the regulatory deferrals in its next base rate case and stated that it is not asking for carrying charges.[232]

As the Commission noted in Case No. 2008-00436:

> A regulatory asset is created when a rate-regulated business is authorized by its regulatory authority to capitalize an expenditure that under traditional accounting rules would be recorded as a current expense. The reclassification of an expense to a capital item allows the regulated business the opportunity to request recovery in future rates of the amount capitalized. The authority for establishing regulatory assets arises under the Commission's plenary authority to regulate utilities under KRS 278.040 and the Commission's authority to establish a system of accounts under KRS 278.220. Historically, the Commission has exercised its discretion to approve regulatory assets where a utility has incurred: (1) an extraordinary, nonrecurring expense which could not have reasonably been anticipated or included in the utility's

[231] Newcomb Direct Testimony at 24.

[232] Newcomb Direct Testimony at 24–25.

> planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry sponsored initiative; or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.[233]

By definition, a regulatory liability works in reverse of a regulatory asset, creating a capitalized liability to be returned to customers in future rates in the amount capitalized. Kentucky-American requested authority to establish a regulatory asset/liability for production expenses to defer the difference from base rates for fuel and power, chemicals, waste disposal, and purchased water.[234] Kentucky-American argued that these expenses are volatile and outside of Kentucky-American's control and that water utilities that purchase water are afforded similar protections.[235] For pension and OPEB expenses, Kentucky-American explained that the level of fluctuation in these expenses from year to year can change drastically based on market fluctuations and the factors used to calculate the expenses.[236] Kentucky-American argued that taxes other than income are incurred resulting from statutory or administrative directive.[237] Kentucky-American also explained that it appeals its property tax assessments to lower its property tax bill on a regular basis and that its customers should benefit from appeals that are successful.[238] Finally, Kentucky-American requested preemptive authority to defer any

[233] Case No. 2008-00436, *The Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages* (Ky. PSC Dec. 23, 2008), Order at 3–4.

[234] Newcomb Direct Testimony at 28.

[235] Newcomb Direct Testimony at 27.

[236] Newcomb Direct Testimony at 30.

[237] Newcomb Direct Testimony at 33.

[238] Newcomb Direct Testimony at 33.

changes to income taxes or accumulated deferred income taxes resulting from federal or state tax rate changes, which Kentucky-American classified as from a statutory or administrative directive.[239]

The Attorney General argued that the Commission should deny Kentucky-American's request to grant regulatory accounting treatment for specific expenses, namely, production expenses, pension and OPEB expenses, and expenses related to taxes other than income (excluding sales tax) and income taxes because it would not lead to fair, just and reasonable rates for the customers.[240] The Attorney General argued that the tracking mechanisms that Kentucky-American requests should be denied first, because the production expense, OPEB expense, and various tax expenses are normal and regular expenses that every large water utility company will incur, and therefore should be included in the rates as normal.[241] The Attorney General stated that if Kentucky-American experiences a specific extraordinary level of expenses associated with any of these specific expenses then it has the ability to file a general rate case or file a separate regulatory asset case.[242]

The Attorney General argued that Kentucky-American's request to establish the regulatory assets are not in compliance with Commission precedent.[243] The Attorney

[239] Newcomb Direct Testimony at 35.

[240] Attorney General's Post-Hearing Brief (filed Jan. 5, 2024) at 37.

[241] Attorney General's Post Hearing Brief at 35.

[242] Attorney General's Post Hearing Brief at 36.

[243] Attorney General's Post Hearing Brief at 36; *See* Case No. 2008-00436, *The Application of East Kentucky Power Cooperative, Inc. for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Certain Replacement Power Costs Resulting from Generation Forced Outages* (Ky. PSC Dec. 23, 2008), Order at 4.

General argued that production expenses, OPEB expenses, and expenses related to taxes other than income (excluding sales tax) and income taxes are recurring, normal expenses, there are no specified new statutory or administrative policies dictating increases to these costs, the request is not the result of industry-sponsored initiatives, and the costs will not eventually be offset by a specific stream of cost savings.[244]

The Attorney General asserted that Kentucky American's request for deferral accounting of production expenses, OPEB expense, and expenses related to taxes other than income (excluding sales tax) and income taxes would be reviewing these expense line items in isolation, and fails to consider that there may be cost offsets in other areas that should be applied, or that there may be offsetting revenues resulting from customer growth, improved efficiencies, etc.[245] The Attorney General also argued that if regulatory asset deferral were allowed for these specific expenses then it could disincentivize cost controls.[246]

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the proposed deferrals should be denied because the variance in these expenses are immaterial to Kentucky-American's financial position and are outside the categories previously approved for regulatory asset treatment. Specifically, production, pension, and OPEB expenses are recurring expenses that can be included in Kentucky-American's planning. Furthermore, an expense resulting from a statutory or administrative directive is incurred in pursuit of complying with those directives. If a tax

[244] Attorney General's Post Hearing Brief at 36.

[245] Attorney General's Post-Hearing Brief at 36.

[246] Attorney-General's Post Hearing Brief at 37.

code were a statutory or administrative directive that justified the treatment of that expense as a regulatory asset, then any utility's tax expenses could fit within that standard, which would be unreasonable.

UNIVERSAL AFFORDABILITY TARIFF

Kentucky-American proposed a Universal Affordability Tariff which would provide basic service at two percent or less of annual household income based on the Federal Poverty Level.[247] The Universal Affordability Tariff includes multiple tiers of discounts based on different levels of household income stated as multiples of the Federal Poverty Level (FPL).[248] A 60 percent discount would be available for customers with income up to 50 percent of the FPL and a 20 percent discount would be available for customers with income between 50 percent and 100 percent of the FPL.[249] Discounts would be available on both the 5/8-inch meter charge and the volumetric charges for water service.[250] Kentucky-American anticipated a 10 percent participation level which would result in an approximately $116,000 discount that will be rolled directly into base rates.[251] Residential customers would pay for the cost of the expected discounts, which is approximately $0.02 per thousand gallons.[252]

Kentucky-American argued the Universal Affordability Tariff meets KRS 278.170 because the statue allows for reasonable preferences and advantages and reasonable

[247] Application at 14, paragraph 36.

[248] Application, Direct Testimony of Charles Rea (Rea Direct Testimony) at 20.

[249] Rea Direct Testimony at 20-21.

[250] Rea Direct Testimony at 24.

[251] Rea Direct Testimony at 24.

[252] Kentucky-American's Post-Hearing Brief at 61.

differences between classes.[253] Kentucky-American conducted an analysis under its current rate design and concluded that usage data and customer demographics data show there is a positive correlation between household income and the seasonal use of water i.e., communities with higher household incomes and customers in those communities have more discretionary seasonal use of water than communities with lower household incomes.[254] Kentucky-American also stated that lower income customers generally only use Basic Water Service and do not use water for discretionary purposes in the summertime to the extent that of higher income customers.[255] The analysis concluded that under the current rate design that lower income customers are subsidizing higher income customers.[256] Kentucky-American argued that the affordability assessment, rate design analysis, and cost-of-service analysis provides all factual support necessary to target bills for all residential customers at two percent of household income or less without unduly discriminating against any customer group.[257]

The Attorney General argued that the Universal Affordability Tariff is a violation of law and leads to inequitable results for residential customers.[258] The Attorney General pointed out that Kentucky-American will utilize a third party vendor to conduct income verification and to manage the proposed Universal Affordability Tariff program.[259] This

[253] Kentucky-American's Post-Hearing Brief at 62.

[254] Kentucky-American's Post-Hearing Brief at 62.

[255] Kentucky-American's Post-Hearing Brief at 62.

[256] Kentucky-American's Post-Hearing Brief at 63.

[257] Kentucky-American's Post-Hearing Brief at 63.

[258] Attorney General's Post-Hearing Brief at 32-35.

[259] Attorney General's Post-Hearing Brief at 32.

would include administrative costs of the program in future revenue requirements to be paid for by customers and that neither shareholders nor American Water will be subsidizing the proposed Universal Affordability Tariff.[260] The Attorney General stated this will result in all discounts being exclusively paid for by the rest of Kentucky-American's residential customers through higher water rates.[261] The Attorney General argued that discounted rates should be denied as a matter of law and that KRS 278.030 does not explicitly permit the establishment of a customer classification based upon income level, thus the Commission is not authorized to create a separate rate class for low-income residential customers apart from the general residential customer class.[262] The Attorney General was concerned that the Universal Affordability Tariff will produce an unreasonable preference or advantage for customers who are entitled to the discounted water rates because they make $1 less than another customer.[263]

LFUCG supports Kentucky-American's proposed Universal Affordability Tariff and raised no objections.[264]

The Commission finds that there is insufficient evidence in support of the Universal Affordability Tariff to establish a new customer class based solely on income and doing so would be a violation of KRS 278.170. Kentucky-American argued that discounts based on different levels of household income stated as multiples of the Federal Poverty Level is a reasonable difference which the Commission can permit because the tariff discount

[260] Attorney General's Post-Hearing Brief at 33.

[261] Attorney General's Post-Hearing Brief at 33.

[262] Attorney General's Post-Hearing Brief at 33-34.

[263] Attorney General's Post-Hearing Brief at 33-34.

[264] LFUCG's Post-Hearing Brief at 10-11.

would be based on federal guidelines that determine eligibility for many federal and other assistance programs and the cost impact of the program is minimal.[265] KRS 278.170(1) does not grant the Commission authority to distinguish between a customer class based on income regardless of whether the Federal Poverty Level is used or some other arbitrary income level. Kentucky-American has provided no authority that would allow for such a distinction.

