

Part 1: Foundations of public utility accounting and ratemaking

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MICHIGAN STATE UNIVERSITY

1.0 Introductory topics

1. Public utility governance and jurisdiction
2. System capacity and financial viability
3. Theoretical foundations of regulation
4. Regulatory standards of review
5. Accounting basics and concepts
6. Accounting governance (FASB and GASB)
7. Regulatory accounting and generally accepted principles (GAAP)
8. Uniform systems of accounts (USoA)
9. Financial statements and reports
10. Regulatory auditing and enforcement
11. Ratemaking process and key steps
12. Cost-of-service ratemaking
13. Test year in ratemaking
14. Revenue requirements and formulas
15. Case study overview

1.1 Public utility monopolies

- Public utilities, network industries, and infrastructure service providers
 - ▶ Providers of essential services and critical public infrastructure – sometimes considered priceable “toll” or “social” goods
 - ▶ Electricity, natural gas, water, broadband and sometimes postal, transportation services
 - ▶ Ownership is public, not-for-profit (cooperative), or private (investor-owned)
 - ▶ Monopolistic – absolute market power and exclusive territory dominance
- Some characteristics of traditional (“natural”) utility monopolies
 - ▶ Substantial barriers to entry and other limits to markets and competition
 - ▶ Highly capital intensive with asset specificity (nonfungible, “sunk costs”)
 - ▶ Integrated production, transmission, and distribution functions
 - ▶ Long-life “fixed” assets with “lumpy” additions to plant capacity
 - ▶ Low marginal costs of production (relative to average costs)
 - ▶ Benefit from economies of scale and scope (especially in production)
 - ▶ Usage (“load”) patterns shape system design and cost of service
 - ▶ Obligation to provide desired and reliable service “on demand”
 - ▶ Responsiveness to prices is limited (essential use is particularly “price-inelastic”)
 - ▶ Subject to regulatory, self-regulatory, and non-state performance standards

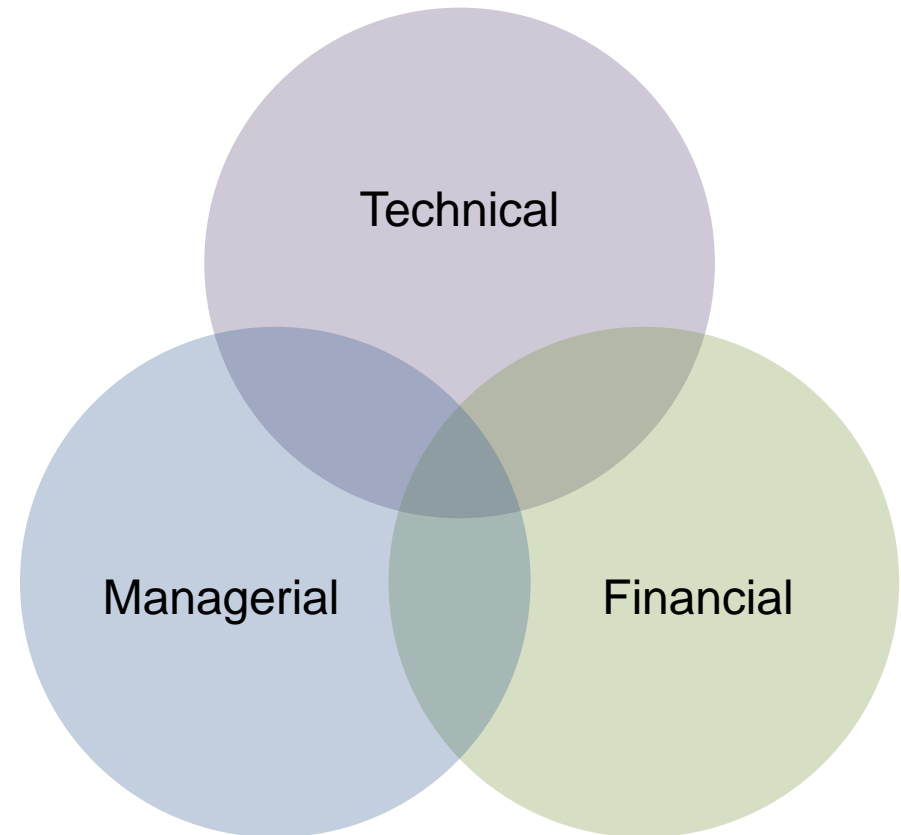
1.1 Jurisdiction for utilities and rates

- Federal government regulates interstate utility operations
 - ▶ Federal Energy Regulatory Commission (FERC)
 - ▶ Federal Communications Commission (FCC)
- State governments regulate intrastate utility operations
 - ▶ Public utility (PUC) or public service (PSC) commissions
 - ▶ Other agencies for environmental and other areas
- Local governments govern and oversee ("regulate") their utilities
 - ▶ Public authorities and municipal departments
 - ▶ State regulation of the non-private sector is limited
- Commission regulation varies in terms of
 - ▶ Jurisdiction – who is regulated (types of providers)
 - ▶ Authority – what is regulated (structures and functions)
 - ▶ Methods – how they are regulated (tools and processes)
- Economic regulatory commissions are designed to be politically independent
 - ▶ Quasi-administrative, quasi-legislative, and quasi-judicial
 - ▶ Supported by an interdisciplinary technical staff
 - ▶ Perform a wide range of roles but centering on ratemaking



1.2 Elements of utility system capacity (capability)*

- **Technical capacity**
 - ▶ Source of supply sufficiency and reliability
 - ▶ Infrastructure adequacy and improvement
 - ▶ Technical knowledge and implementation
- **Managerial capacity**
 - ▶ Ownership accountability
 - ▶ Staffing and organization
 - ▶ Effective external linkages
- **Financial capacity**
 - ▶ Revenue sufficiency
 - ▶ Credit worthiness
 - ▶ Fiscal controls



*Adapted from the EPA framework for the water sector

1.2 Financially sustainable utilities

System capital and operating expenditures relative to an optimized compliant service level			
System revenues relative to expenditures*	< 1: expenditures are below optimum (“cost avoidance”)	= 1: expenditures are optimal	> 1: expenditures are above optimum (“gold plating”)
< 1: revenues are below expenditures (“revenue avoidance”)	Deficient system	Deficit system	Wasteful system
= 1: revenues are equal to expenditures	Underinvesting system	SUSTAINABLE SYSTEM	Overinvesting system
> 1: revenues are above expenditures (“profit-seeking”)	Revenue-diverting system	Surplus system	Excessive system

*Revenues may flow from taxpayer or ratepayer funding.
 Revenue requirements from rates are net of any tax-based funding.
 Economic regulation plays a role.

1.2 Infrastructure funding vs. financing

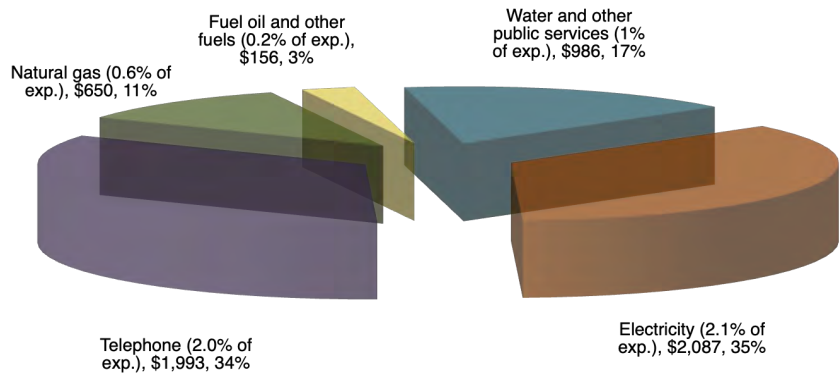
- Funding and financing options for public infrastructure have implications for both equity and efficiency
- Funding comes from one of two sources – taxpayers (federal, state, and local, including transfers) or ratepayers (tariff-based user fees and other charges)

		Financing		
		Public sector (not-for-profit)	Private sector (for-profit)	
		<i>Lower cost of capital and weaker provider incentives</i>	<i>Higher cost of capital and stronger provider incentives</i>	
Funding	Taxes	<i>Less regressive effects and weaker consumer incentives</i>	Public provider (e.g., municipal department)	Private partner (e.g., contract operator)
	User fees	<i>More regressive effects and stronger consumer incentives</i>	Public enterprise (e.g., publicly owned utility)	Private enterprise (e.g., investor-owned utility)

1.2 Pressure on utility costs and prices

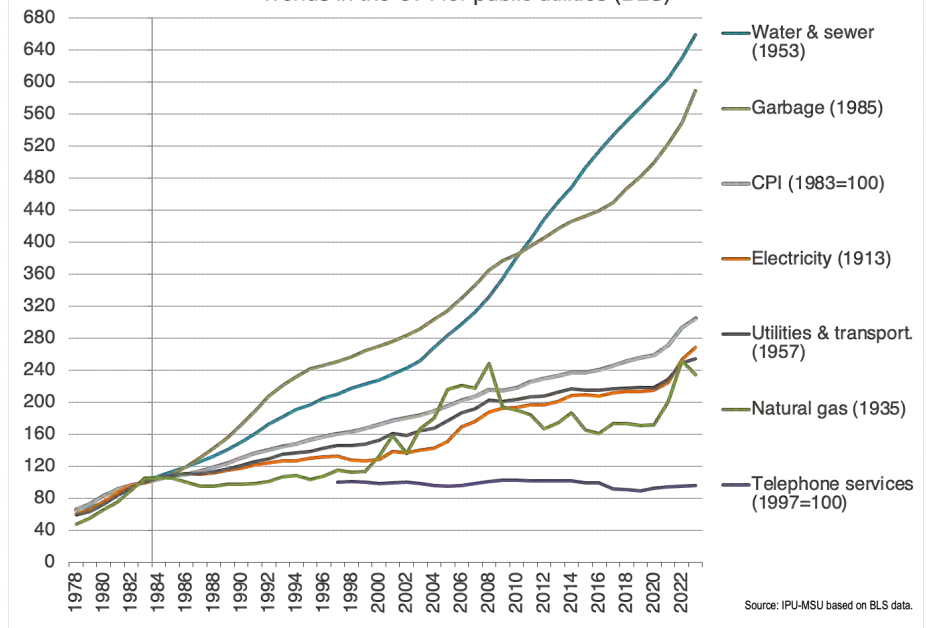
- Water sector costs and prices are under substantial pressure for various reasons
- Other things equal, the cost of service is higher for privately owned utilities
 - Cost of capital (equity, debt), income taxes, overhead, and other factors

Consumer expenditures on utilities for a four-person household in 2022
(\$5,503 and 5.9% of total household expenditures)



Source: IPU-MSU based on BLS data.

