

AP STATEMENT NO. 3

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

AQUA PENNSYLVANIA, INC.

DOCKET NO. R-2018-3003068

**DIRECT TESTIMONY OF
ERIN M. FEENEY**

**With Regard To
Various Expense Adjustments**

August 17, 2018

1 **I. INTRODUCTION AND SCOPE OF TESTIMONY**

2 **Q. What is your name and business address?**

3 A. My name is Erin M. Feeney. My business address is 762 W. Lancaster Avenue, Bryn Mawr,
4 Pennsylvania 19010.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by Aqua Pennsylvania, Inc. (“Aqua PA”, “AP”, or the “Company”) as a
7 Financial Analyst II.

8 **Q. Please describe your education and business experience.**

9 A. I graduated from La Salle University in 2012 with a Bachelor of Science degree in Business
10 Administration, with a major in Accounting. I have also completed the Utility Rate School
11 course sponsored by the National Association of Regulatory Utility Commissioners.

12 I have been employed by Aqua PA or Aqua Services, Inc. (“Aqua Services”), the service
13 company for Aqua America, Inc. (“Aqua America”), since 2009. Throughout my university
14 education, I worked at Aqua Services part-time in a variety of departments, including
15 Finance Projects, Tax, and Financial Planning and Analysis. Upon graduation, I was hired as
16 a full-time Financial Analyst in the Financial Planning and Analysis (“FP&A”) department,
17 and in 2014 I was promoted to a Financial & Systems Analyst. My duties in the FP&A
18 department included developing, preparing and maintaining financial reports, variance
19 analysis and other financial models while closely supporting the budgeting and long term
20 planning needs of Aqua America’s subsidiaries. In 2016, I transferred to Aqua PA where I
21 filled my current role in the Rates & Planning Department.

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1 **Q. What are your duties as a Financial Analyst II in Rates & Planning?**

2 A. I assist in the preparation of rate filings, quarterly and annual filings for Distribution System
3 Improvement Charge (“DSIC”) surcharges, earnings report filings and tariff updates. I build
4 and maintain financial reports, variance analysis, ad hoc reports, and other complex financial
5 models while streamlining these processes and automating reports. I report directly to the
6 Manager, Financial Analysis of Aqua PA.

7 **Q. What is the purpose of your testimony?**

8 A. The purpose of my testimony is to identify and describe various expense adjustments in
9 Exhibits 1-A and 1-B submitted in support of Aqua PA’s proposed rate increase for water
10 and wastewater operations, respectively, including; (1) the general price level adjustment; (2)
11 uncollectible accounts; (3) insurance expense; (4) purchased power expense; (5) chemical
12 expense; (6) purchased water expense; (7) water production adjustment; (8) purchased
13 wastewater treatment expense; (9) the elimination of the National Association of Water
14 Companies (“NAWC”) lobbying expense; and (10) the adjustments for the Pennsylvania
15 Public Utility Commission (“PUC”), Office of Consumer Advocate (“OCA”), and Office of
16 Small Business Advocate (“OSBA”) General Assessments.

17 **Q. For which of the Company’s Exhibits are you responsible?**

18 A. I am responsible for portions of the primary accounting exhibits for water and wastewater
19 operations, respectively, Exhibits 1-A and 1-B. In addition, I assisted in the preparation of the
20 following backup volumes that contain responses to the Commission’s standard rate case

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1 filing requirements with respect to: A. Statement of Income, B. Operating Revenues, C.
2 Operating Expenses, E. Rate Base, G. Rate of Return and J. Balance Sheet.

II. OPERATING EXPENSE ADJUSTMENTS

4 **Q. Please explain the General Price Level Adjustment appearing on Schedule C-4.1 of**
5 **Exhibits 1-A and 1-B.**

6 A. This adjustment reflects the anticipated effect of inflation on operating expenses that were not
7 specifically adjusted in this case. The future test year (“FTY”) adjustment in Exhibits 1-A
8 and 1-B is derived from the total pro forma historic test year (“HTY”) operating expenses,
9 less the amounts specifically adjusted in this filing or not otherwise subject to inflation. The
10 remaining amount which is subject to the effect of inflation is then multiplied by the average
11 GDP chained price index forecast from the second quarter of 2018 through the first quarter of
12 2019 to arrive at the inflationary increase amount for the twelve months ending March 31,
13 2019. The fully projected future test year (“FPFTY”) adjustment in both Exhibits is derived
14 from the total pro forma FTY operating expenses, less the amounts specifically adjusted in
15 this filing or not otherwise subject to inflation. The remaining amount which is subject to the
16 effect of inflation is then multiplied by the average GDP chained price index forecast from
17 the second quarter of 2019 through the first quarter of 2020¹ to arrive at the inflationary
18 increase amount for the twelve months ending March 31, 2020.

