

## Statement of Reasons for the 2020 Rate Increase Request

We have asked the Pennsylvania Public Utility Commission (PUC) to approve a tariff that, if fully implemented, would increase Pennsylvania American's present annual operating water and wastewater revenues of \$138.6 million, or 18.7 percent. Specifically, the Company proposes a revenue increase in 2021 of approximately \$92.4 million, or 12.9%, and approximately \$46.2 million, or 5.8%, in 2022. From our past experience, it is likely that the PUC will suspend and investigate this request and that any changes in rates are not likely to occur until January of 2021.

The primary reasons for the rate increase are as follows:

- Pennsylvania American is committed to investing in its water and wastewater treatment facilities and distribution and collection systems to replace aging infrastructure, to ensure service reliability, enhance water quality and increase fire protection for customers.
- Since Pennsylvania American's last general rate increase, Pennsylvania American will have invested over \$1.64 billion in system improvements. While customers are already enjoying the benefits of many of these improvements, only a portion of the cost to finance them is covered in the Company's current service charges.
- Pennsylvania American has worked diligently to keep operating expenses relatively flat for the past 10 years by working more efficiently, improving processes, utilizing technology, and leveraging economies of scale. The operating and maintenance expense in this case represent a compound annual growth rate of only 1.76% since the conclusion of the Company's last base rate proceeding.
- Pennsylvania American continues to see a decline in the residential and commercial class usage. Consistent with national trends, customers are using approximately 2 percent less water every year resulting in a revenue deficiency of \$25.6M.
- Since the last rate, Pennsylvania American will have acquired three water and six wastewater systems. The Company is seeking recovery for \$21.1M invested in water system acquisitions and \$276.3M in wastewater system acquisitions.
- To finance needed plant investments, the Company must be able to raise capital on reasonable terms. Unless adjusted, the Company's present rates will not ensure our ability to attract the capital necessary to continue to make the investments in infrastructure that will guarantee the highest quality service.