Trends in the CPI for public utilities (BLS)

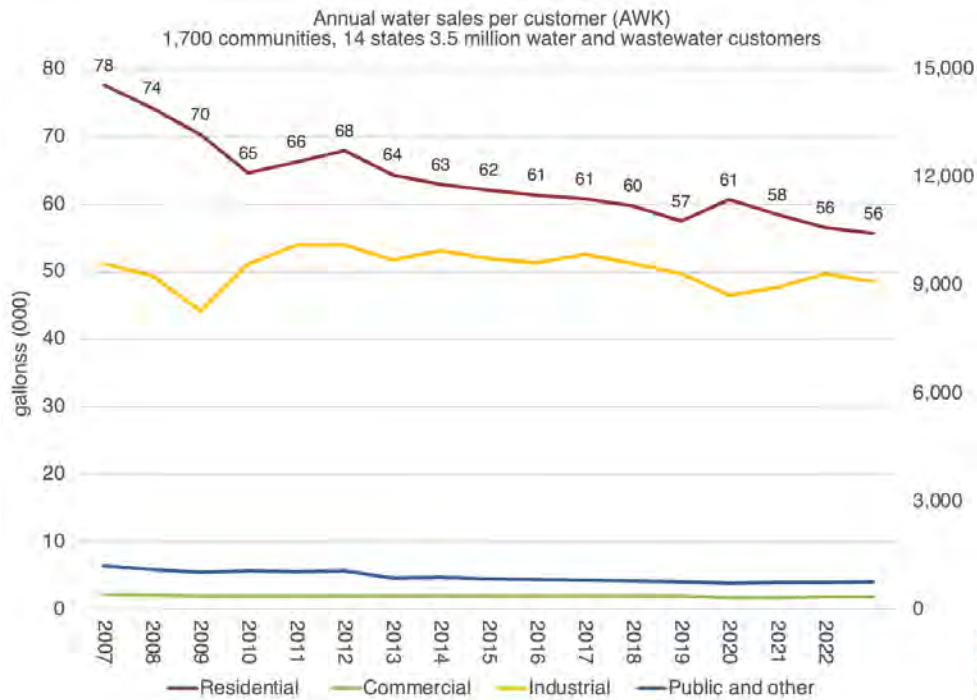


Source: IPU-MSU based on BLS data.

1.2 Pressure on water utility costs and prices

- Capital-cost pressures
 - ▶ Combined water, wastewater, and stormwater infrastructure needs (rate base)
 - ▶ Legacy costs (e.g., lead service lines), deferrals, and modernization
 - ▶ Asset valuation at fair value and private capital investment
- Operating-cost pressures
 - ▶ Labor, energy, chemicals, and purchased water
 - ▶ Quality standards and compliance costs
 - ▶ New threats (PFAS, cyanotoxins, toxic algae, climate change)
- Resource pressures
 - ▶ Water supply constraints, including climate-related
 - ▶ Economic or population growth (locational)
- Demand pressures
 - ▶ Flat or declining usage due to efficiency standards, programs, and practices
 - ▶ Economic or population loss (locational)
- Structural pressures
 - ▶ Enterprise models and full-cost pricing, often as a fiscal necessity
 - ▶ Suboptimal and inefficient sizing and operations given structural change
 - ▶ Spending propensities and ineffectual regulatory oversight

1.2 Pressure (continued)



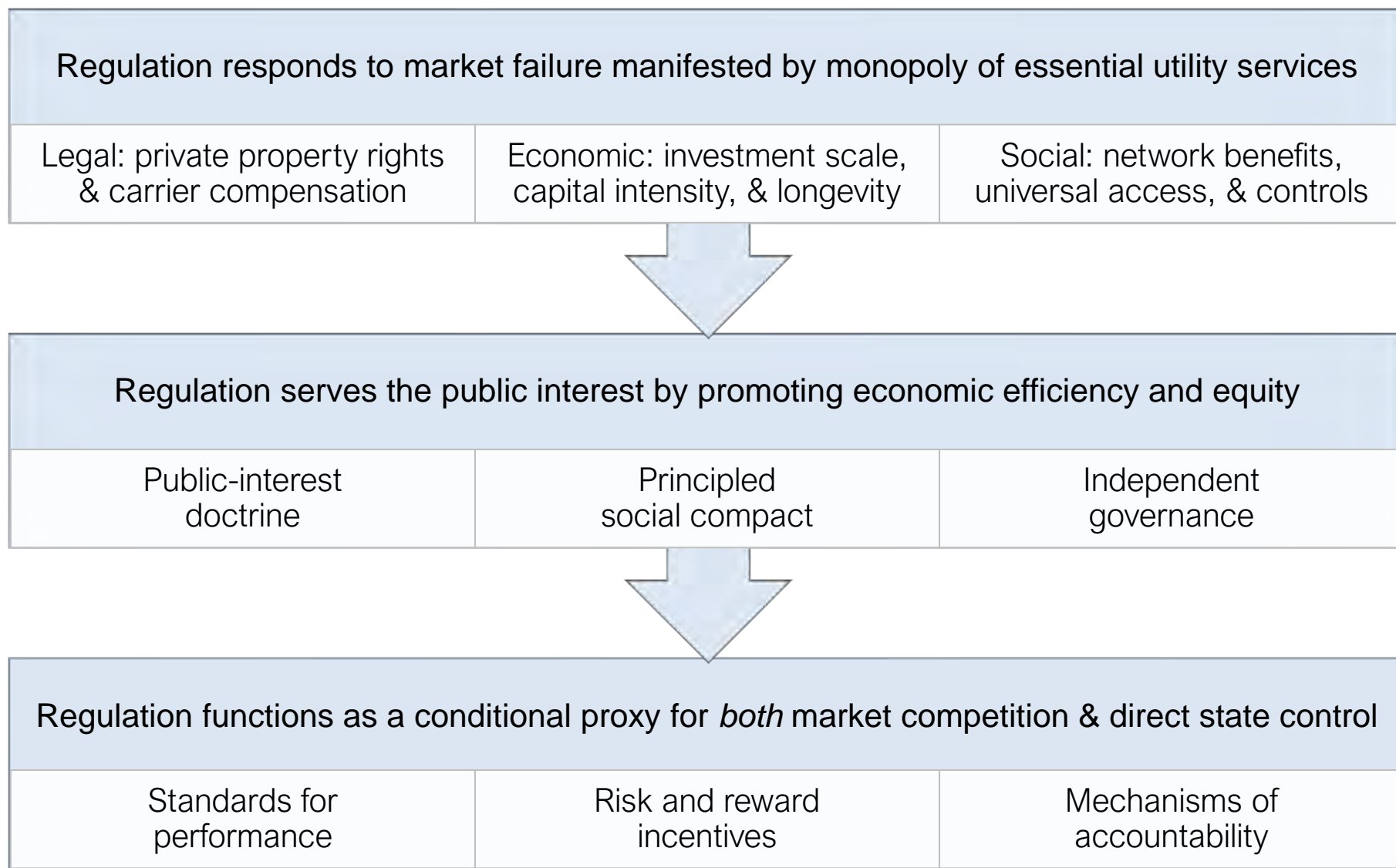
Five-Year Capital Plan: Investments to Support System Needs, Including ~\$1 Billion for PFAS



1.3 Theoretical foundations of regulation

- Utilities services are considered highly essential (life necessities)
 - ▶ Intricately related to public health and welfare and economic development
 - ▶ Associated with both positive and negative externalities
- Economic regulation as a proxy
 - ▶ Substitutes for market competition *and* public ownership to prevent monopoly abuse
 - ▶ Regulatory institutions reflects delegated authority vs. direct democracy
 - ▶ The regulatory model can provide powerful incentives (vs. direct control or directives)
 - ▶ A “balancing act” among or alignment of interests – particularly investors and ratepayers
 - ▶ Places needed checks on utilities but not is a substitute for management
- Core objectives of economic regulation “in the public interest”
 - ▶ Useful and prudent investment that benefits the public
 - ▶ Fair and nondiscriminatory allocation of the cost of service
 - ▶ Just and reasonable rates to customers and returns to investors
- Regulatory principles and practices are established in U.S. constitutional law
 - ▶ Guided by a “social compact” – an institutional construct conferring rights & obligations
 - ▶ Validated by a series of Supreme Court decisions
 - ▶ Practiced to ensure openness, transparency, and due process
 - ▶ Disputes generally center on matters of facts or policy