The Commission acknowledges Kentucky-American's attempt to distinguish residential customers based on usage but the findings from the study are not convincing. The analysis conducted by Kentucky-American involved customer data from an American Water subsidiary in St. Louis.[266] However, none of the information used involved Kentucky-American customers. Additionally, no other factors were considered in the analysis, only the average income level of an area and the usage of that area. Kentucky-American did not consider any additional factors that could influence usage. The study did not provide any significant empirical data to justify creating a new residential customer class.

The Commission notes that while Kentucky-American claimed there would be a minimal cost impact to customers,[267] it failed to provide any shareholder contribution. The Commission has previously held that "if a proposed assistance program is to be more than merely a transfer of income from one customer group to another, the utility must also

[265] Kentucky-American's Response to Staff's Second Request, Item 69.

[266] Hearing Video Transcript of December 11, 2023 Hearing, Testimony of Charles Rea 11:55:56-11:56:44.

[267] Rea Direct Testimony at 24.

make significant contributions."[268] The Commission is not persuaded that Kentucky-American's proposed Universal Affordability Tariff is anything more than a transfer of income from one customer group to another. The Commission also notes that Kentucky-American has the H2O Program that carried a balance of $163,000 as of October 1, 2023, and can be utilized by customers if needed.[269] For the reasons stated above, the Commission finds that Kentucky-American's Universal Affordability Tariff should be denied.[270]

ADDITIONAL TARIFF CHANGES

Cross-Connection Revisions

Kentucky-American proposed to revise the section of its tariff pertaining to cross-connections. Kentucky-American's current tariff prohibits cross-connections unless an acceptable form of protection against contamination by backflow into the water distribution system is provided by a testable backflow prevention assembly.[271] The tariff

[268] *See*, e.g., Case No. 2001-00323, *Joint Application of Louisville Gas and Electric Company, Metro Human Needs Alliance, People Organized and Workers for Energy Reform, Kentucky Association for Community Action, and Jefferson County Government for the Establishment of a Home Energy Assistance Program* (Ky. PSC Dec. 27, 2001) *and* Case No. 2004-00103*, Adjustment of the Rates of Kentucky-American Water Company* (Ky. PSC Feb. 28, 2005).

[269] Kentucky-American's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Sept. 21, 2023), Item 20c.

[270] The PSC has routinely found that it cannot establish different residential rates based upon a customer's income level. *See, e.g.,* 2000 WL 309957, Case No. 1998-00474, *The Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of Its Rates and Service*, (Ky. PSC Jan 7, 2000), q*uoting* Case No. 1991-00066, *Application for Adjustment of Electric Rates of Kentucky Power Company*, (Ky. PSC Oct. 31, 1991) at 7. ("If income alone were to be recognized as a reasonable consideration for establishing customer classifications and rates, not only low income, but also middle and high incomes would need to be recognized. If it is appropriate to provide utility service to low income customers at reduced rates, service to high income customers should be at premium rates.") *See also* Case No. 1991-00066, *citing Gainesville Utilities Dept. v. Florida Power Corp.,* 402 U.S. 515, 528 (1971). ("But focus on the willingness or ability of the purchaser to pay for a service is the concern of the monopolist, not of a governmental agency charged both with assuring the industry a fair return and with assuring the public reliable and efficient service, at a reasonable price.").

[271] P.S.C. Ky. No. 9 First Sheet No. 14 (issued Nov. 28, 2018), effective June 29, 2019.

stated that acceptable forms of protection must comply with all applicable state and local requirements and be approved by Kentucky-American, that the protective device be installed and maintained in good working condition at the expense of the customer, and that the protective device be subject to testing and approval of Kentucky-American prior to being placed into service, and at such times thereafter as may be deemed necessary by Kentucky-American.[272] Any cross-connection, which is in violation of the rules, is required to be removed or corrected and failure of a customer to do so could result in termination of water service.[273]

Kentucky-American proposed adding language that "the customer shall be responsible for the entire expense of such testing, including, but not limited to, expenses and fees a third party may charge for performing the testing and submitting the test results in the Company electronically or otherwise."[274] Kentucky-American stated that it has considered using a third-party contractor, Backflow Solutions, Inc. (BSI) to facilitate the administration of cross-connection backflow certification program, including managing tester certification, test kit calibration, and allowing a switch to online portals, which will reduce the mailing of physical letters.[275] Kentucky-American stated that these tasks are currently handled by its cross-connection team, and that hiring a third-party contractor would allow Kentucky-American's employees to focus on other important tasks.[276] Kentucky-American argued that customers are already responsible for expenses

[272] P.S.C. Ky. No. 9 First Sheet No. 14 and No. 15 (issued Nov. 28, 2018), effective June 28, 2019.

[273] P.S.C. Ky. No. 9 First Sheet No. 15 (issued Nov. 28, 2018), effective June 28, 2019.

[274] Application, Exhibit 2 at 16-17.

[275] Kentucky-American's Post-Hearing Brief at 58.

[276] Kentucky-American's Post-Hearing Brief at 59.

associated with "providing, installing, and maintaining BFAs (backflow assemblies)" and that the language is being added to clarify to customers that they are responsible for those expenses, including third party expenses.[277]

Neither the Attorney General nor the LFUCG submitted testimony or made arguments addressing the changes to the cross-connection portion of Kentucky-American's tariff.

Based upon a review of the tariff filing and being otherwise sufficiently advised, the Commission finds that Kentucky-American's proposed revisions are not fair, just or reasonable, and should be denied for the following reasons. The proposed revisions appear to move the testing and approval from Kentucky-American, to a scheme required by Kentucky-American. Customers would then be subject to costs and expenses charged by a third party, with such charges not subject to Commission jurisdiction. Such concern is amplified by the fact that Kentucky-American has indicated that a customer's service would be terminated if they did not follow the proposed procedure. The current tariff language allows customers to choose their own third party for testing. While customers still may be able to do so under the proposed tariff, another layer has been added which could subject customers to additional fees. Additionally, Kentucky-American provided no support for benefit to customers as a result of the change. The Commission has not been persuaded by the evidence in this application and holds its previous position that these changes to Kentucky-American's cross-connection policy should be denied.[278]

Other Tariff Changes

[277] Kentucky-American's Post-Hearing Brief at 59.

[278] Case No. 2022-00425, *Electronic Tariff Filing of Kentucky-American Water Company to Revise Its Cross-Connection Policy* (Ky. PSC Dec. 22, 2022), Order.

Kentucky-American proposed several textual revisions to its tariff. Neither the Attorney General nor LFUCG submitted testimony or argued against these textual changes. The first text change is within Service Classification No. 6. changing the classification title from Hidden Leak Adjustment Rate to Service Line Adjustment Rate and expanding the availability of service from residential and commercial customers to residential, commercial, and OPA customers.[279] Within the terms and conditions, the first two sentences are changed from "a hidden underground leak is defined as a leak in the customer service line between the meter and the premises. Hidden underground leak adjustments will be granted to residential and commercial customers"[280] to "a service line leak is defined as a leak in the customer service line between the meter and the premises. Service line leak adjustments will be granted to residential, commercial, and OPA customers."[281]

The next change is a text revision to Rule 3.3(c), changing the bills for private fire hydrants from quarterly to monthly.[282] The updated language proposed was "Bills for private fire hydrants shall be payable *monthly* in advance, except for the changes for private fire hydrant service shall be payable as set forth in Rule 11."[283]

[279] Application, Exhibit 2 at 46.

[280] P.S.C. Ky. No. 9 First Sheet No. 44 (issued Nov. 28, 2018), effective June 28, 2019.

[281] Application, Exhibit 2 at 46.

[282] P.S.C. Ky. No. 9 First Sheet No. 8 (issued Nov. 28, 2018), effective June 28, 2019, and Application, Exhibit 2 at 10.

[283] Application, Exhibit 2 at 10.

Kentucky-American also proposed a text change to Rule 6.1(b), adding the wording private detector devices and private service line Meters.[284] The proposed update was:

> All Meters, except *private* detector devices and/or *private* service line Meters, will be installed, maintained, and replaced by; and at the expense of the Company, but in the case of damage to such Meters by reason of any act, neglect, or omission on the part of the Customer (such as damages occasioned by accident or misuse or purposeful actions) the Customer shall pay to the Company the cost of is repair on presentation of bill therefore.[285]

Kentucky American's proposed text revisions and deletions to Rule 10.3(a)(v) for the term "current estimated cost" that the estimated cost of installing each type of appurtenant related facility will be based upon current materials costs, bids received, and other current project data.[286] Specifically, the updated tariff removes the following language:

> During the first quarter of each year, Company will determine from its records its actual average cost per foot, during the preceding calendar year, of construction and installation of all sizes and grades of water mains for which the construction projects have been completed during such calendar year, together with its average cost during such calendar year of installing each type and size of related facility for which construction has been completed during such year. [287]

Kentucky-American proposed the following updated language:

> The term "current estimated cost" as used herein shall mean that sum determined by Company as the estimated cost of installing one foot of water main, together with that sum

[284] Application, Exhibit 2 at 14.

[285] Application, Exhibit 2 at 14.

[286] Application, Exhibit 2 at 14.

[287] P.S.C. Ky. No. 9 First Sheet No. 21 (issued Nov. 28, 2018), effective June 28, 2019.

> determined by Company as the estimated cost of installing each type of appurtenant related facility *based upon current materials costs, bids received, and other current project data*. Such average cost per foot and such average cost per appurtenant facility shall be deemed to be the "current estimated cost" for such mains and facilities during the twelve-month period immediately following such determinations, it being contemplated that the current estimated cost will be revised annually in order to keep same as current as practicable.[288]

Additionally, Kentucky-American proposed to clarify text revisions to Rule 11.1(g) that meter or detector device refers to private fire meter or private detector device.[289] Specifically, Kentucky-American proposed to change the last sentence of Rule 11.1(g) to "The *private* fire meter or *private* detector device will be maintained by the Company, but at the expense of the Customer."[290]

Lastly, Kentucky-American proposed to move Judy Water Association as a standalone customer in its tariff into the general Sale for Resale customer class.[291]

The Commission has reviewed the requested changes and language revisions and finds that they are reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Kentucky-American are denied.

