AQUA PENNSYLVANIA, INC.
AQUA PENNSYLVANIA WASTEWATER, INC.

STATEMENT OF SPECIFIC REASONS FOR PROPOSED INCREASE IN RATES

Aqua Pennsylvania, Inc. ("Aqua PA" or the "Company") on its own behalf and on behalf of its wholly-owned subsidiary Aqua Pennsylvania Wastewater, Inc., filed, respectively, Original Tariff Water – PA P.U.C. No. 4 ("Tariff Water No. 4") and Original Tariff Sewer – PA P.U.C. No. 4 ("Tariff Sewer No. 4") to become effective on July 22, 2024. Based on the financial and accounting data submitted in support of those tariffs, the Company's proposed base rates will produce an increase in total annual operating revenues of $126,675,472, or approximately 18.88% over the level of revenues anticipated for the fully projected future test year ending December 31, 2025. The proposed base rates set forth Tariff Water No. 4 and Tariff Sewer No. 4 in the majority of the Company's divisions will have a proposed rate increase in charges for water and wastewater service by varying amounts. The specific reasons for the proposed increase in total operating revenues are summarized below.

Rate Increase

The Company last filed for base rate increases for its water and wastewater operations in August 2021 - almost three years ago. During the intervening period since the end of the fully projected future test year in the last case, the Company will have invested approximately $950 million in utility infrastructure through December 31, 2025, which represents an increase of approximately 16% in the original cost of the Company's physical assets (property, plant and equipment) used and useful in providing utility service. These substantial investments in new utility infrastructure, include, but are not limited to, distribution main replacement, water and wastewater treatment plant rehabilitation, addressing emerging contaminants, well rehabilitation, and upgrades to pumping facilities. Investments such as this and similar projects are crucial to maintain the indispensable service the Company's customers have come to expect. This includes addressing aging infrastructure and enabling the Company to meet increasingly stringent state and federal environmental regulations.

The Company has invested in projects that have reduced its production costs and purchased water expense. In addition, the Company has engaged in concerted efforts to control discretionary operating expenditures. However, various operating expenses have increased consistent with national trends, increasingly stringent standards and regulations related to emerging contaminants, and these increases are reflected in the filing.

Due in large part to its substantial additional investment in utility plant and increases in various non-discretionary cost items, the Company's overall rate of return, at present rates, is projected to be only 6.02% for the fully projected future test year. More importantly, the indicated return on common equity under present rates is anticipated to be 7.47%, which is inadequate and less than required to provide the Company with a reasonable opportunity to attract the additional capital needed to finance future water and wastewater plant improvements.

The requested rate levels would produce an overall rate of return of 7.90% and a rate of return on common equity of 10.95% on the Company's claimed original cost measure of value. These return levels are consistent with those recommended by Mr. Paul R. Moul – an expert on the subject of rate of return.[1]

Supporting Data

Along with Tariff Water No. 4 and Tariff Sewer No. 4, the Company filed all of the supporting data required by the Pennsylvania Public Utility Commission's ("PUC" or the "Commission") regulations for the historical test year ended December 31, 2023, the future test year ending December 31, 2024, and the fully projected future test year ending December 31, 2025. The Company is submitting separate revenue requirement studies for its water and wastewater operations (*see* AP Exhibit Nos. 1-A through 1-B (Water) and 1-C through 1-E (Wastewater)). The Company has included the revenue requirement studies in a consolidated rate increase filing pursuant to authority conferred by Section 1311(c) of the Pennsylvania Public Utility Code, 66 Pa.C.S. § 1311(c). Because the Company is basing its claim principally on the

[1] Mr. Moul's rate of return recommendations are being filed herewith as Exhibit 4 and are summarized as follows:

	Ratio	Cost Rate	Weighted Cost Rate
Debt	46.05%	4.32%	1.99%
Common Equity	53.95%	10.95%	5.91%
Total	100%		7.90%

level of operations for the fully projected future test year, pursuant to Section 315(e) of the Pennsylvania Public Utility Code, 66 Pa.C.S. § 315(e), the discussion that follows will address the fully projected future test year data.