1.3 Regulatory paradigm: requisite conditions and institutions



1.3 Utility rights and obligations under the regulatory compact

Rights: The utility enjoys

- A conditional exclusive franchise for a certificated service territory, rights of eminent domain, protection from direct competition and antitrust, recovery of allowed costs through rates and charges, and *a reasonable opportunity to earn a fair return on prudent and useful investment assuming efficient management.*

Obligations: The utility accepts

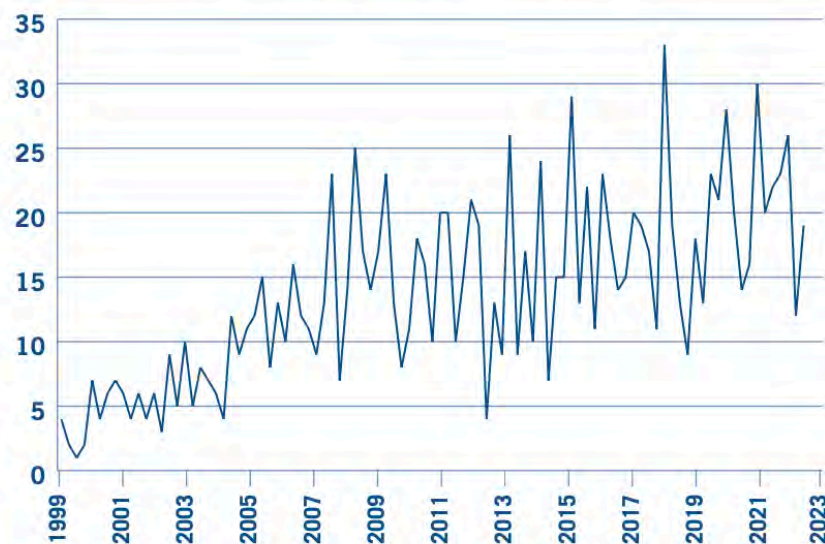
- An obligation to provide all paying customers with access to safe, adequate, reliable, convenient, and nondiscriminatory service on just and reasonable terms, *while assuming certain business and market risks and consenting to comprehensive regulatory oversight.*

1.4 Regulatory standards of review and focus

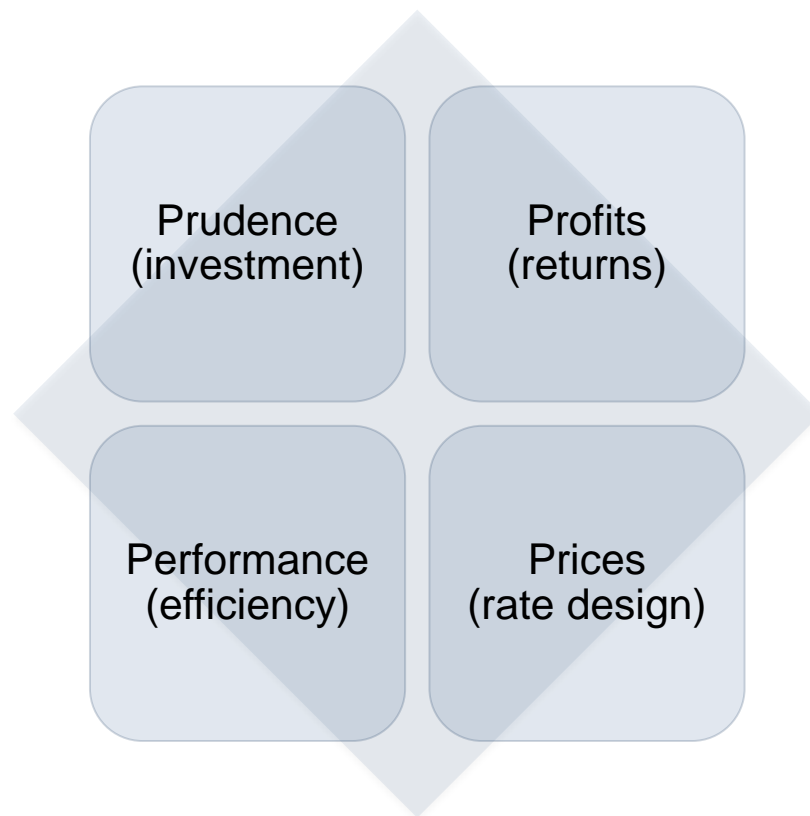
- Rate regulation focuses on four areas – policy and discretion apply to each
 - ▶ Rate-case workload fluctuates but is on the rise
 - ▶ Cases are usually filed sequentially vs. “pancaking” (overlapping)
 - ▶ A comprehensive case is the default and preferred method for ratemaking
 - ▶ Performance-based regulation can clarify expectations and pathways

Number of Rate Reviews Filed

U.S. INVESTOR-OWNED ELECTRIC UTILITIES



Source: S&P Global Market Intelligence/Regulatory Research Assoc. and EEI Finance Department.

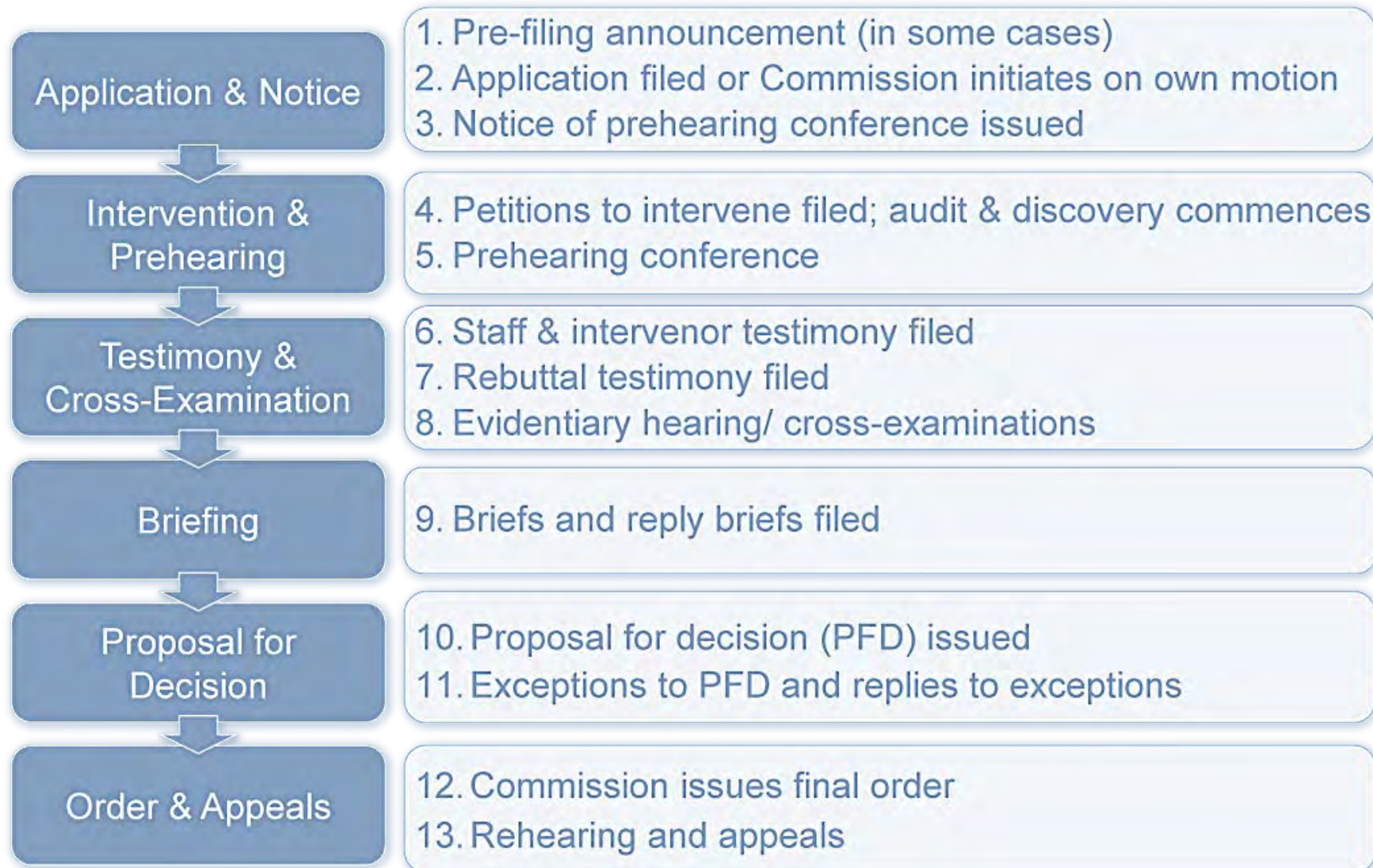


1.4 Regulatory and judicial standards of review*

- Rates should not place unjust burdens on utility ratepayers
- Investments should be used and useful and prudently made (reasonable)
- Regulated utilities should operate with all reasonable economies (efficiency)
- Imprudent, wasteful, and dishonest expenditures should be disallowed
- Regulators should not usurp management or judge with 20-20 hindsight
- Companies are entitled to ask for fair returns on invested property
- Returns should be based on corresponding risk to raise capital
- Utilities are not immune from business risk associated with economic forces
- Regulators are not bound by formulas and can be pragmatic
- Courts allow regulators to make decisions within a "zone of reasonableness"

*Supported by U.S. Supreme Court case law.