19 **Q. Please describe Schedule C-4.10, which is titled, “Specific Expenses Not Subject To**
20 **Inflation”.**

¹ The index data for both adjustments was obtained from the Blue Chip Economic Indicators, dated January 10, 2018. Data for the first quarter of 2020 is not available in the Blue Chip Report; therefore data from the prior quarter was used. The calculation for the annual rate can be found in Schedule C-4.1.i in both Exhibits 1-A and 1-B.

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1 A. This schedule lists those expenses that are not separately adjusted for or are otherwise not
2 subject to growth from inflation. As I explained earlier, these expenses were eliminated from
3 the operating expenses subject to the inflationary adjustment in Schedule C-4.1.

4 **Q. Please explain the adjustment to Uncollectible Accounts expense on Schedule C-4.2 of**
5 **Exhibits 1-A and 1-B.**

6 A. The Company's claims for uncollectible accounts expense were developed by applying the
7 three year average factor of net write-offs (as supported in Schedule C-4.2.i) to the HTY,
8 FTY and FPFTY level revenues at present rates for both Exhibits 1-A and 1-B.

9 The annualized uncollectible accounts factor was calculated by utilizing the Company's
10 actual write-off experience for the three years ended March 31, 2018 divided by the Total
11 Sales to General Customers for the three years ended March 31, 2018. For water, Schedule
12 C-4.2.i in Exhibit 1-A calculates an annualized uncollectible accounts factor of 0.51060%.
13 For wastewater, Schedule C-4.2.i in Exhibit 1-B calculates an annualized uncollectible
14 accounts factor of 1.17051%.

15 **Q. Please explain the adjustment to Insurance Expense on Schedule C-4.6 of Exhibits 1-A**
16 **and 1-B.**

17 A. The Company has insurance policies for General Liability, Workers Compensation, Vehicle,
18 and Miscellaneous Other (Surety Bonds, Flood, Executive Risk, etc.) forms of coverage. The
19 policies in effect are reviewed and analyzed annually by the Company and its third-party
20 insurance broker and carrier, utilizing a multi-year claims history to determine the required
21 reserve necessary for each type of insurance. The Company's historical average annual

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1 increase in this expense line was 5.06% for the years 2014 through 2018. This average, along
2 with the most recent actual premiums experienced in 2018 were utilized as a basis for the
3 FTY ended March 31, 2019 and FPFTY March 31, 2020 claims. The amounts calculated for
4 both the FTY and FPFTY were reduced by the appropriate amounts not charged to operating
5 expense.

6 **Q. Please explain the adjustment to Purchased Power detailed in Schedule C-6.1 of**
7 **Exhibits 1-A and 1-B.**

8 The Purchased Power Expense in both of the referenced exhibits is composed of two
9 classifications – Electric (Schedule C-6.1.i) and Gas (Schedule C-6.1.ii).

10 The electric purchased power expense claim on Schedule C-6.1.i was generally derived by
11 multiplying projected usage by electric power supply rates through the FPFTY. For water
12 operations, usage adjustments were made to reflect changes in usage of new utility accounts
13 that did not have a full twelve months of operation in the HTY, exclusive of acquisitions.

14 There were no such adjustments made for wastewater electric usage in Exhibit 1-B. Electric
15 costs for the HTY reflected are based on current rates. Electric costs were adjusted based on
16 current contract rates through the FPFTY. For non-contracted electric power supply rates, a
17 2% annual increase was assumed.

18 With respect to its water operations, Aqua also participates in supply, utility and PJM peak
19 and demand response programs where possible to reduce electric costs. Additionally, the
20 Company utilizes solar generated power at its Pickering and Ingrams Mill treatment plants
21 that produce electric savings in the form of usage reductions. Both the program-related costs

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1 savings and solar power-related usage reductions are shown in Schedule C-6.1.i of Exhibit 1-
2 A. Because the Constellation and PECO Act 129 program rebates have been highly variable
3 in the past, the Company's FTY and FPFTY rebate values are less than the HTY value.

4 In the gas purchased power expense claim, as shown on Schedules C-6.1.ii, costs for the
5 HTY are based on current rates and with an assumed 10% increase in the FTY and no
6 additional increase for the FPFTY. Projected cost escalations for natural gas are based on
7 U.S. Energy Information Administration "EIA" estimates.