The revenue and expense data for the fully projected future test year have been prepared in a manner consistent with the Company's prior rate filings and in accordance with the accepted practices of the Commission. To establish anticipated operating revenues under the proposed rates, operating revenues for the historic test year ended December 31, 2023, were adjusted to reflect (1) changes in the number of customers, as well as the consumption by specific customers, during the twelve-month periods ending December 31, 2023, December 31, 2024, and December 31, 2025, and (2) required annualization adjustments and system acquisitions; and (3) adjustments for declining usage.

After extensive and careful review of the Company's accounts, actual operating expenses for the historic test year ended December 31, 2023, were increased to reflect currently effective and anticipated expense levels, as summarized at page C-2 of Exhibits 1-A through Exhibits 1-E. Such adjustments capture, among other things: chemical costs; group insurance costs; labor and labor related costs; healthcare costs; and the impact of inflation on expense items not otherwise specifically adjusted to fully projected future test year levels. Certain other adjustments were also made, including downward adjustments to reflect reductions in expense levels from those experienced during the year ended December 31, 2023. In addition, an adjustment has been made to reflect the increase in the Company's annual depreciation expense accrual under the straight-line remaining life method.

The rate base elements that are reflected in the Company's proposed revenue requirement in this filing have also been determined on a basis that is consistent with past rate filings and in accordance with accepted practices of the Commission. Fully projected future test year plant levels reflect the original cost of the Company's utility plant, as taken from the Company's continuing property records, together with the anticipated additions and retirements during the years ending December 31, 2024, and December 31, 2025. Gannett Fleming Valuation and Rate Consultants, LLC computed the applicable accrued depreciation under the straight-line remaining life method, which was then deducted from the original cost of the Company's depreciable plant. The resulting claim for depreciated utility plant in service equals $5,381,519,964, consisting of $4,840,309,962 for water and $541,210,003 for wastewater.

From the depreciated utility plant in service figures, the Company has deducted contributions in aid of construction, customer advances for construction, and deferred income taxes. The Company has added an allowance for materials and supplies and cash working capital. The resulting claimed original cost measure of value as of December 31, 2025 is $4,838,116,230, consisting of $ $4,334,260,435 for water and $503,855,795 for wastewater. This represents an approximate 16% increase over the Company's combined rate base claims in its last water and wastewater base rate proceedings.

As is evident from the foregoing and the voluminous supporting data filed herewith, the proposed rate increase is just and reasonable and represents the minimum rate increase necessary to enable the Company to earn a reasonable return on its investment in property devoted to the public service, to maintain the integrity of existing capital and to attract new capital.

Rate Structure

The Company's rate structure proposal was developed in accordance with system-wide cost of service studies for water and wastewater service performed by Gannett Fleming Valuation and Rate Consultants, LLC. A copy of that study was submitted with this filing as Aqua Exhibits 5-A and 5-B.

The Company's long-term goal is to charge all customers a uniform set of rates regardless of geographic location. The Company's acquisition of smaller systems across the state has presented unique circumstances that require it to maintain separate rates for certain systems with the long-term goal of consolidation. For specific information on certain rate zones, please refer to Tariff Water No. 4 and Tariff Sewer No. 4.

Public fire hydrant rates in a small number of rate divisions currently exceed 25% of the indicated cost of service and, consistent with Section 1328(b) of the Pennsylvania Public Utility Code, 66 Pa.C.S. § 1328(b), have been held at existing levels. The Company has, however, proposed to increase public hydrant rates in rate divisions where the present charges are below the 25% benchmark.

The Company has also proposed combining a portion of the revenue requirement of its wastewater operations with the revenue requirement of its water operations, as permitted by Section 1311(c) of the Pennsylvania Public Utility Code, 66 Pa.C.S. § 1311(c).

Finally, Tariff Water No. 4 and Tariff Sewer No. 4 will reset the respective water and wastewater Distribution System Improvement Charges to zero at the effective date of new base rates.

Summary

In summary, the instant filing was prepared in a manner substantially consistent with the Commission’s findings in many prior rate proceedings and in accordance with the accepted practices of the Commission. The proposed increase in revenues is the minimum increase necessary to permit the Company to provide reliable utility service and to maintain the integrity of its existing capital, attract additional necessary capital at reasonable costs, and have an opportunity to actually achieve a fair rate of return, particularly on its common equity capital. For these and other reasons set forth above, the rates proposed in Tariff Water No. 4 and Tariff Sewer No. 4 should be permitted to become effective as filed.