1.4 Procedural steps in regulation (MPSC)



1.5 Accounting and policy

- Accounting is the language of business and finance
 - ▶ Accounting should be transparent and undistorted and not used to serve special interests
 - ▶ Accounting provides "vital signs" of an enterprise
- Accounting and accounting systems and rules serve various policy purposes
 - ▶ Accounting is “the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information” (American Accounting Association)
 - ▶ "Cost knowledge" is essential for effective utility management and sound ratemaking – based on tracking of financial activity and underlying factors,
- Accounting for regulation and ratemaking is policy-oriented
 - ▶ “Accounting may be said to be the backbone of utility regulation” (26 FPC Ann Rep, 39, 1946)
 - ▶ Regulatory accounting focuses on fairly allocating costs of providing utility service to ratepayers while allowing investors and regulators to calculate revenue requirements sufficient to recover all costs, including a return on investment
- Every regulatory decision implies an accounting treatment
 - ▶ Allocation of costs among groups of ratepayers – residential, commercial, industrial
 - ▶ Transfer risk & wealth between ratepayers ("above the line") & shareholders ("below the line")
- Dynamic and evolving accounting practice
 - ▶ XBRL: eXtensible Business Reporting Language – an interactive platform for data reporting now required by the FERC and the SEC
 - ▶ International Financial Reporting Standards (IFRS) – International Accounting Standards Board (IASB) and International Sustainability Standards Board (ISSB)
 - ▶ Environmental, Social, and Governance (ESG) – reporting and disclosure policy and practice

1.5 Accounting concepts

- **Business entities**
 - ▶ Every business unit or enterprise is treated as a separate entity, separating the business from the owners
- **Going concern**
 - ▶ It is generally assumed that an entity will continue to operate into the future, for a period longer than the life expectancy of its assets
- **Periodicity**
 - ▶ Divide the life of the business into accounting periods of not more than one year and measure the business' status at the end of each period – monthly, quarterly, annual
- **Conservatism**
 - ▶ Do not intentionally overstate or understate estimates, assumptions, opinions, etc.
- **Consistency**
 - ▶ Consistent application of any given accounting method, period after period
- **Materiality**
 - ▶ For items of little significance, weigh the costs of compliance accounting principles against the accuracy gained – although some nonmaterial issues may be raised as a matter of policy

1.5 Accounting concepts (continued)

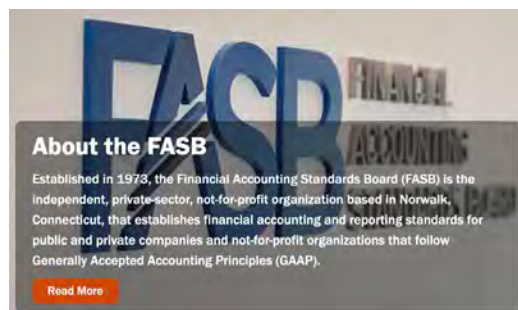
- **Objectivity**
 - ▶ Changes in account balances should be supported to the fullest extent possible by objective evidence
- **Full disclosure**
 - ▶ Financial statements (and notes) and other explanatory materials should fully and completely disclose all relevant data material to the company's financial position and operating results
- **Matching**
 - ▶ Revenues and expenses shown on the income statement must be matched for the period
 - ▶ Balance sheet items must also be matched (e.g., utility plant, depreciation, taxes)
 - ▶ See recognition and realization
- **Recognition and realization**
 - ▶ Accrual accounting
 - Revenues are recognized when they are earned in the provision of service, and expenses are recognized in the income statement when they are incurred
 - Recording transactions does not depend on realized cash receipts or payments
 - ▶ Cash accounting
 - Revenues and expenses are recognized based on realized cash receipts or payments
 - Cash basis is not used by large, publicly traded firms but may be used by some very small (e.g., family-owned) water utilities

1.5 Poll: Accounting concepts

- Which of the following are *not* accounting concepts?
 - A. Going concern, matching, and conservatism
 - B. Cost, materiality, and full disclosure
 - C. Value creation, moving average, and educated guess
 - D. Periodicity, recognition, and realization

1.6 Accounting governance: FASB and GASB

- Congress has ultimate authority for accounting governance
 - ▶ The Securities and Exchange Commission (SEC) delegated standards-setting to the Accounting Standards Board (ASB) in 1938 but retains authority
- The Financial Accounting Foundation (FAF) is a private organization established in 1972 that oversees
 - ▶ Financial Accounting Standards Board (FASB) was established in 1973 for the private sector
 - ▶ Government Accounting Standards Board (GASB) was established in 1984 for the public sector
- FASB and GASB promulgate Generally Accepted Accounting Principles (GAAP) in coordination



1.1 Public utility governance and regulatory jurisdiction

- Types of utilities and orientation – each has potential advantages
 - ▶ Publicly owned: constituents
 - ▶ Cooperatively owned and other NFP: members and charters
 - ▶ Privately owned: investors (shareholders)

- Many non-private utilities operate as "enterprises"
 - ▶ Maintain segregated funds for utility operations (limited transfers)
 - ▶ Municipalities may be structured as sole “shareholders”

- Different types of utilities have distinctions and commonalities
 - ▶ Operational management, financial accounting, ratemaking, and incentives
 - ▶ Some differences in terminology across types and jurisdictions

- Economic regulation also varies
 - ▶ All public utilities are "regulated" by some authority to some degree
 - ▶ State and federal regulation emerged as utility footprints grew
 - ▶ For more on utility governance and incentives, see Part 4

Q. How does public utility ownership affect incentives and performance?

1.6 GASB Statement No. 34 requirements

- GASB reporting standards apply to all U.S. state and local governmental entities, including publicly owned utilities
- GASB 34 Specifies methods for accounting for “fixed assets” and requires
 - ▶ Accrual-based accounting of revenues and expenditures for matching and reflecting when transactions occur
 - ▶ Reporting of the value of infrastructure assets and cost of deferred maintenance
 - ▶ Recording contributed capital (for example, federal grants) as a form of income

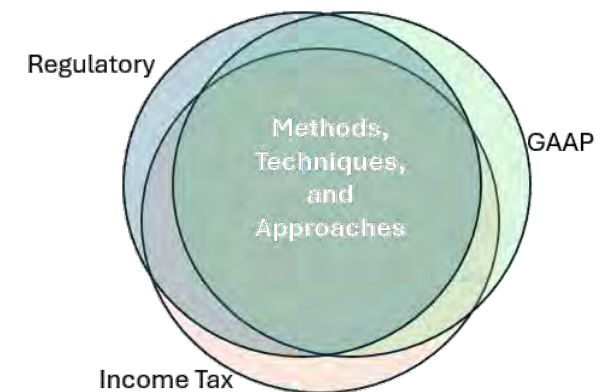
Source: Adapted from <https://simple.waterrf.org/Books/Contents/Asset-Management-for-Small-Utilities/Appendices/Introduction-to-GASB-34>

1.7 Poll: Accounting systems

- When accounting conflicts arise in the regulatory context, which accounting authority prevails?
 - A. Internal Revenue Service (IRS) rules
 - B. Generally Accepted Accounting Principles
 - C. International Financial Reporting Standards
 - D. Public Utility Commission rules, policies, and decisions

1.7 Regulatory accounting and GAAP

- Accounting standards are set by private (nongovernmental) organizations
 - ▶ Financial Accounting Standards Board (FASB) – privately owned
 - ▶ Government Accounting Standards Board (GASB) – publicly owned
- Generally Accepted Accounting Principles (U.S. GAAP)
 - ▶ Uniform set of principles, rules, procedures, standards and guidelines for financial accounting and reporting that is protective of creditors and investors
 - ▶ Used by most large private companies for accounting records and financial statements
 - ▶ Compliance is required for publicly traded entities to obtain an unqualified (“clean”) opinion from an independent auditor and for securities to be listed on a stock exchange
- GAAP is dynamic and evolves
 - ▶ As needs of users of financial statements change
 - ▶ As new issues or problems arise
 - ▶ As methods converge with international standards (IFRS)
- Accounting Standards Codification (ASC)
 - ▶ Sole authoritative source of GAAP (since 2009)
 - ▶ ASC is revised as GAAP are modified by SEC and FASB