2. The rates and charges, as set forth in Appendix B to this Order, are approved as fair, just and reasonable rates for Kentucky-American, and these rates and charges are approved for service rendered on and after February 6, 2024.

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[288] Application, Exhibit 2 at 14 of 65.

[289] P.S.C. Ky. No. 9 Original Sheet No. 26 (issued June 30, 2023), effective July 30, 2023.

[290] P.S.C. Ky. No. 9 Original Sheet No. 26 (issued June 30, 2023), effective July 30, 2023.

[291] P.S.C. Ky. No. 10 Original Sheet No. 30 (issued June 30, 2023), effective July 30, 2023.

3. Within 60 days of the date of service of this Order, Kentucky-American shall refund to each customer all amounts collected from that customer in excess of the rates approved in this Order for service rendered on or after February 6,2024, through the date of entry of this Order.

4. Kentucky-American shall pay interest on the refunded amounts at the average of the Three-Month Commercial Paper Rate as reported in the Federal Reserve Bulletin and the Federal Reserve Statistical Release on the date of this Order. Refunds shall be based on each customer's usage while the proposed rates were in effect and shall be made as a one-time credit to the bills of current customers and by check to customers that have discontinued service since February 6, 2024.

5. Within 75 days of the date of this Order, Kentucky-American shall submit a written report to the Commission in which it describes its efforts to refund all monies collected in excess of the rates that are set forth in Appendix B to this Order.

6. Any documents filed with the Commission pursuant to Ordering Paragraph 5 shall be filed in the post-case documents in this case.

7. Kentucky-American's proposed depreciation rates are approved.

8. Kentucky-American's proposed deferrals are denied.

9. Kentucky-American's proposed expansion of its QIP is denied.

10. Kentucky-American's proposed reset of the QIP to a zero balance with current QIP expenditures rolled into base rates is denied.

11. Kentucky-American's proposed changes to its QIP calculations are approved.

12. Kentucky-American's request for an alternative level of unaccounted-for water loss of 20 percent is denied.

13. Kentucky-American's proposed Universal Affordability Tariff is denied.

14. Kentucky-American's proposed tariff revisions to its cross-connection policy are denied.

15. Except for the tariffs that have been modified or denied, Kentucky-American's proposed tariffs are approved as filed.

16. Within 20 days of the date of this Order, Kentucky-American shall, using the Commission's electronic Tariff Filing System, file its revised tariffs setting out the rates authorized in this Order and reflecting that they were approved pursuant to this Order.

17. Absent a request for rehearing, this case will be closed and removed from the Commission's docket upon expiration of the statutory time period to request rehearing.

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PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ENTERED

MAY 03 2024 rcs

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00191 DATED MAY 03 2024

	Description		Final
	Original Requested Revenue Requirement Increase	$	26,051,999
	Rate Base Adjustments		
1	Reduce Cash Working Capital	$	(637,697)
2	Remove CWIP	$	(1,729,876)
3	Remove AMI	$	(113,196)
4	Remove QIP Roll-in	$	(5,308,254)
	Operating Income Adjustments		
5	Remove AFUDC Offset	$	1,672,091
6	Remove AMI Depreciation	$	(375,051)
7	Remove QIP Roll-in	$	(3,053,037)
8	Revenue Adjustment	$	(308,297)
9	Incentive Compensation Adjustment	$	(373,598)
10	Inflation Factors	$	(1,009,889)
11	Water Loss Adjustment	$	(660,193)
12	Miscellaneous Expense Adjustment	$	(121,116)
13	Rate Case Expense	$	(328,272)
14	Credit Card Fees	$	(348,284)
15	Legal Fees for Investigation	$	(28,928)
16	Employee Stock Purchase Program	$	(30,039)
	Cost of Capital Adjustments		
17	ROE and Capital Structure		(2,691,846)
	Adjusted Revenue Requirement Increase		10,606,517
	Forecasted Revenues		112,343,951
	Percent Increase		9.4%

	Base Period	Kentucky-American Adjustments	Commission Adjustments	Forecasted Yeat Year at Present Rates	Adjustment for Increased Rates	Forecasted Test Year at Increased Rates
Operating Revenues						
Water Revenues	110,021,445	2,014,209	308,297	112,343,951	10,606,517	122,950,468
Other Revenues	2,455,328	50,065	-	2,505,393		2,505,393
AFUDC	-	1,672,091	(1,672,091)	-		-
Total Revenues	112,476,773	3,736,365	(1,363,794)	114,849,344	10,606,517	125,455,861
Operating Expenses:						
Purchased Water	379,970	(10,996)	(20,573)	348,401		348,401
Fuel and Power	5,363,786	300,828	(786,604)	4,878,010		4,878,010
Chemicals	4,498,283	1,126,309	(313,653)	5,310,939		5,310,939
Waste Disposal	459,292	220,112	(37,888)	641,516		641,516
Salaries and Wages	8,933,356	34,265	(403,637)	8,563,984		8,563,984
Pension	30,661	106,242	-	136,903		136,903
OPEB	(698,945)	98,630	-	(600,315)		(600,315)
Group Insurance	1,412,762	159,912	-	1,572,674		1,572,674
Other Benefits	733,653	42,254	-	775,907		775,907
Support Services	11,996,359	523,069	(245,688)	12,273,740		12,273,740
Contract Services	1,226,754	210,930	(122,602)	1,315,082		1,315,082
Building Maintenance and Services	844,101	67,736	(67,736)	844,101		844,101
Telecommunications	217,280	57,769	-	275,049		275,049
Postage, Printing, and Stationary	14,087	(2,000)	-	12,087		12,087
Office Supplies and Services	283,848	(44,437)	(30,090)	209,321		209,321
Advertising and Marketing	-	-	-	-		-
Employee Related Expense	160,214	16,550	(19,777)	156,987		156,987
Miscellaneous Expense	708,688	98,626	(98,273)	709,041		709,041
Rents	37,581	9,598	(9,598)	37,581		37,581
Transportation	603,279	51,019	-	654,298		654,298
Uncollectible Accounts	488,418	188,276	(40,758)	635,936	64,063	699,999
Other Customer Accounting	126,998	351,974	(352,529)	126,443		126,443
Regulatory Expense	224	660,295	(328,272)	332,247		332,247
Insurance Other Than Group	1,416,883	236,421	-	1,653,304		1,653,304
Maintenance Supplies and Services	2,410,967	314,254	(123,962)	2,601,259		2,601,259
Total Operating Expenses	41,648,499	4,817,636	(3,001,638)	43,464,497	64,063	43,528,560
Other Expenses:						
Depreciation	21,356,111	7,384,226	(1,399,628)	27,340,709		27,340,709
Amortization of UPAA	23,284	(8,561)	-	14,723		14,723
Amortization Expense	63,980	(6,900)	-	57,080		57,080
State Income Taxes	1,417,262	(549,180)	(565,343)	302,739	527,123	829,862
Federal Income Taxes	4,859,514	(2,346,483)	(2,255,717)	257,314	2,103,220	2,360,534
Investment Tax Credits	(11,833)	11,833	-	-		-
General Taxes	8,817,187	1,834,407	(1,023,778)	9,627,816		9,627,816
Total Other Expenses	36,525,505	6,319,342	(5,244,465)	37,600,382	2,630,342	40,230,724
Total Expenses	78,174,004	11,136,978	(8,246,104)	81,064,878	2,694,406	83,759,284
Operating Income	34,302,769	(7,400,613)	6,882,309	33,784,465	7,912,112	41,696,577

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00191 DATED MAY 03 2024

The following rates and charges are prescribed for the customers in the area served by Kentucky American Water Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Service Charge

Meter Size		
5/8” – Meter	$16.40	Minimum Bill
3/4" - Meter	24.50	Minimum Bill
1” – Meter	40.80	Minimum Bill
1 1/2” – Meter	81.80	Minimum Bill
2” – Meter	130.80	Minimum Bill
3” – Meter	245.10	Minimum Bill
4” – Meter	408.60	Minimum Bill
6” – Meter	817.20	Minimum Bill
8” – Meter	1,307.50	Minimum Bill

Volumetric Charge

Service Type		
Residential	$0.0063757	Per Gallon
Commercial	0.0057661	Per Gallon
Industrial	0.0047676	Per Gallon
Other Public Authority	0.0053114	Per Gallon
Sales for Resale	0.0046912	Per Gallon

Water Sold to Judy Water Association

First 70,000 Gal/day	$0.0050057	Per Gallon

Over 70,000 Gal/day	0.0051165	Per Gallon

Monthly Public or Private Fire Connections

2" Diameter	$9.60	Per Month
4" Diameter	38.60	Per Month
6" Diameter	86.90	Per Month
8" Diameter	154.40	Per Month
10" Diameter	241.30	Per Month
12" Diameter	361.20	Per Month
14" Diameter	348.00	Per Month
16" Diameter	617.90	Per Month

Hydrant Charge

Public Hydrant	$53.95	Per Month
Private Hydrant	84.80	Per Month

Bulk Sales (Through Loading Stations)

Rate per 50 Gal	$1.85400
Rate per 100 Gal	3.70800

Attachment 10

*Angela M Goad
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Larry Cook
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Honorable David J. Barberie
Managing Attorney
Lexington-Fayette Urban County Government
Department Of Law
200 East Main Street
Lexington, KENTUCKY 40507