8 **Q. Please explain the adjustment to Chemicals Expense in Schedule C-6.2 of Exhibits 1-A**
9 **and 1-B.**

10 A. The Company utilizes various chemicals in the water and wastewater treatment process. In
11 order to secure the best available pricing, the Company conducts a competitive bidding
12 process to establish unit price contracts for the chemical requirements at its various treatment
13 plants. The claim for chemical expense in Schedule C-6.2 for Exhibit 1-A was developed by
14 first determining the cost per million gallons produced for this historic test year. This cost
15 was then further increased in both the FTY and FPFTY by the compound annual growth rate
16 of 4.21% for the proceeding three years ended March 2017, 2016, and 2015. The resulting
17 cost per million gallons was multiplied by the production send out in millions of gallons for
18 the twelve months ended March 31, 2018, to arrive at the Chemical Expense rate adjustments
19 for both the FTY and FPFTY. The claim for chemical expense in Schedule C-6.2 of Exhibit
20 1-B was calculated by taking the average chemical expense for the three years ended March
21 31, 2018, normalized for acquisitions to arrive at the claim for the FTY and FPFTY.

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1 **Q. Please explain the adjustment to Purchased Water Expense detailed in Schedule C-7.1**
2 **of Exhibit 1-A.**

3 A. The purchased water expense claim was generally derived by taking HTY gallons, adjusted
4 to reflect the termination of purchases from the Bucks County Water and Sewer Authority as
5 discussed by Mr. Packer in AP Statement No. 1, and then applying current rates - adjusted to
6 reflect the following projected increases from the Philadelphia Water Department (9%),
7 Chester Water Authority (10%), Downingtown Municipal Authority (2%), and Aqua Ohio
8 (3.5%) that are expected to become effective in 2019 for all, and in 2020 for Downingtown
9 and Aqua Ohio - to estimated FTY and FPFTY levels.

10 **Q. Explain the adjustment to Purchased Wastewater Treatment Expense in Schedule C-7.1**
11 **of Exhibit 1-B.**

12 A. The Company's claim for purchased wastewater treatment expense normalizes the cost of
13 services provided by two wastewater treatment providers for the Company's Beech Mountain
14 and Village at Valley Forge service areas. The service providers are Butler Township Sewer
15 Authority and Upper Merion Sewer.

16 **Q. Please explain the Water Production Adjustment on Schedule C-7.2 of Exhibit 1-A.**

17 A. The Company sets forth an adjustment to operating expenses to reflect changes in power and
18 chemical costs due to changes in water production. As a result of eliminating the portion of
19 the Company's purchased water sourced from Bucks County Water and Sewer Authority –
20 Bensalem, the Company is claiming the production costs associated with producing its own
21 water in the FTY and FPFTY. Additionally, the Company has set forth an adjustment to

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1 address the trend of declining residential consumption as discussed in detail by Ms. Marquis
2 in AP Statement No. 2. As a result, the Company is reflecting a reduction of expenses
3 associated with the decreased production. The production cost per thousand gallons was
4 applied to the estimated change in gallons produced for the FTY and FPFTY.

5 **Q. Schedule C-9.2 of Exhibit 1-A lists an adjustment to remove NAWC lobbying expenses.**

6 **Can you please explain this adjustment?**

7 A. Consistent with past rate cases, the lobbying portion of the annual dues paid to the NAWC
8 has been removed from the Company's operating expense claim. The resulting adjustment
9 reduces pro-forma operating expense by \$32,926.

10 style="text-align:center">**III. OTHER EXPENSES**

11 **Q. Please explain the adjustments for Commission, OCA and OSBA General Assessments**
12 **within Exhibits 1-A and 1-B.**

13 A. The adjustment set forth on Schedules D-2.1 and D-2.2 of Exhibits 1-A and 1-B are based on
14 the actual Commission, OCA and OSBA assessment factors billed for the fiscal year April 1,
15 2017 to March 31, 2018. The assessed rates were applied to Gross Utility Revenues at
16 present rates for the FTY and FPFTY and at proposed rates for the FPFTY.

17 style="text-align:center">**IV. CONCLUSION**

18 **Q. Does that conclude your testimony at this time?**

19 A. Yes, it does, but I reserve the right to supplement my testimony as needed during this
20 proceeding.

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 NOTES TO STATEMENT OF INCOME
 OPERATING EXPENSES
 PURCHASED WATER EXPENSE

The Company summarized the actual gallons and expenses from each of its purchased water vendors and projected the Future Test Year and Fully Projected Future Test Year expense claim using historical test year gallons, adjusted to reflect the termination of purchases from Bucks County for the Bensalem Account and new rates that are scheduled to be in effect during the future test years.