1.7 Regulatory accounting and GAAP

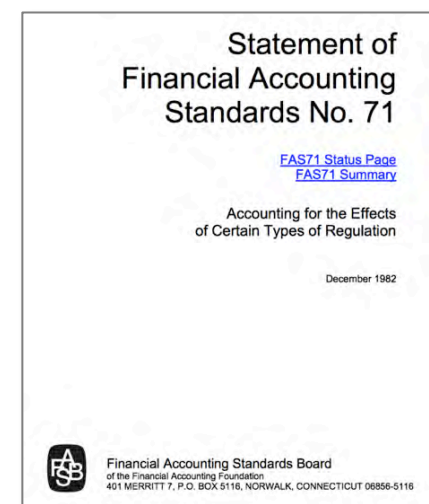
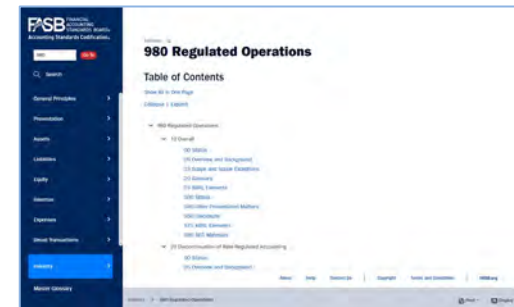
- Methods, techniques, and approaches distinguish the basis of accounting
 - ▶ Other Comprehensive Bases of Accounting (OCBOA)
 - ▶ Bases other than GAAP include regulatory basis and income tax bases
- Regulatory accounting prevails over GAAP accounting
 - ▶ Key distinctions are associated with regulatory policy issues (such as disallowances from rate recovery) and timing issues (such as asset depreciation and income taxes)
 - ▶ Regulatory decisions impact financial reporting in terms of how particular items (such as regulatory assets or liabilities) are booked
 - ▶ FAF video overview of GAAP: <https://www.youtube.com/watch?v=i1Xf-byGIVs>
- FASB and GASB (via GAAP) have no authority over federal or state regulators
 - ▶ “If GAAP conflicts with the accounting and financial reporting needed by the Commission to fulfill its statutory responsibilities, then GAAP must yield...” (ital. added)
 - ▶ “GAAP cannot control when it would prevent the Commission from carrying out its duty to provide jurisdictional companies with the opportunity to earn fair return on their investment and to protect ratepayers from excessive charges and discriminatory treatment” (FERC Order No. 552, 62 FERC 61,299, March 31, 1993)

Q. What are some issues that are unique to regulatory accounting?

1.7 Accounting for the effects of regulation

- Some accounting issues are unique to entities subject to economic regulation – namely, public utilities
 - ▶ Regulatory assets and liabilities (creation thereof)
 - ▶ Depreciation policies
 - ▶ Taxation issues

- FASB Accounting Standards Codification (ASC) 980 - “Regulated Operations” – Former FASB No. 71 (1982)
 - ▶ Applies to general-purpose external financial statements of an enterprise with regulated operations
 - ▶ Authoritative accounting pronouncements that apply to enterprises in general also apply to regulated enterprises.
 - ▶ Enterprises shall apply it instead of any conflicting provisions of standards in other authoritative pronouncements
 - ▶ Rate actions of regulators can
 - Provide reasonable assurance of an asset’s existence
 - Reduce or eliminate the value of an asset
 - Impose a liability on a regulated enterprise
 - Eliminate a liability only if the liability was imposed by the actions of the regulator



1.7 FASB ASC 980 (FASB 71): Regulated Operations

- Public utilities must meet specific criteria for special accounting allowances
 - ▶ An independent third-party regulator must establish rates charged for services
 - ▶ Regulated rates must be designed to recover the cost of providing regulated services
 - ▶ Considering demand, rates sufficient to recover costs can be charged and collected
- Accounting policy
 - ▶ Regulators may determine that certain costs (e.g., depreciation) should be charged to periods other than those applicable under GAAP by non-regulated firms
 - ▶ Provides for alternative methods of accounting to recognize the rate actions of regulators applicable to regulated firms (i.e., regulatory assets and liabilities)
- GASB Statement 62 (2010)
 - ▶ Incorporates into the GASB's authoritative literature (issued prior to 11/30/89)
 - FASB Statements and Interpretations
 - Accounting Principles Board Opinions
 - American Institute of Certified Public Accountants (AICPA) Research Bulletins

1.7 FASB ASC 980 (FASB 71) Regulated Operations ⓘ

- Specific standards derived from the general standards
 - ▶ In some cases, a regulator requires an enterprise subject to its authority to capitalize, as part of the cost of plant and equipment, the cost of financing construction as financed partially by borrowings and partially by equity. [15]
 - ▶ Profit on sales to regulated affiliates shall not be eliminated in general-purpose financial statements if both of the following criteria are met: a. The sales price is reasonable. b. It is probable that, through the rate-making process, future revenue approximately equal to the sales price will result from the regulated affiliate's use of the products. [16]
 - ▶ The sales price usually shall be considered reasonable if the price is accepted or not challenged by the regulator that governs the regulated affiliate. [17]
- Other specific standards
 - ▶ Items of revenue and expense are sometimes taxable or deductible in periods other than the periods in which those items are recognized for financial reporting purposes. [18]
 - ▶ For refunds that are recognized in a period other than the period in which the related revenue was recognized and that have a material effect on net income, the enterprise shall disclose the effect on net income and indicate the years in which the related revenue was recognized. [19]
 - ▶ In some cases, a regulator may permit an enterprise to include a cost that would be charged to expense by an unregulated enterprise as an allowable cost over a period of time by amortizing that cost for rate-making purposes, but the regulator [may or may not] include the unrecovered amount in the rate base. [20]

1.7 Special regulatory accounting provisions

- Allowance for Funds Used During Construction (AFUDC)
- Accounting for Asset Retirement Obligations (ARO)
- Accounting treatment for leases (e.g., normalized lease expense)
- Approved deferrals for certain items (e.g., income taxes)
- Cost recovery and revenue assurance mechanisms (clauses, trackers)
- Cost treatment imprudence, excess capacity, and plant abandonments
- Other regulatory assets and liabilities resulting from commission decisions
- Balancing accounts and memorandum accounts (California)
- Other provisions unique to prescribed systems of accounts

1.8 Uniform systems of accounts (USoA)

- Utility books are kept following different bases of accounting
 - ▶ Financial regulators (SEC), Internal Revenue Service (IRS), economic regulators (PUCs)
 - ▶ Regulatory accountants need fluency across systems
- Utility regulators need accounting standards for policy purposes
 - ▶ Cannot rely on private entities (FASB and GASB)
 - ▶ Borrowed from the U.K. to develop and implement their own detailed Uniform Systems of Accounts (USoA)
- Uniform federal requirements were established for shippers
 - ▶ Pursuant to the Hepburn Act (1906)
 - ▶ Implemented by the Interstate Commerce Commission
- Regulatory systems
 - ▶ New York, Wisconsin, and Maryland created USoAs in the early 1900s
 - ▶ First interstate system was published by the “National Association of Railway and Utilities Commissioners” (“NARUC”) in 1922
 - ▶ In the 1930s, the Federal Communications Commission (FCC) and the Federal Power Commission (predecessor of FERC) issued systems



1.8 Uniform systems of accounts (USoA)

- USoA
 - ▶ Prescribes accounting classifications, with detailed instructions and descriptions
 - ▶ Meant to achieve uniform accounting records across companies and over time
 - ▶ USoA and GAAP use many of the same methods, techniques, and approaches
 - ▶ Call for more detail on operations than provided for under GAAP
 - ▶ Used to report financial and operating data to regulators and for ratemaking
 - ▶ Systems are comparable across regulated sectors but consider technological differences
 - ▶ Reasonably consistent across regulatory jurisdictions
- Elements
 - ▶ Authority and application
 - ▶ Definitions of terms
 - ▶ General and accounting instructions
 - ▶ Chart (list) of accounts (COA)
 - Account number and title
 - Description of transactions to be recorded in the account
 - Examples of types of items to include
- Key schedules
 - ▶ Balance sheet: utility plant accounts at a point in time (end of year)
 - ▶ Income statement: operating revenue and O&M accounts for a period (over a year)
 - ▶ Retained earnings and cash-flow statements reflect changes over a period

1.8 Prevailing USoA by sector ⓘ

- Telecommunications
 - ▶ Federal Communications Commission (FCC) – Title 47 CFR Part 32
 - ▶ <https://www.ecfr.gov/current/title-47/chapter-I/subchapter-B/part-32>
- Electricity and natural gas
 - ▶ Federal Energy Regulatory Commission (FERC) – Title 18 CFR Parts 101, 201
 - ▶ <https://www.ecfr.gov/current/title-18/chapter-I/subchapter-C/part-101>
 - ▶ <https://www.ecfr.gov/current/title-18/chapter-I/subchapter-F/part-201>
- Electric cooperatives (member-owned)
 - ▶ Rural Utility Service (US Dept. of Agriculture) – Uniform System of Accounts
 - ▶ <https://www.ecfr.gov/current/title-7/subtitle-B/chapter-XVII/part-1767/subpart-B>
- Water and wastewater utilities
 - ▶ National Association of Regulatory Utility Commissioners (© NARUC, 1996)
 - ▶ States have adopted their own variations of USoA for the sector (available online)
 - ▶ Currently under revision and review (2024)
- State systems and mechanisms
 - ▶ For example, California General Practices, memorandum accounts, balancing accounts

1.8 USoA for water utilities (NARUC, 1996)

- Accounting standards for the water sector
 - ▶ No federal regulation or USoA – NARUC USoA (1996) prevails
 - ▶ Separated into Class A, B, and C utilities by size according to revenues
 - Class A – Annual water operating revenues of \$1,000,000 or more.
 - Class B – Annual water operating revenues between \$200,000 and \$1,000,000
 - Class C – Annual water operating revenues of less than \$200,000
 - ▶ Often adapted by states with some changes
 - ▶ Reinforced by the NARUC Rate Case and Audit Manual (NRCAM, 2003)
- Records
 - ▶ “Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information as to any item included in any account” (USoA, 1996)
- Control or summary level accounts (also “charts of accounts”)
 - 100-199 Assets and Other Debits
 - 200-299 Equity, Liabilities and Other Credits
 - 300-349 Water Plant Accounts
 - 400-434 Income Accounts
 - 435-439 Retained Earnings Accounts
 - 460-489 Water Operating Revenue Accounts
 - 600-699 Water Operation and Maintenance Expenses

1.8 USoA for water utilities (State of Pennsylvania)

- §65.16. System of accounts.
- (a) A public utility having annual operating revenue of \$750,000 or more (average of the last 3 consecutive years) shall keep its accounts in conformity with the most recent Uniform System of Accounts for Class A Water Utilities prescribed by the National Association of Regulatory Utility Commissioners (N.A.R.U.C.).
- (b) A public utility having annual operating revenues of \$150,000 or more but less than \$750,000 (average of the last 3 consecutive years) shall keep its accounts in conformity with the Uniform System of Accounts for Class B Water Utilities prescribed by N.A.R.U.C.
- (c) A public utility having annual operating revenues of less than \$150,000 (average of the last 3 consecutive years) shall keep its accounts in conformity with the most recent Uniform System of Accounts for Class C Water Companies prescribed by N.A.R.U.C.
- (d) Public utilities subject to this section shall have until January 1, 2000, to convert to the most recent Uniform System of Accounts for Class A, Class B or Class C Water Utilities prescribed by N.A.R.U.C.