*Mary Ellen Wimberly
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

*J. Michael West
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Jeffrey Newcomb
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

*Monica Braun
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*James W Gardner
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street
Suite 1400
Lexington, KENTUCKY 40507

*Rebecca C. Price
Sturgill, Turner, Barker & Moloney
155 East Main Street
Lexington, KENTUCKY 40507

*John G Horne, II
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Susan Speckert
Lexington-Fayette Urban County Government
Department Of Law
200 East Main Street
Lexington, KENTUCKY 40507

*Honorable Lindsey W Ingram, III
Attorney at Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*M. Todd Osterloh
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street
Suite 1400
Lexington, KENTUCKY 40507

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY-AMERICAN WATER COMPANY FOR AN ADJUSTMENT OF RATES, A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR INSTALLATION OF ADVANCED METERING INFRASTRUCTURE, APPROVAL OF REGULATORY AND ACCOUNTING TREATMENTS, AND TARIFF REVISIONS	)	CASE NO. 2023-00191

O R D E R

On July 7, 2023,[1] Kentucky-American Water Company (Kentucky-American), pursuant to KRS 278.180, KRS 278.190, and 807 KAR 5:001, Section 16(1)(b)(1), filed an application requesting (1) an increase to its rates; (2) approval of a Certificate of Public Convenience and Necessity (CPCN) for Advanced Metering Infrastructure (AMI) meters pursuant to KRS 278.020(1) and 807 KAR 5:001, Section 15(2); (3) approval of a proposed modification to its Qualified Infrastructure Program (QIP); (4) approval to establish regulatory assets or liabilities; (5) establishment of an alternative level of unaccounted for water loss; (6) approval of a universal affordability tariff; and (7) approval of its revised tariffs. This Order will only address the request for approval of a CPCN for

[1] Kentucky-American tendered its application on June 30, 2023. By letter dated July 7, 2023, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application was deemed filed on July 7, 2023. On July 14, 2023, Kentucky-American filed a motion for a ruling from the Commission regarding sufficiency of the June 30, 2023 application. On July 25, 2023, the Commission entered an Order denying Kentucky-American's motion and finding the application deemed filed on July 7, 2023.

AMI meters pursuant to KRS 278.020(1) and 807 KAR 5:001, Section 15(2). All other requests will be addressed in a separate Order.

BACKGROUND

Kentucky-American, a wholly owned subsidiary of American Water Works Company, Inc. (American Water), is a jurisdictional utility that distributes and sells water across three divisions, including its Central Division, which consists of Bourbon, Clark, Fayette, Harrison, Jessamine, Nicholas, Scott, and Woodford counties; its Northern Division, which consists of Gallatin, Owen, Grant, and Franklin counties; and its Southern Division, which consists of Rockcastle and Jackson counties.[2] Kentucky-American provides water service to more than 138,000 customers throughout its three divisions.[3]

PROCEDURE

By Order entered July 21, 2023, the Commission suspended the proposed rates up to and including February 5, 2024. There are two intervenors in this matter: the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General), and Lexington Fayette Urban County Government (LFUCG). The Attorney General and LFUCG (jointly, Attorney General/LFUCG) entered into a joint participation agreement and co-sponsored testimony from one witness. Kentucky-American responded to three requests for information.[4] Following discovery, the Commission held an evidentiary hearing on December 11, 2023, and December 13,

[2] Application at 2.

[3] Direct Testimony of Jeffrey Newcomb (Newcomb Direct Testimony) (filed June 30, 2023) at 4.

[4] Kentucky-American's Response to Commission Staff's First Request for Information (Staff's First Request) (filed July 18, 2023); Kentucky-American's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Aug. 18, 2023); Kentucky-American's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Sept. 21, 2023).

2023, in Frankfort, Kentucky. All parties filed simultaneous post-hearing briefs on January 5, 2024. Kentucky-American and LFUCG filed response briefs on January 12, 2024. On February 5, 2024, Kentucky-American filed a notice of intent to implement proposed rates on or after February 6, 2024.[5] The Commission issued an Order on February 9, 2024, requiring Kentucky-American to maintain its records in such a manner as to allow it, the Commission, or any customer to determine the amounts to be refunded, and to whom, in the event a refund is ordered.[6]

LEGAL STANDARD

The Commission's standard of review regarding a CPCN is well settled. Under KRS 278.020(1), no utility may construct or acquire any facility to be used in providing utility service to the public until it has obtained a CPCN from this Commission. To obtain a CPCN, the utility must demonstrate a need for such facilities and an absence of wasteful duplication.[7]

"Need" requires:

> [A] showing of a substantial inadequacy of existing service, involving a consumer market sufficiently large to make it economically feasible for the new system or facility to be constructed or operated.
>
> [T]he inadequacy must be due either to a substantial deficiency of service facilities, beyond what could be supplied by normal improvements in the ordinary course of business; or to indifference, poor management or disregard of the rights of consumers, persisting over such a period of time as to

[5] Kentucky-American's Notice of Intent to Implement Proposed Rates (filed Feb. 5, 2024), unnumbered page 1.

[6] Order (Ky. PSC Feb. 9, 2024) at 3.

[7] *Kentucky Utilities Co. v. Pub. Serv. Comm'n*, 252 S.W.2d 885 (KY. 1952).

> establish an inability or unwillingness to render adequate service.[8]

"Wasteful duplication" is defined as "an excess of capacity over need" and "an excessive investment in relation to productivity or efficiency, and an unnecessary multiplicity of physical properties."[9] To demonstrate that a proposed facility does not result in wasteful duplication, the Commission has held that the applicant must demonstrate that a thorough review of all reasonable alternatives has been performed.[10] Selection of a proposal that ultimately costs more than an alternative does not necessarily result in wasteful duplication.[11] All relevant factors must be balanced.[12]

CPCN FOR AMI METERS

In its application, Kentucky-American requested a CPCN for cellular AMI meters. At the time of filing this application, Kentucky-American explained that its current system consisted of approximately 142,000 meters and almost all are installed with AMR endpoints with the exception of 248 meters that are equipped with Badger cellular AMI endpoints.[13] Kentucky-American explained that it follows a periodic meter replacement

[8] *Kentucky Utilities Co. v. Pub. Serv. Comm'n* at 890.

[9] *Kentucky Utilities Co. v. Pub. Serv. Comm'n* at 890.

[10] Case No. 2005-00142, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for the Construction of Transmission Facilities in Jefferson, Bullitt, Meade, and Hardin Counties, Kentucky* (Ky. PSC Sept. 8, 2005).

[11] *See Kentucky Utilities Co. v. Pub. Serv. Comm'n*, 390 S.W.2d 168, 175 (Ky. 1965). *See also* Case No. 2005-00089, *The Application of East Kentucky Power Cooperative, Inc. for a Certificate of Public Convenience and Necessity to Construct a 138 kV Electric Transmission Line in Rowan County, Kentucky* (Ky. PSC Aug. 19, 2005).

[12] Case No. 2005-00089, Aug. 19, 2005 Order at 6.

[13] Application, Exhibit A at 8.

program to renew aging meters and endpoints.[14] The Commission granted Kentucky-American a deviation of 807 KAR 5:066, Section 16(1) in Case No. 2009-00253 permitting Kentucky-American to keep its 5/8-inch meters in service for 15 years without testing for accuracy.[15] However, Kentucky-American stated that it has had an increase in meter reading challenges and an increase in corresponding unscheduled meter and endpoint replacements, and therefore plans to revert back to a ten-year target for 5/8-inch meter and endpoint replacement.[16] Kentucky-American noted that as of May 2023, it assessed that more than 71,000 of its 5/8-inch meters or approximately half of its meters are now at, or past, the ten-year target.[17] Additionally, Kentucky-American explained that almost all of its meters, endpoints, and other necessary equipment will need replacing over the next decade as it meets or exceeds its useful life.[18]

Kentucky-American explained that after evaluating a variety of metering technologies in terms of functionality and costs, cellular AMI would be the preferred technology due to the fact that cellular networks are regularly updated to keep up with the latest technologies and provide greater coverage, reliability and security than fixed-network systems.[19] Additionally, Kentucky-American argued that a fixed-network system requires that a utility maintain and periodically update the system, leading to increased

[14] Application, Exhibit A at 10.

[15] Case No. 2009-00253, *Kentucky-American Water Company's Request for Permission to Deviate from 807 KAR 5:066, Section 16(1)* (Ky. PSC, Oct. 5, 2011), Order.

[16] Application, Exhibit A at 10.

[17] Application, Exhibit A at 11.

[18] Kentucky-American's Post-Hearing Brief (filed Jan. 5, 2024) at 76.

[19] Application, Exhibit A at 5.

and ongoing capital costs.[20] Kentucky-American noted that the benefits of AMI include improving the effectiveness of its operations and customer service, meeting customers' expectations, as well as increased water conservation.[21]

Kentucky-American claimed that it has demonstrated a need for the AMI system in view of the long-range planning necessary in the public utility field.[22] Kentucky-American argued that a "'substantial inadequacy of existing service' is not required to be a currently existing deficiency, but may be a deficiency expected a number of years into the future 'in view of the long range planning necessary in the public utility field.'"[23] Kentucky-American explained that it is not planning to accelerate the installation of AMI meters and that it would be deployed over a ten-year schedule as it completes normal, scheduled, periodic replacement of its existing AMR meters at the end of their service lives.[24] Kentucky-American claimed that a transition to AMI meters over the next decade will result in savings for meter reading labor, field service representative labor, associated vehicle costs, and will improve employee safety, enhance customer service, operational efficiencies, and environmental benefits.[25] Additionally, Kentucky-American claimed that AMI meters will allow it to respond more quickly to potential issues, allow customers to have better access to information related to water usage, improve how customers

[20] Application, Exhibit A at 5.