LINE NO.	DESCRIPTION	PRESENT RATES 3/31/2019 AMOUNT	PRESENT RATES 3/31/2020 AMOUNT	
1	Claimed Purchased Water Expense	\$ 4,539,857	\$ 4,766,281	‡
2	Less: Amount Charged to Operating Expense			
3	During the Twelve Months Ended 3/31/2018	5,168,610		
4	Less: Present Rates 3/31/2019		4,539,857	
5	Increase/(Decrease)	<u>\$ (628,754)</u>	<u>\$ 226,424</u>	
6	Pro Forma Adjustment:			
7	6101	\$ (628,754)	\$ 226,424	

‡ : Amount removed for Inflation Adjustment (Schedule C-4.1)

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 NOTES TO STATEMENT OF INCOME
 OPERATING EXPENSES
 PURCHASED WATER - DETAIL BY SUPPLIER

LINE NO.	Supplier	Account Name	PRESENT RATES 3/31/2016		PRESENT RATES 3/31/2017		PRESENT RATES 3/31/2018		PRESENT RATES 3/31/2019		PRESENT RATES 3/31/2020	
			GALLONS	AMOUNT \$	GALLONS	AMOUNT \$	GALLONS	AMOUNT \$	GALLONS	AMOUNT \$	GALLONS	AMOUNT \$
1	Bucks County Water Authority and Sewer	Bensalem & Southampton	1,285,845,000	\$ 7,287,208	1,287,043,000	\$ 7,678,841	133,546,000	\$ 830,403	-	\$ -	-	\$ -
2	Philadelphia Water Department	Tinicum and Cheltenham	551,800,000	\$ 3,573,971	532,400,000	\$ 3,348,204	507,300,000	\$ 3,253,142	519,700,000	\$ 3,432,060	519,700,000	\$ 3,609,750
3	Chester Water Authority	Ridley	141,807,000	\$ 414,942	141,081,000	\$ 412,859	142,945,000	\$ 418,208	143,192,000	\$ 422,581	143,192,000	\$ 460,809
4	Chester Water Authority	Cheyney Rd	53,136,000	\$ 190,300	51,192,000	\$ 183,838	50,927,000	\$ 183,145	51,402,000	\$ 187,601	51,402,000	\$ 203,257
5	Aqua Ohio	Shenango	23,730,000	\$ 163,311	23,399,000	\$ 169,001	28,302,300	\$ 211,020	29,764,669	\$ 229,243	25,492,043	\$ 204,668
6	Chester Water Authority	Birney Highway	36,833,000	\$ 121,191	38,157,000	\$ 126,422	38,648,000	\$ 128,064	38,759,000	\$ 131,574	38,759,000	\$ 144,731
7	Downingtown Municipal Authority	Rock Raymond	84,494,000	\$ 81,959	93,215,000	\$ 90,794	89,174,000	\$ 89,448	84,704,000	\$ 86,066	84,704,000	\$ 87,787
8	Chester Water Authority	Pocopson	-	\$ 4,391	-	\$ 4,391	-	\$ 4,391	-	\$ 4,391	-	\$ 4,830
9	Philadelphia Water Department	Miquon	991,848	\$ 9,527	1,478,796	\$ 12,408	1,313,488	\$ 11,350	1,457,852	\$ 11,918	1,344,156	\$ 12,526
10	Chester Water Authority	Eddystone	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -
11	Phoenixville Water	Schuylkill	1,120,000	\$ 2,240	1,205,000	\$ 2,410	1,129,000	\$ 2,258	1,062,000	\$ 2,124	1,062,000	\$ 2,124
12	Philadelphia Water Department	Knights Rd	-	\$ 1,610	-	\$ 1,555	-	\$ 1,166	-	\$ -	-	\$ -
13	Can Do Inc - Water Division	Sand Springs	1,073,000	\$ 14,105	6,560,000	\$ 31,863	7,418,000	\$ 31,432	7,107,708	\$ 30,300	8,453,375	\$ 33,799
14	Shamokin Dam Borough		-	\$ 2,000	-	\$ 2,000	-	\$ 2,000	-	\$ 2,000	-	\$ 2,000
15												
16	Total		2,180,829,848	\$ 11,866,756	2,175,730,796	\$ 12,064,585	1,000,702,788	\$ 5,166,026	877,149,229	\$ 4,539,857	874,108,574	\$ 4,766,281