1.8 USoA example

INDEX OF ACCOUNTS

BALANCE SHEET ACCOUNTS

Assets and Other Debits

Utility Plant

Acct. No.	Title	Page
101	Utility Plant in Service	
102	Utility Plant Leased to Others	
103	Property Held for Future Use	
104	Utility Plant Purchased or Sold	
105	Construction Work in Progress	
106	Completed Construction Not Classified	
108	Accumulated Depreciation	
	108.1 Accumulated Depreciation of Utility Plant in Service	
	108.2 Accumulated Depreciation of Utility Plant Leased to Others	
	108.3 Accumulated Depreciation of Property Held for Future Use	
110	Accumulated Amortization	
	110.1 Accumulated Amortization of Utility Plant in Service	
	110.2 Accumulated Amortization of Utility Plant Leased to Others	
114	Utility Plant Acquisition Adjustments	
115	Accumulated Amortization of Utility Plant Acquisition Adjustments	
116	Other Utility Plant Adjustments	

1.8 USoA by utility size class (New Hampshire, 2015)

Section 2 INSTRUCTIONS FOR BALANCE SHEET ACCOUNTS

	Class A Account	Class B Account	Class C Account
(a) Utility Plant			
Utility Plant in Service	101	101	
Utility Plant Leased to Others	102	102	
Property Held for Future Use	103	103	103
Utility Plant Purchased or Sold	104	104	104
Construction Work in Progress	105	105	105
Completed Construction Not Classified	106		
Accumulated Depreciation	108	108	108
Accumulated Depreciation of Utility Plant in Service	108.1		
Accumulated Depreciation of Utility Plant Leased to Others	108.2		
Accumulated Depreciation of Property Held for Future Use	108.3		
Accumulated Amortization	110	110	110
Accumulated Amortization of Utility Plant in Service	110.1		
Accumulated Amortization of Utility Plant Leased to Others	110.2		
Utility Plant Acquisition Adjustments Accumulated Amortization of Utility Plant Acquisition Adjustments	114	114	114
Plant Acquisition Adjustments	115	115	115
(b) Other Property and Investments			
Non-utility Property	121	121	121
Accumulated Depreciation and Amortization of Non-utility Property	122	122	122
Investment in Associated Companies	123	123	
Utility Investments	124	124	124

1.9 Financial statements and reports

- Financial accounting and reporting vary according to policy purposes
 - Regulatory auditors should compare reports and read narratives and footnotes
- Financial statements reflect a point in time or a period of time
 - Balance sheets
 - Report end-of-period balances following financial activity at *a point in time*
 - Income and cash-flow statements
 - Report a summary of financial activity for *a period of time* (such as a year or quarter)
- Types of accounting records
 - General ledger
 - The primary record of accounts and journal entries supporting the values reflected in the company's financial statements
 - Trial balance
 - A trial balance lists all the accounts contained in the general ledger
 - Contains a date, name, and value for each account.
 - Called a trial balance because the sum of all the accounts must “balance” to zero

1.9 Financial statements and reports (continued)

- Types of reports required of publicly traded and regulated companies
 - ▶ “Glossy” summary reports to shareholders and the public (annual)
 - ▶ Financial reports (quarterly, annual) to the Securities and Exchange Commission (SEC)
 - ▶ Tax accounting and filings to the Internal Revenue Service (IRS)
 - ▶ Detailed financial and operating reports to the rate regulator (annual and rate case)
- Opinion issued by an independent auditor
 - ▶ Relevant to the credibility of utility financial statements filed with regulators
 - ▶ Unmodified (unqualified or “clean”) opinion (SAS 134)
 - ▶ Qualified opinion – exceptions, disclosures, adverse opinions
 - ▶ Useful to regulatory auditors for some kinds of information
- Statements are signed by responsible senior executive officers (CEOs & CFOs)
 - ▶ Requirements clarified under Sarbanes-Oxley (2002)

1.9 Financial statements and reports



**CLASS "A" AND "B" WATER COMPANY
PUC ANNUAL REPORT
OF**

Utility Code
A-213550

Company: _____
THE YORK WATER COMPANY

Address: _____
130 EAST MARKET ST., YORK, PA 17401
Address City State Zip

**TO THE
PENNSYLVANIA
PUBLIC UTILITY COMMISSION**

For the Year Ended December 31, 2023

Telephone Number 717-845-3601

Fax Number 717-718-3090

E-Mail matthewp@yorkwater.com

Web Site Address www.yorkwater.com

Officer to whom correspondence
concerning this report should be addressed:

Matthew Poff
First Name Last Name

Chief Financial Officer
Title

130 East Market St., York, PA 17401
Address City State Zip



1.9 Reports to the Securities and Exchange Commission (SEC)

- Prospectus
 - ▶ A detailed statement regarding the issuance of stock to the general public.
 - ▶ Contains information that would assist the potential investor to evaluate the stock and the prospects of the company for profit, loss, and growth
- Tender offer
 - ▶ Solicitation to purchase a substantial portion of a company's stock for a limited time, often as part of a corporate takeover
- 10-K reports
 - ▶ Annual comprehensive overview of a company's business – financial statements and more
- 10-Q reports
 - ▶ Quarterly unaudited financial reports
- 8-K reports
 - ▶ Report the occurrence of any material events or corporate changes of interest to investors or security holders
- Proxy statements to shareholders
 - ▶ SEC-mandated disclosures used to solicit shareholders' votes in annual or special meetings
 - ▶ Must include data on "named executive officers'" compensation and incentives (salaries, bonuses, shares of stock)

The screenshot displays the EDGAR | Company Search Results page for YORK WATER CO. The page is organized into several sections:

- Header:** EDGAR | Company Search Results, with links for FAQ, EDGAR search tools, Feedback, and Classic version.
- Navigation:** Home » Company Search, YORK WATER CO. YORW on Nasdaq, and an Investor Toolkit link.
- Company Information:** A section with a plus icon (+).
- Latest Filings (excluding insider transactions):**
 - August 27, 2024 - 8-K: Current report [Filing]
 - August 2, 2024 - 8-K: Current report [Filing] **Earnings release**
 - August 2, 2024 - 10-Q: Quarterly report for quarter ending June 30, 2024 [Filing]
 - May 7, 2024 - 8-K: Current report [Filing]
 - May 7, 2024 - 8-K: Current report [Filing] **Earnings release**
- Selected Filings:**
 - [-] 8-K (current reports)
 - August 27, 2024 - 8-K: Current report [Filing]
 - August 2, 2024 - 8-K: Current report [Filing] **Earnings release**
 - [-] 10-K (annual reports) and 10-Q (quarterly reports)
 - August 2, 2024 - 10-Q: Quarterly report for quarter ending June 30, 2024 [Filing]
 - May 7, 2024 - 10-Q: Quarterly report for quarter ending March 31, 2024 [Filing]
 - March 5, 2024 - 10-K: Annual report for year ending December 31, 2023 [Filing]
 - November 3, 2023 - 10-Q: Quarterly report for quarter ending September 30, 2023 [Filing]
- Additional Sections:**
 - [+] Proxy (annual meeting) and information statements
 - [+] Ownership disclosures

1.9 ESG reporting and standards

- Purpose of reporting and standards
 - ▶ Communicate the impact of Environmental, Social, and Governance (ESG) factors pertinent to the reporting company
 - ▶ Establish a framework and disclosure standards facilitating communication about financially material, decision-useful ESG information
 - ▶ Numerous organizations provide guidance, scoring, or standards
 - ▶ Can be understood as enhancing risk disclosure
- Standard-setting authority for reporting and standards
 - ▶ In 2022, the Sustainability Accounting Standards Board (2011) transitioned into the International Sustainability Standards Board (ISSB), becoming part of the International Financial Reporting Standards (IRRS) Foundation
 - ▶ In 2023 IFRS issued statements S1 & S2 requiring companies to disclose in financial statements all sustainability-related risks and opportunities
 - ▶ In 2024, the SEC issued the Enhancement and Standardization of Climate-Related Disclosures for Investors rule
- Ongoing issues
 - ▶ Competing incentives and possible conflict with fiduciary obligations
 - ▶ Authority of and consideration by financial and economic regulators
 - ▶ Consistency with risk management, transparency, and regulatory standards
 - ▶ Separation of E, S, and G based on policies and performance issues



1.9 ESG reporting and standards



200 Years Old! A Story of Sustainability, Stewardship, and Service to our Community

In 1816, a group of local business leaders pooled their resources to start The York Water Company. It was one of America's earliest successful public-private partnerships. A partnership between a community and a water supplier. Due to the trust that York Water has developed with the communities it serves, it is still an example of community-based capitalism over 200 years later.