[21] Application, Exhibit A at 6.

[22] Kentucky-American's Post-Hearing Brief at 75.

[23] Kentucky-American's Post-Hearing Brief at 74, citing *Pub. Serv. Comm'n*, 390 S.W. 2d 168, 171 (Ky. 1965).

[24] Application, Exhibit A at 12.

[25] Application, Exhibit A at 3.

understand their water usage, empower customers to make changes in their habits and behaviors to increase water conservation, and increase billing accuracy.[26]

Kentucky-American claimed it has demonstrated that the AMI system will not result in wasteful duplication. Kentucky-American stated it considered the following alternatives: (1) continue with AMR Technology; (2) deploy Cellular AMI Technology; (3) deploy Hybrid AMI Technology; and (4) deploy Fixed-Network AMI Technology.[27] Kentucky-American stated that Cellular AMI was selected as the preferred approach because it provided the best cost net of benefit proposition for long-term, more reliability, constant availability of meter reading and customer usage data, safety, customer service, operation efficiency, and environmental benefits.[28] Kentucky-American stated that it considered all reasonable alternatives and that while there was an alternative that had a marginally lower cost, it selected Badger AMI system because the widespread benefits of AMI made it the best long-term option and least cost option.[29] Additionally, Kentucky-American selected Badger from two preapproved vendors (Neptune and Badger) selected by American Water from a 2016 request for proposal (RFP).[30]

Kentucky-American stated it evaluates the performance and renegotiates pricing terms with its vendors every two to three years.[31] Kentucky-American estimated that the total capital expenditures of the AMI project would be $114,011,620 and that deployment

[26] Application, Exhibit A at 6-7.

[27] Application, Exhibit A at 13.

[28] Kentucky American's Response to Staff's Second Request, Item 10.

[29] Application, Exhibit A at 20 and Kentucky-American's Post-Hearing Brief at 78-79.

[30] Kentucky-American's Response to Staff's Second Request, Item 11.

[31] Kentucky-American's Response to Staff's Second Request, Item 11.

would begin in 2024.[32] Kentucky-American also proposed a tariff provision to allow customers to opt out of an AMI meter for a $28 monthly fee.

In the cost-benefit analysis, Kentucky-American reflected depreciation, property taxes, pre-tax rate of return, and specifically for Neptune Hybrid alternative, the expense associated with the fixed network as capital-related cost assumptions.[33] Additionally, Kentucky-American utilized a net present value (NPV) of 20 years for the AMI system, which resulted in a 20-year annual cost net of benefits of $3.1 million.[34] Kentucky-American explained that it utilized an NPV of 20 years because the lids that must be purchased during the first replacement cycle are not planned for routine replacement within the measured period and that neither field service labor benefits, meter reading benefits, nor vehicle benefits are fully reflected for investments made in the first ten years.[35] Therefore, due to those factors, 20 years was the minimum amount of time that seemed reasonable for the cost benefit analysis and associated NPVs in order to create a reasonable match between costs and benefits.[36] Kentucky-American further stated that the improvement associated with AMI justifies the slight difference in cost.[37]

[32] Kentucky-American's Response to Attorney General's First Request for Information (filed Aug. 18, 2023), Item 39(c). Kentucky-American noted that the capital expenditures include both the removal and installation costs.

[33] Application, Exhibit A at 17 and Figure 9.

[34] Application, Exhibit A at 19.

[35] Kentucky-American's Response to Staff's Second Request, Item 17.

[36] Kentucky-American's Response to Staff's Second Request, Item 17.

[37] Kentucky-American's Post-Hearing Brief at 79.

The Attorney General argued that Kentucky-American failed to meet its burden of proof under KRS 278.020(1) and has failed to satisfy the need component.[38] The Attorney General stated that none of the alleged benefits demonstrate there is an inadequacy of existing service, let alone a substantial inadequacy of existing service as required by the statute, and there has been no evidence in the record to indicate that current meters are overall not providing reliable service to customers.[39] Additionally, the Attorney General noted that the proposed AMI plan will result in the replacement of approximately 58.55 percent of all of Kentucky-American's 5/8-inch meters from 2024-2026.[40] The Attorney General argued that a replacement of almost 60 percent of meters over three years constitutes an accelerated pace, despite Kentucky-American stating it would not be replacing meters at an accelerated pace.[41] The Attorney General asserted that if Kentucky-American is allowed to revert back to a ten-year replacement cycle for 5/8-inch meters instead of the 15-year replacement cycle currently in place, customers will be required to pay for the substantial amounts still owed on existing meters and the accelerated replacement of the new meters.[42] The Attorney General argued that while Kentucky-American claims there are no stranded investments, that is only accurate if the Commission grants Kentucky-American's proposal to drastically increase and accelerate the depreciation rates for existing meters.[43]

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[38] Attorney General's Post-Hearing Brief (filed Jan. 5, 2024) at 26-28.

[39] Attorney General's Post-Hearing Brief at 26.

[40] Attorney General's Post-Hearing Brief at 27.

[41] Attorney General's Post-Hearing Brief at 27.

[42] Attorney General's Post-Hearing Brief at 27.

[43] Attorney General's Post-Hearing Brief at 27.

The Attorney General further argued that Kentucky-American has not met the wasteful duplication requirement because it limited its review to Badger and Neptune, the cost benefit analysis demonstrates that the existing AMR technology has the least cost net value, and that Kentucky-American did not include any potential savings attributable to the proposed AMI project in the proposed revenue requirement in the pending case.[44]

LFUCG recommended that meter depreciation expense be reduced from $2,243,128 to $326,595, a reduction of $1,916,533 to reflect a more reasonable approach to Kentucky-American's routine meter replacement schedule.[45] It also stated that the monthly service charge should not be increased because meter expenses are primarily allocated to the monthly service charge.[46]

Kentucky-American argued that it is no longer experiencing a reliable 15-year life for its meters and that the reliable life has been closer to ten years.[47] Additionally, Kentucky-American argued that it would be imprudent and irresponsible for it to keep meters in the field beyond their observed useful life and therefore, the Commission should not be persuaded by the arguments of the Attorney General and LFUCG and adopting the intervenor's arguments would penalize Kentucky-American and its customers.[48] Kentucky-American noted that it is not accelerating meter replacements and is only proposing to replace meters in a timely fashion to preserve and support reliability of

[44] Attorney General's Post-Hearing Brief at 28-29.

[45] LFUCG's Post-Hearing Brief (filed Jan. 5, 2024) at 5.

[46] LFUCG's Post-Hearing Brief at 6.

[47] Kentucky-American's Reply Brief (filed Jan. 12, 2024) at 3.

[48] Kentucky-American's Reply Brief at 3.

service which will be done without regard for whether new meters use AMI or AMR communication technology.[49]

Based upon the case record and being otherwise sufficiently advised, the Commissions finds that Kentucky-American failed to demonstrate a need for AMI meters for the following reasons. The Commission notes that it cannot approve a CPCN until both the "need" and "absence of wasteful duplication" prongs are satisfied. While Kentucky-American provided evidence that roughly 42,000 meters of approximately 142,000 total meters will need replacing in 2024,[50] it has failed to provide sufficient evidence that there is a substantial inadequacy of existing service. Instead, the only evidence Kentucky-American provided was that a large number of current meters are nearing the end of their useful lives and would need replacing. Kentucky-American also stated that there is currently no inadequacy of existing service, and its current meters are accurate.[51]

In previous cases, the Commission found that the existing meters used by the electric cooperatives were either discontinued or in the near future would no longer be manufactured or supported, and thus, the utilities established a need to upgrade the metering system in order to provide adequate, reliable service, and that the proposed AMI

[49] Kentucky-American's Reply Brief at 4.

[50] Kentucky-American's Post-Hearing Brief at 76.

[51] Melissa Schwarzell Hearing Video Transcript (HVT) of the Dec. 11, 2023 Hearing at 09:50:08-09:51:08.

systems were the least-cost alternative to address the utilities' metering needs.[52] The Commission acknowledges there is an operational difference between AMI meters used in water and electric utilities, but the requirements of KRS 278.020(1) remain the same regardless of the type of utility. Kentucky-American failed to provide any evidence its current meters will no longer be manufactured or supported in the near future or provided sufficient evidence of any inadequacy of existing service. Rather, Kentucky-American presented evidence that the current AMR model of meters are still available and not obsolete.[53]

Additionally, the Commission is not persuaded by Kentucky-American's argument that 20 years was the minimum amount of time for the cost benefit analysis and associated NPVs in order to create a reasonable match between costs and benefits. The Commission disagrees with the use of an NPV of 20 years because Kentucky-American's only argument for utilizing it was because benefits were not expected to be reflected until year 11. The Commission notes that Kentucky-American's cost-benefit analysis accurately and realistically reflected AMI benefits within the first ten years. The AMI meters only had a ten-year useful life, and therefore, the Commission evaluated the benefits of the meters within the useful life.

[52] Case No. 2017-00419, *Application of Grayson Rural Electric Cooperative Corporation of Grayson, Kentucky, for Commission Approval Pursuant to 807 KAR 5:001 and KRS 278.020 for a Certificate of Public Convenience and Necessity to Install an Advanced Metering Infrastructure (AMI) System* (Ky. PSC July 16, 2018), Order at 7-8; Case No. 2018-00056, *Application of Cumberland Valley Electric, Inc. for Commission Approval for a Certificate of Public Convenience and Necessity to Install an Advanced Metering Infrastructure (AMI) System Pursuant to 807 KAR 5:001 and KRS 278.020* (Ky. PSC July 9, 2018), Order at 11 ; Case No. 2016-00077, *Application of Licking Valley Rural Electric Cooperative Corporation for an Order Issuing a Certificate of Public Convenience and Necessity* (Ky. PSC Jan. 10, 2017) Order at 5-6.

[53] Melissa Schwarzell HVT of the Dec. 11, 2023 Hearing at 09:50:15-09:50:45.

The Commission also disagrees with Kentucky-American's arguments that AMI benefits are not expected to fully begin until years 11 through 20. The Commission notes that a ten-year NPV would not understate the benefits because Kentucky-American decided not to accelerate AMI deployment and attempt to reflect those benefits any earlier. The Commission agrees with the Attorney General and is skeptical that replacing almost 60 percent of the existing meters in three years is not considered accelerated replacement. The Commission notes that Kentucky-American stated that it could theoretically install AMI meters throughout its entire service territory by 2027, presuming adequate availability of labor and material resources and adequate allocation of capital.[54] The Commission notes that it is apparent that Kentucky-American could complete AMI installation within a shorter time, other than ten years, and still accurately reflect the AMI benefits if it requested and budgeted the appropriate resources to do so. Additionally, if Kentucky-American were to replace meters in a timely fashion, then it should have considered an accelerated replacement so that the meters could be installed in a reasonable and timely manner and provide maximum benefits for the duration of their useful lives. Therefore, the Commission finds that a 20-year NPV potentially significantly overstates the benefits of the cellular AMI meters within the cost-benefit analysis. Additionally, the Commission agrees with the Attorney General's argument that there would be potential stranded costs associated with AMI because Kentucky-American failed to provide sufficient evidence otherwise. The Commission notes that Kentucky-American only stated that it does not anticipate stranded assets rather than providing sufficient evidence that there would be no stranded assets associated with AMI.

[54] Kentucky-American's Response to Staff's First Request, Item 16(b).

The Commission also finds that Kentucky-American failed to prove an absence of wasteful duplication. Pursuant to KRS 278.020(1), a utility must, among other things, prove an absence of wasteful duplication, and demonstrate a thorough review of all reasonable alternatives has been performed.[55] While Kentucky-American considered the four different meter technology options mentioned above, it only reviewed pricing information from two vendors that its parent company, American Water, selected from a 2016 Request for Proposals (RFP).[56] The Commission has serious concern that a thorough review of all reasonable alternatives was not conducted and that Kentucky-American only considered two vendors which were selected by its parent company approximately eight years ago. The Commission expects Kentucky-American to review all viable meter options when considering AMI and cautions Kentucky-American on how it selects it vendors during the RFP process.

For the reasons stated above, the Commission finds that the CPCN for AMI meters should be denied. Additionally, the Commission finds that Kentucky-American's proposed tariff provision that would allow customers to opt-out of an AMI meter for a $28 monthly fee is moot and therefore should be denied.

IT IS THEREFORE ORDERED that:

1. Kentucky-American's request for a CPCN for AMI meters is denied.

2. Kentucky-American's proposed $28 monthly fee to opt-out of an AMI meter is moot and therefore denied.

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[55] Case No. 2005-00142, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for the Construction of Transmission Facilities in Jefferson, Bullitt, Meade, and Hardin Counties, Kentucky* (Ky. PSC Sept. 8, 2005).

[56] Kentucky American's Response to Staff's Second Request, Item 11.

3. Nothing in this Order shall be construed as prohibiting the Commission from issuing further Orders in this matter.

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PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ENTERED

APR 09 2024

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KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

Attachment 10

*Angela M Goad
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Larry Cook
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Honorable David J. Barberie
Managing Attorney
Lexington-Fayette Urban County Government
Department Of Law
200 East Main Street
Lexington, KENTUCKY 40507

*Mary Ellen Wimberly
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

*J. Michael West
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Jeffrey Newcomb
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

*Monica Braun
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*James W Gardner
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street
Suite 1400
Lexington, KENTUCKY 40507

*Rebecca C. Price
Sturgill, Turner, Barker & Moloney
155 East Main Street
Lexington, KENTUCKY 40507

*John G Horne, II
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Susan Speckert
Lexington-Fayette Urban County Government
Department Of Law
200 East Main Street
Lexington, KENTUCKY 40507

*Honorable Lindsey W Ingram, III
Attorney at Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*M. Todd Osterloh
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street
Suite 1400
Lexington, KENTUCKY 40507

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY-AMERICAN WATER COMPANY FOR AN ADJUSTMENT OF RATES, A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR INSTALLATION OF ADVANCED METERING INFRASTRUCTURE, APPROVAL OF REGULATORY AND ACCOUNTING TREATMENTS, AND TARIFF REVISIONS	)	CASE NO. 2023-00191

O R D E R

On May 16, 2024, Kentucky-American Water Company (Kentucky-American) filed a petition, pursuant to KRS 278.400, requesting a rehearing to correct five different material calculations of the Order entered May 3, 2024. On May 16, 2024, Kentucky-American also filed a motion for an informal conference (IC) pursuant to 807 KAR 5:001, Section 9(4). On May 21, 2024, the Attorney General, through his Office of Rate Intervention (Attorney General), and Lexington-Fayette Urban County Government (LFUCG) filed a joint petition for rehearing.[1] On May 23, 2024, LFUGC filed a response to Kentucky-American's petition for rehearing with no objections.[2] On May 23, 2024, Kentucky-American filed a response to the Attorney General and LFUCG's joint petition for rehearing (Joint Petition).[3] The Commission will address Kentucky-American's

[1] The Attorney General and LFUCG's Joint Petition for Rehearing (Joint Petition for Rehearing) (filed May 21, 2024).

[2] LFUCG's Response to Kentucky-American's Petition for a Rehearing (LFUCG's Response) (filed May 23, 2024).

[3] Kentucky-American's Response to Attorney General and LFUCG's Joint Petition for Rehearing (Kentucky-American's Response) (filed May 23, 2024).

petition for rehearing and motion for an IC as well as the joint petition for rehearing filed by the Attorney General and LFUCG in this Order.

LEGAL STANDARD

KRS 278.400, which establishes the standard of review for motions for rehearing, limits rehearing to new evidence not readily discoverable at the time of the original hearings, to correct any material errors or omissions, or to correct findings that are unreasonable or unlawful. A Commission Order is deemed unreasonable only when "the evidence presented leaves no room for difference of opinion among reasonable minds."[4] An order can only be unlawful if it violates a state or federal statute or constitutional provision.[5]

By limiting rehearing to correct material errors or omissions, and findings that are unreasonable or unlawful, or to weigh new evidence not readily discoverable at the time of the original hearings, KRS 278.400 is intended to provide closure to Commission proceedings. Rehearing does not present parties with the opportunity to relitigate a matter fully addressed in the original Order.

DISCUSSION AND FINDINGS

Kentucky-American's Motion

1. Effective Date for Amended Rates

Kentucky-American stated that any new rates approved through rehearing be effective for service rendered on and after February 6, 2024, which is the effective date

[4] *Energy Regulatory Comm'n v. Kentucky Power Co.*, 605 S.W.2d 46 (Ky. App. 1980).

[5] *Public Service Comm'n v. Conway*, 324 S.W.3d 373, 377 (Ky. 2010); *Public Service Comm'n v. Jackson County Rural Elec. Coop. Corp.*, 50 S.W.3d 764, 766 (Ky. App. 2000); *National Southwire Aluminum Co. v. Big Rivers Elec. Corp.*, 785 S.W.2d 503, 509 (Ky. App. 1990).

set forth in the Order.[6] Kentucky-American argued that the Commission has consistently held that such relief is appropriate.[7]

Having reviewed the relevant record, the rehearing pleadings, and being otherwise sufficiently advised, the Commission finds that Kentucky-American's request for rehearing for any amended rates to be effective for service rendered on or after February 6, 2024, should be granted in order to obtain additional information before rendering a decision on this issue.

Annual Qualified Infrastructure Program (QIP) In Present Rate Revenues

Kentucky-American argued that in removing the Qualified Infrastructure Program (QIP) expenses from the base rates, the Order failed to remove annual QIP revenues of $9,851,113 from Kentucky-American's present rate revenues, thereby understating Kentucky-American's annual revenue increase in base rates by $1,489,822.[8] Kentucky-American stated because of this inclusion, the Order resulted in an impact to and ultimately understates Kentucky-American's required revenue increase, which deviated from Kentucky-American's proposed revenue requirement.[9] Kentucky-American argued that the error creates a punitive mismatch, whereby the revenues received from the QIP are counted in base rates, but the expenses and rate base have been removed – thereby depriving Kentucky-American of an opportunity to earn the 9.70 percent return on equity (ROE) awarded by the Commission.[10] Kentucky-American also stated that this punitive

[6] Kentucky-American's Petition for Rehearing (Petition for Rehearing) (filed May 16, 2024) at 2.

[7] Petition for Rehearing at 2.

[8] Petition for Rehearing at 4.

[9] Petition for Rehearing at 4.

[10] Petition for Rehearing at 4-5.

mismatch can be further shown by applying the rates and charges reflected in Appendix B of the Order to Kentucky-American's billing determinants.[11] Kentucky-American stated that this results in base water and other revenues of $115,604,748, which would provide a ROE of 9.25 percent or an overall rate of return of 7.02 percent, on the $489,426,491 of rate base.[12]

Having reviewed the relevant record, the rehearing pleadings, and being otherwise sufficiently advised, the Commission finds that Kentucky-American's request for rehearing on the alleged failure by the Commission to remove QIP revenues from Kentucky-American's present rate revenues should be granted in order to obtain additional information before rendering a decision on this issue.