The York Water Company is responsible for the water resources for almost 250,000 people. York Water has always understood and lived by the motto that we didn't inherit our most critical resource from our fathers; we are maintaining and protecting it for our children. In fact, York Water often looks 100-200 years into the future to ensure the communities that we serve will always have a high-quality, refreshing, and sustainable supply of water now and well into the future.

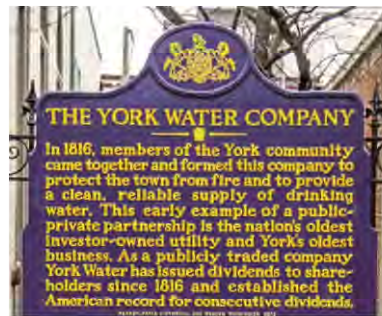
In addition, York Water's Board of Directors, management team, and employees all believe in our company's critical mission of providing service to our community in a way that protects the environment, is socially responsible to all of our stakeholders, and is governed locally and maintains the highest ethical standards.

The York Water Company has certain Environmental, Social, and Governance (ESG) Responsibilities to our customers, community, employees, regulators, vendors, and the environment. These attributes are contained in our Code of Ethics which is followed by all of our employees, managers, and directors:

Every employee is solely responsible for his or her actions, and the consequences thereof.

Every employee, when engaged in any activity concerning the Company and when dealing with customers, suppliers, other employees, shareholders, and the general public, must observe the highest standards of integrity, honesty and fairness.

It is expected that no employee, while on Company property or while engaged in Company business, will undertake any activity that is or gives the appearance of being improper, illegal, immoral, or will in any way embarrass or bring harm to the environment, the Company, or its customers, employees, or suppliers.



York Water Statistics

Birthday: February 23, 1816

Employees: 110

Water customers: 68,000

Wastewater customers: 2,000

Estimated population: 200,000+

Municipalities served: 48

Average Daily water use:
19.5 million gallons per day

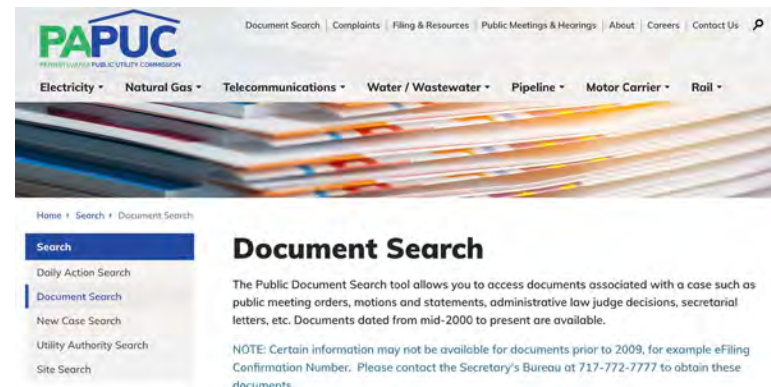
Usage/person/day: 92 gallons
(from a peak of 170 gallons in 1970)

Market value: ~ \$400 million

Ownership: Over 8,000 people, companies, and funds own The York Water Company. Almost 70% of the owners are retail shareholders, many located in the area.

1.9 Detailed reports to economic regulators

- Economic regulators require annual financial & other reports
 - ▶ Regulated and non-regulated business segments are reported separately
 - ▶ Captioning in reports is similar to other forms of reporting
 - ▶ Most data are provided for the most recent as well as one or more prior periods
 - ▶ Regulatory agencies have moved to electronic filing systems and XBRL (FERC)
- Report the financial and operating status, policies, & practices of the company
 - ▶ As represented by management and reviewed by an independent auditor
 - ▶ Provide transparency and communicate essential financial information
 - ▶ For multi-state operations, information is not usually broken down by jurisdiction in detail
- Reports are publicly available
 - ▶ Concerns about data access, security, and privacy may arise



1.10 Regulatory auditing and enforcement

- An audit is a formal examination of an entity's financial or other data
 - ▶ Types: certified financial, management or performance, service quality, capital project, operations, resource adequacy, forensic, and regulatory
 - ▶ Regulators do not replicate independent certified audits – and rely on their veracity
- Regulatory audits are independent reviews by a regulatory authority
 - ▶ Focuses on a company's plant and equipment and related expenses
 - ▶ Purpose is not replication or fraud detection but to provide public confidence that the rates paid by customers are fair, just, reasonable, and sufficient
 - ▶ Regulatory audits focus on consistency with regulatory principles, including prudence of investments (Part 2) and reasonableness of expenses (Part 3)
- Regulatory audits serve policy purposes – compliance with standards
 - ▶ "A regulatory review, a field investigation, or a means of determining the appropriateness of a financial presentation for regulatory purposes" (NRCAM, 2003)
- Regulatory purposes associated with audits
 - ▶ Oversight – annual reports and spot audits
 - ▶ Compliance – reports or filings ordered by the regulatory authority
 - ▶ Filing review – rate case (tariff), reconciliation cases, or financial filings

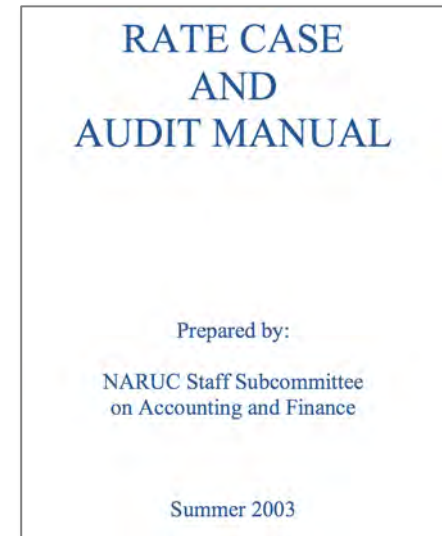
1.10 Rate case and other audits

- Rate case audits
 - ▶ Capital and operating expenditures
 - ▶ Adjustments, annualization, and normalization
 - ▶ Revenue and expenditure forecasts
 - ▶ Reconciliation issues

- Other accountability audits
 - ▶ GAAP financial audits
 - ▶ Audits for reconciliation of adjustment mechanisms
 - ▶ Going concern reviews
 - ▶ Fraud-related and forensic (lessons learned)
 - ▶ Assessment and compliance audits
 - ▶ Management and workforce audits
 - ▶ Audits of affiliate transactions
 - ▶ Holding company (parent and subsidiary) audits

1.10 NARUC Rate Case and Audit Manual (NRCAM, 2003)

- NARUC's Rate Case and Audit Manual (NRCAM, 2003) complements the guidance provided in the USoA
 - ▶ “This manual has been prepared by the [NARUC] Staff Subcommittee on Accounting and Finance as a guideline for state, territory, and federal regulatory utility commission personnel.
 - ▶ It is not our intent to provide a checklist for use by commission auditors, accountants or analysts
 - ▶ Rather, it is our intent to set forth the most common, basic regulatory principles, processes, and procedures used by many regulatory commissions to examine and investigate general rate applications.
 - ▶ We anticipate that each regulatory jurisdiction will have areas of uniqueness and specific areas of differences when it comes to examining a utility's revenue requirement and operating earnings.
 - ▶ Recognizing that these differences exist, we have tried to present the basic steps of the rate case investigation in such a way that revisions and changes can be made by the individual jurisdictions while maintaining the overall usefulness of the more general guidelines.”



1.10 Information used by rate-case auditors

- Utility's rate case filing and related testimony
- Rate case data requests and discovery responses
- Annual reports to federal and state economic and financial regulators
- Annual and other reports to financial regulators, including notes
- Annual reports to shareholders and earnings calls
- Detailed budgets and budget variance reports
- Capital planning reports and project audits
- General ledgers and trial balances
- Details of compensation for (SEC-named) executive officers
- Federal income and other tax filings (by request)
- Minutes of meetings of boards of directors (by request)
- Environmental, social, and governance (ESG) disclosures (risks)
- General search news, reports, and other publicly available information

1.10 Regulatory enforcement

- Pennsylvania Bureau of Investigation and Enforcement
 - ▶ "Prosecutory bureau for purposes of representing the public interest in ratemaking and service matters before the Office of Administrative Law Judge and enforcing compliance with the state and federal motor carrier safety and gas safety laws and regulations. The bureau handles rail safety enforcement proceedings that are referred by the Bureau of TUS. The Bureau also prepares reports for the Commission, provides technical support for other bureaus and participates in working groups on energy issues."
- Regulation must be a "tough substitute" for markets (H. Trebing)
 - ▶ Regulation relies on a culture of commitment to and capacity for compliance
 - ▶ Regulators must know and use their authority to inspect and enforce
 - ▶ Tools include fines, penalties, legal actions (findings of contempt, even arrest)
 - ▶ Communications, technical support, and ADR are tried before formal proceedings
 - ▶ Language in regulatory orders, including settlements, should be clear
 - ▶ Rules and regulations may vary by utility type or size and may be updated periodically
 - ▶ Conditional approvals should be explicit and measurable
 - ▶ Complete documentation of noncompliance is critical
 - ▶ Transparency and stakeholder engagement play a role