2. Income Tax Expense

Kentucky-American argued that the adjustments reflected in the Order increase Kentucky-American's taxable income through the removal of proposed expenses, but those adjustments also include a reduction to Kentucky-American's income tax expense, thereby understating the revenue increase.[13] Kentucky-American stated that despite utilizing a taxable income amount greater than that proposed by Kentucky-American, the Order nevertheless decreases Kentucky-American's state income tax expense by $565,343 and federal income tax expense by $2,255,717, as reflected in Appendix A to the Order.[14] Kentucky-American stated that there is no explanation in the Order regarding

[11] Petition for Rehearing at 5.

[12] Petition for Rehearing at 5.

[13] Petition for Rehearing at 2.

[14] Petition for Rehearing at 5.

the adjustments to tax expense.[15] Kentucky-American stated that given that Kentucky-American's state statutory tax rate is 5 percent of taxable income and its federal statutory tax rate is 21 percent, the Commission's increase in Kentucky-American's taxable income must result in a corresponding increase in Kentucky-American's tax expense.[16] Kentucky-American argued that instead, the Order decreases both amounts without justification.[17] Kentucky-American stated that the Commission's calculation of Kentucky-American's income tax expense results in an effective tax rate of only 9 percent – far below the Company's actual statutory tax rate of 24.95 percent.[18]

Having reviewed the relevant record, the rehearing pleadings, and being otherwise sufficiently advised, the Commission finds that Kentucky-American's request for rehearing as to the income tax expense should be granted in order to obtain additional information before issuing a decision on this issue.

3. Capital Structure

Kentucky-American argued that the Order states it utilized Kentucky-American's revised capital structure but appears to calculate the rate of return based upon Kentucky-American's initially-filed capital structure.[19] Kentucky-American stated that the revised capital structure would result in a pre-tax rate of return of 9.01 percent.[20] Kentucky-American stated that the total effect of the corrections identified in its rehearing request

[15] Petition for Rehearing at 5.

[16] Petition for Rehearing at 5.

[17] Petition for Rehearing at 5.

[18] Petition for Rehearing at 6.

[19] Petition for Rehearing at 2.

[20] Petition for Rehearing at 6.

results in a total revenue increase of $18,142,476, or a total base rate revenue requirement of $123,140,707.[21]

Having reviewed the relevant record, the rehearing pleadings, and being otherwise sufficiently advised, the Commission finds that Kentucky-American's request for rehearing as it relates to capital restructure should be granted. The Commission fully intended to utilize Kentucky-American's revised capital structure rather than its initially filed capital structure.

4. Bulk Sales Rate

Kentucky-American's rehearing petition stated that the Order entered May 3, 2024, contains two typographical errors related to bulk sales rates.[22] Kentucky-American stated that increasing the current bulk sales rate by 10.75 percent results in a rate of $0.1854 per 50 gallons.[23] Kentucky-American stated that Appendix B of the Order, however, contains a rate of $1.854 per 50 gallons and $3.7080 for 100 gallons, both of which appear to contain a decimal error.[24] Kentucky-American stated that it believes, absent other changes, that the correct bulk sales rates are $0.1854 per 50 gallons and $0.37080 for 100 gallons.[25]

Having reviewed the relevant record, the rehearing pleadings, and being otherwise sufficiently advised, the Commission finds that the rehearing request as it relates to the

[21] Petition for Rehearing at 7.

[22] Petition for Rehearing at 7.

[23] Petition for Rehearing at 7.

[24] Petition for Rehearing at 7.

[25] Petition for Rehearing at 7-8.

bulk sales rate is denied as moot. The Commission addressed this issue by *nunc pro tunc* on May 17, 2024.[26]

5. Transition of Judy Water Association to the Sale for Resale Rate

Kentucky-American stated that although the Order approved the transition of the Judy Water Association to the Sale for Resale rate, the Order set forth a separate (and higher) rate for the Judy Water Association: (1) $0.0050057 for the first 70,000 gallons per day and (2) $0.0051165 for over 70,000 gallons per day.[27]

Having reviewed the relevant record, the rehearing pleadings, and being otherwise sufficiently advised, the Commission finds that Kentucky-American's request for rehearing as to the issue of the transition of Judy Water Association to the Sale for Resale Rate should be granted. The Commission agrees that the rate should have the Sale for Resale rate rather than increasing its current tariff rate. The Commission finds that the Judy Water Association rate found in Appendix B of the May 3, 2023 Order should be stricken and replaced with the Sale for Resale rate of $0.0046912 per gallon. Additionally, the Commission acknowledges that transitioning the Judy Water Association to a lower rate class will create a revenue discrepancy between revenue rates and the Commission approved revenue increase. Therefore, the Commission notes that it will address any additional revenue requirement changes and rate impacts during discovery and in further Orders during this proceeding due to the potential for the overall revenue requirement to be modified which, therefore, has an impact on rates.

[26] Order (Ky. PSC. May 17, 2024) at 1.

[27] Petition for Rehearing at 8.

6. Request for Informal Conference

Kentucky-American also requested an informal conference as it stated that it may assist Commission Staff in the efficient review and evaluation of the Petition for Rehearing, and more particularly, the exhibits outlining the impacts of the errors. Kentucky-American stated that it is willing to appear in person or remotely by video.[28]

Based upon the motion, the Commission finds that Kentucky-American established good cause to schedule an IC, and therefore the motion should be granted. The Commission notes that the purpose of the IC is to address the issues granted for rehearing as laid out in this Order. An IC is scheduled on May 29, 2024, at 1:30 PM Eastern Daylight Time, at the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky.

Attorney General and LFUCG's Joint Petition

1. Capital Structure

The Attorney General and LFUCG stated that the Final Order erroneously utilized 9.07 percent instead of 9.007 percent for the rate of return.[29] The intervenors argue that the error inflates the awarded revenue requirement increase by approximately $308,339.[30]

In its response the Joint Petition, Kentucky-American agrees that the math is correct, however, it states that the calculation relied on a revenue conversion factor of 1.342559 or 134.259 percent instead of 1.342300 or 134.2300 percent as stated in

[28] Kentucky-American's Motion for Information Conference (filed May 16, 2024) at 1.

[29] Joint Petition for Rehearing at 2.

[30] Joint Petition for Rehearing at 3.

Kentucky-American's Petition for Rehearing.[31] Kentucky-American states that the rate of return would result in 9.006 percent, or 9.01 percent if rounded.[32] Kentucky-American did not object to the request for a rehearing on the matter.

Having reviewed the relevant record, the rehearing pleadings, and being otherwise sufficiently advised, the Commission finds that the Attorney General and LFUCG's request for rehearing as it relates to capital structure should be granted. A rehearing was granted to Kentucky-American on this same issue.

2. Revenue Requirement Calculation

The Attorney General and LFUCG stated that it is unclear whether Kentucky-American's rate increase in the May 3, 2024 Order was properly calculated utilizing Kentucky-American's revised revenue requirement increase of $25,563,294, or erroneously calculated based upon the original requested revenue requirement increase of $26,051,999.[33] The Attorney General and LFUCG point out that Kentucky-American revised its requested rate increase downward to $25,563,294, partially in response to the Attorney General's discovery, but that a higher, original requested rate increase was utilized to determine the awarded revenue requirement increase in Appendix A of the May 3, 2023 Order and that it is unclear whether the Commission incorporated the updated $503,644 reduction in rate increase.[34] The Attorney General and LFUCG request

[31] Kentucky-American's Response at 2.

[32] Kentucky-American's Response at 2.

[33] Joint Petition for Rehearing at 3.

[34] Joint Petition for Rehearing at 3.

clarification on this issue and further requested that if the $503,644 reduction was not included that it constitutes a material error that should be corrected.[35]

In Kentucky-American's response to the Joint Petition, it agreed that the as-filed revenue requirement requested increase was $26,051,990 and that Kentucky-American revised it to $25,563,294.[36] Kentucky-American stated that the Commission has everything needed to correct those errors and authorize revised and correct rates.[37] Kentucky-American did not object to the request for rehearing on this issue.

Having reviewed the relevant record, the rehearing pleadings, and being otherwise sufficiently advised, the Commission finds that the Attorney General and LFUCG's request for a rehearing should be granted to further investigate whether all items were included in the revenue requirement.

The Commission, on its own motion, finds that a procedural schedule should be established for the orderly processing of matters addressed in this Order. The procedural schedule is attached as an Appendix to this Order.

IT IS THEREFORE ORDERED that:

1. Kentucky-American's petition for rehearing is granted, in part, and denied, in part.

2. Kentucky-American's request that any amended rates amended by rehearing will be effective for service rendered on or after February 6, 2024, is granted

[35] Joint Petition for Rehearing at 5.

[36] Kentucky-American's Response at 2.

[37] Kentucky-American's Response at 2.

for the sole purpose of obtaining additional information before rendering a decision on this issue.

3. Kentucky's petition for rehearing as it relates to annual QIP revenue in present rate revenues, income tax expense, capital structure, and transition of Judy Water Association to the Sale for Resale rate is granted.

4. The Judy Water Association rate found in Appendix B of the May 3, 2023 Order should be stricken and replaced with the Sale for Resale rate of $0.0046912 per gallon.

5. Kentucky-American's petition for rehearing as it relates to the current bulk system sales is denied.

6. Kentucky-American's request for informal conference is granted.

7. An IC is scheduled on May 29, 2024, at 1:30 p.m. Eastern Daylight Time at the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky.

8. The Attorney General and LFUCG's petition for a rehearing is granted as to both issues.

9. The procedural schedule set forth in the Appendix to this Order shall be followed.

10. Kentucky-American shall respond to all requests for information propounded by Commission Staff, whether identified on the procedural schedule or otherwise, as provided in those requests.

11. The remainder of the May 3, 2024 Order, as amended *nunc pro tunc by May 17, 2024 Order*, not in conflict with this Order remains in effect.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ENTERED

MAY 28 2024 rcs

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2023-00191 DATED MAY 28 2024

Informal Conference 05/29/2024

All requests for information to Kentucky-American shall be filed no later than 06/07/2024

Kentucky-American shall file responses to requests for information no later than 06/19/2024

All requests for information to Intervenors shall be filed no later than 07/03/2024

Intervenors shall file responses to requests for information no later than 07/17/2024

Kentucky-American or any Intervenor shall request either a hearing or that the case be submitted for decision based on the record no later than 07/26/2024

Attachment 10

*Angela M Goad
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Larry Cook
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Honorable David J. Barberie
Managing Attorney
Lexington-Fayette Urban County Government
Department Of Law
200 East Main Street
Lexington, KENTUCKY 40507

*Mary Ellen Wimberly
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

*J. Michael West
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Jeffrey Newcomb
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

*Monica Braun
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*James W Gardner
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street
Suite 1400
Lexington, KENTUCKY 40507

*Rebecca C. Price
Sturgill, Turner, Barker & Moloney
155 East Main Street
Lexington, KENTUCKY 40507

*John G Horne, II
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Susan Speckert
Lexington-Fayette Urban County Government
Department Of Law
200 East Main Street
Lexington, KENTUCKY 40507

*Honorable Lindsey W Ingram, III
Attorney at Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*M. Todd Osterloh
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street
Suite 1400
Lexington, KENTUCKY 40507

Attachment 10

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY-AMERICAN WATER COMPANY FOR AN ADJUSTMENT OF RATES, A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR INSTALLATION OF ADVANCED METERING INFRASTRUCTURE, APPROVAL OF REGULATORY AND ACCOUNTING TREATMENTS, AND TARIFF REVISIONS	))))))))	CASE NO. 2023-00191

O R D E R

On May 3, 2024, the Commission issued a final Order in this matter approving a rate adjustment for Kentucky-American Water Company (Kentucky-American). The final Order erroneously listed the rate for Kentucky-American's bulk water sales through loading stations in Appendix B.

Finding that the May 3, 2024 Order should be amended, the Commission HEREBY ORDERS, *nunc pro tunc*, that:

1. Appendix B, page 2, Bulk Sales (Through Loading Stations) is stricken and is replaced with the following language:

Bulk Sales (Through Loading Stations)

Rate per 50 Gal	$0.185400
Rate per 100 Gal	$0.370800

2. All other provisions of the Commission's May 3, 2024 Order that are not in conflict with the terms of this Order shall remain in effect.

3. Nothing in this Order shall prevent the Commission from issuing additional orders on this issue if raised in subsequent pleadings.

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PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ENTERED
MAY 17 2024
bsb
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Executive Director

Attachment 10

*Angela M Goad
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Larry Cook
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Honorable David J. Barberie
Managing Attorney
Lexington-Fayette Urban County Government
Department Of Law
200 East Main Street
Lexington, KENTUCKY 40507

*Mary Ellen Wimberly
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

*J. Michael West
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Jeffrey Newcomb
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

*Monica Braun
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*James W Gardner
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street
Suite 1400
Lexington, KENTUCKY 40507

*Rebecca C. Price
Sturgill, Turner, Barker & Moloney
155 East Main Street
Lexington, KENTUCKY 40507

*John G Horne, II
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Susan Speckert
Lexington-Fayette Urban County Government
Department Of Law
200 East Main Street
Lexington, KENTUCKY 40507

*Honorable Lindsey W Ingram, III
Attorney at Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*M. Todd Osterloh
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street
Suite 1400
Lexington, KENTUCKY 40507

TENNESSEE AMERICAN WATER COMPANY
TENNESSEE PUBLIC UTILITY COMMISSION
DOCKET NO. 24-00032
SECOND DISCOVERY REQUEST OF THE TPUC STAFF

Responsible Witness: Nicholas Furia

Question 4:

Provide the projected capital structure for American Water Works Company for the attrition year ended December 31, 2025. Provide that projected cost rate associated with each element of the capital structure except common equity. Provide the cost rates for all elements of the capital structure except common equity of American Water Works Company as identified in the response to MFG 66 as of December 31, 2023.

Response:

The projected capital structure and cost rate of long-term debt and preferred stock of American Water Works Company for the attrition year ended December 31, 2025, are not available.

For the embedded cost of long-term debt and preferred stock as of December 31, 2023, please refer to the response provided in MFG 73 in CONFIDENTIAL Attachments 1 (pages 7-8) and 2 (page 4).

TENNESSEE AMERICAN WATER COMPANY
TENNESSEE PUBLIC UTILITY COMMISSION
DOCKET NO. 24-00032
SECOND DISCOVERY REQUEST OF THE TPUC STAFF

Responsible Witness: Nicholas Furia

Question 5:

Referring to the Direct Testimony of Nicholas Furia, Schedule CS-1.3, identify the lender associated with the 7.84% Series General Mortgage Bond. Is the lender affiliated with Tennessee American Water Company or American Water Works Company? What percentage of TAWC's projected attrition year total capitalization does the carrying value of the 7.84% Series General Mortgage Bond comprise? Upon maturity of the 7.84% Series General Mortgage Bond in 2026, does the Company intend to replace the indebtedness with funding from AWCC?

Response:

The current holder of the 7.84% Series General Mortgage Bond is not affiliated with Tennessee American Water Company or American Water Works Company. The carrying value of the 7.84% Series General Mortgage Bond of $5,697,333 is approximately 1.8% of TAWC's projected attrition year total capitalization of $318,918,691. The Company has not made a final determination as to how the indebtedness will be replaced. We will evaluate alternatives as the maturity date of the debt approaches.

TENNESSEE AMERICAN WATER COMPANY
TENNESSEE PUBLIC UTILITY COMMISSION
DOCKET NO. 24-00032
SECOND DISCOVERY REQUEST OF THE TPUC STAFF

Responsible Witness: Ann Bulkley

Question 6:

Provide measures of the BETA statistic for American Water Works Company to allow calculation of equity return for each variant of the Capital Asset Pricing Model found in Exhibit AEB-5 of the Direct Testimony of Anne Bulkley and Exhibit AEB-3 of the Rebuttal Testimony of Anne Bulkley. Provide all necessary data for American Water Works Company to allow calculation of the Discounted Cash Flow equity return estimates as found in Exhibit AEB-4 of the Direct Testimony of Anne Bulkley and her Rebuttal Exhibit AEB-2.

Response:

Please see Confidential Attachment 6-1 through Attachment 6-6 for the requested information. A table has been provided below for your reference.

Exhibit	Data	Attachment Number
AEB-5 (Direct)	Value Line Beta	6-1
	Bloomberg Beta	The Bloomberg Beta is downloaded from Bloomberg Professional. The Beta for AWK as of March 31, 2024 was 0.87.
	Value Line Long Term Average Beta	The Value Line Long Term Average Beta is downloaded from Value Line. The long-term average is 0.73.
AEB-3 (Rebuttal)	Value Line Beta	6-2
	Bloomberg Beta	The Bloomberg Beta is downloaded from Bloomberg Professional. The Beta for AWK as of August 31, 2024 was 0.85.
	Value Line Long Term Average Beta	The Value Line Long Term Average Beta is downloaded

		from Value Line. The long-term average is 0.73.
AEB-4 (Direct) growth rates	Value Line	The 3-5 year projected EPS growth rate as reported by Value Line as of March 31, 2024 was 3.0% and is provided in Attachment 6-1.
	Yahoo! Finance	The 5-year projected EPS growth rate as reported by Yahoo!Finance as of March 31, 2024 was 7.5% and is provided in Attachment 6-3
	Zacks	The 5-year projected EPS growth rate as reported by Zacks as of March 31, 2024 was 7.8% and is provided in Attachment 6-4
AEB-2 (Rebuttal) Growth rates	Value Line	The 3-5 year projected EPS growth rate as reported by Value Line as of August 31, 2024 was 4.5% and is provided in Attachment 6-2
	Yahoo! Finance	The 5-year projected EPS growth rate as reported by Yahoo!Finance as of August 31, 2024 was 7.5% and is provided in Attachment 6-5
	Zacks	The 5-year projected EPS growth rate as reported by Zacks as of August 31, 2024 was 8.0% and is provided in Attachment 6-6

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

Shilina B. Brown, Esq.
Assistant Attorney General
Office of the Tennessee Attorney General
Consumer Advocate Division
P.O. Box 20207
Nashville, TN 37202-0207
Shilina.Brown@ag.tn.gov

Victoria B. Glover, Esq.
Assistant Attorney General
Office of the Tennessee Attorney General
Consumer Advocate Division
P.O. Box 20207
Nashville, TN 37202-0207
Victoria.Glover@ag.tn.gov

Phillip A. Noblett, Esq.
City Attorney
Valerie Malueg, Esq.
Kathryn McDonald
Assistant City Attorneys
100 East 11th Street, Suite 200
City Hall Annex
Chattanooga, TN 37402
pnoblett@chattanooga.gov
vmalueg@chattanooga.gov
kmcdonald@chattanooga.gov
Attorneys for the City of Chattanooga

Frederick L. Hitchcock, Esq.
Cathy Dorvil, Esq.
Chambliss, Bahner & Stophel, P.C.
Liberty Tower
605 Chestnut Street, Suite 1700
Chattanooga, TN 37450
rhitchcock@chamblisslaw.com
cdorvil@chamblisslaw.com
Attorneys for the City of Chattanooga

Scott P. Tift, Esq.
David W. Garrison, Esq.
Barrett Johnston Martin & Garrison, PLLC
200 31st Avenue North
Nashville, TN 37203
stift@barrettjohnston.com
dgarrison@barrettjohnston.com
Union Counsel

This the 14th day of November 2024.

Melvin J. Malone