Q. Are regulatory decisions adequately enforced?

1.11 Ratemaking process and key steps

- Rate regulation is largely reactive in response to a filing for “rate relief”
- Comprehensive case is preferred to single-issue ratemaking (e.g., tax change)
- Utilities file rate cases with expert testimony on material issues
- Process is governed by the rules and procedures of administrative law
- Other parties (advocates) with standing may intervene and file testimony
- Parties may stipulate (agree) to some issues and/or settle the entire case
- Administrative law judges (ALJs) or hearing examiners draft orders
- Commissioners deliberate, rule, and issue orders supported by the record
- Commission orders may be appealed to commissions, state and federal courts

Q. What factors trigger the ratemaking process and why do parties intervene?

1.11 Stakeholder expectations about ratemaking

Public utilities

- Revenue stability, reasonable certainty, and a fair return to ensure financial viability and satisfy investors

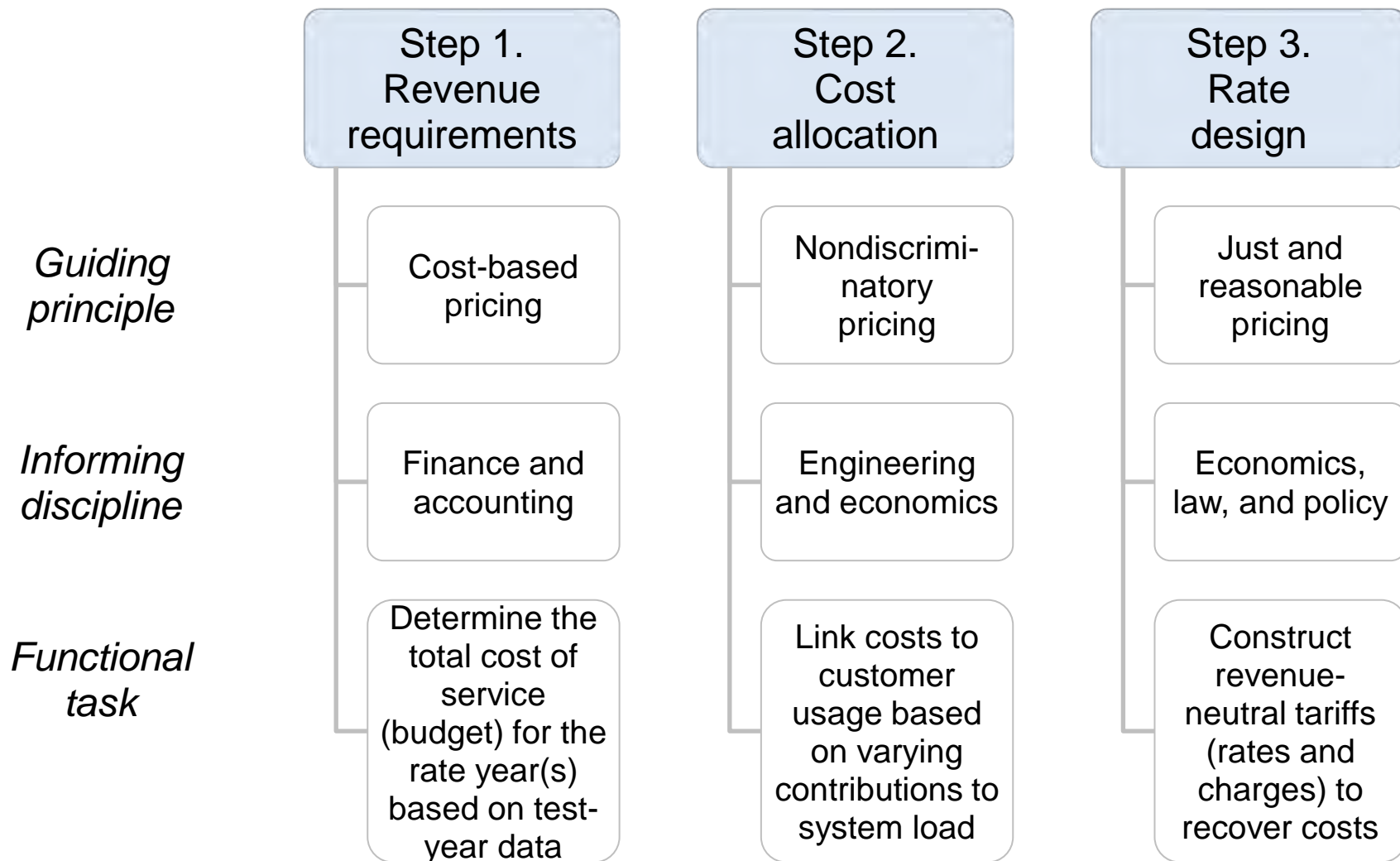
Utility ratepayers

- Safe, adequate, reliable, and convenient service, fair, reasonable, and stable rates, and a controllable and affordable bill

Utility regulators

- Utility services that serve society and promote the public interest in terms of prudent infrastructure spending, operational efficiency, and other performance goals

1.11 Ratemaking steps & guiding principles: all three matter



1.11 Pennsylvania PUC ratemaking process



FILING FOR A RATE INCREASE

When a regulated utility seeks a base rate increase, it must file a rate increase request with the PUC that shows the proposed new rates and effective date. The utility must prove that the increase is needed. The utility also must notify customers at least 60 days in advance to filing the request through billing notices to each and every customer. The notice must include the amount of the proposed rate increase, the proposed effective date, and how much more the consumer can expect to pay.



HOW THE PUC SETS RATES

The ratemaking process ensures the lowest reasonable rate for consumers while maintaining the financial stability of utilities. Under the law, the utility is entitled to recovery of its reasonably incurred expenses and a fair return on its investment. The PUC evaluates each utility's request for a rate increase based on those criteria.



HOW LONG DOES IT TAKE

By Pennsylvania law, the rate request is suspended for up to seven months if the PUC does not act before the effective date for the rate increase proposed by the electric, natural gas, steam heat, water and/or wastewater company. The PUC uses that time to investigate and determine what and if any of the requested rate increase is justified.

During the seven months, hearings are held before an Administrative Law Judge (ALJ) at which the evidence in support of the rate increase is examined and expert witnesses testify. In addition, consumers are offered several opportunities to voice their opinions and give testimony. When the record closes on all evidence given, the ALJ will issue a Recommended Decision to the Commission. Parties can file exceptions to the ALJ's decision if they do not agree with the ALJ's findings. Finally, the matter is brought before the PUC Commissioners for a vote and final decision.

Together with the 60-day notice period, the rate increase process takes nine (9) months. This is called a statutory deadline, and the PUC must act within that timeline or the rate increase automatically goes into effect.

HEARINGS AND RECOMMENDATIONS

When the PUC investigates a rate increase, it is assigned to an ALJ, who is an attorney with experience in administrative law. The ALJ presides at public input hearings and at formal evidentiary hearings, which are open to the public and conducted like a formal court proceeding.

The presiding ALJ will set a litigation schedule with the parties at a pre-hearing conference. This sets the stage for the rate case to move forward on a timeline that meets the statutory deadline of nine months.

Pennsylvania's "Statutory Advocates" are the PUC's Bureau of Investigation and Enforcement (I&E), the Office of Consumer Advocate (OCA) and the Office of Small Business Advocate (OSBA). All three advocates represent the public and small business interests of consumers, customers, and small businesses throughout Pennsylvania. All three advocates are part of Pennsylvania's state government and are always present in rate case proceedings.

The ALJ's Recommended Decision may approve, disapprove or modify the original request. Parties may file exceptions to the Judge's decision and reply exceptions. Sometimes, rate cases are resolved after all of the parties reach a settlement on the issues. The entire matter is always then sent to the Commissioners for a vote at a public meeting of the Commission.

The Commissioners make the final decision, and may authorize rates that: (1) permit revenues that allow the utility to meet its reasonable expenses, pay interest on its debt and provide a fair return to stockholders so it will continue to attract investment; and (2) assign the proper rate for residential, commercial and industrial customers that reflects the cost of service. The Order has the weight of law unless the PUC changes it in response to a petition for reconsideration, or it is successfully challenged by appeal to the Commonwealth Court of Pennsylvania.

HOW CAN YOU PARTICIPATE IN THE RATE CASE

The public, consumers, and utility customers can contact the PUC with their views on the rate increase in three ways:



1

SUBMIT COMMENTS IN WRITING TO THE SECRETARY OF THE COMMISSION:

BY MAIL: Secretary of the Commission
 Pennsylvania Public Utility Commission
 400 North Street, Commonwealth Keystone Building
 Harrisburg, Pennsylvania 17120

USE AN ONLINE FORM that can be printed out and mailed to the Secretary – "Objection or Comment to Proposed Rate Increase Form," at www.puc.pa.gov and then Click on "Filing & Resources" at the top of the page, then click on "File Complaints."

BY EMAIL: ra-pcwebmaster@pa.gov - Type in your comments and email to the PUC.

All comments will be placed in the "Public Comment Folder." Although comments are not placed on the record of the docket of the rate case, they are reviewed by the statutory advocates, the ALJ, and Commission staff.

2

ATTEND A PUBLIC INPUT HEARING and state your comments on the record to the ALJ presiding over the hearing. Your comments will be transcribed by a court reporter and become part of the record.

3

FILE A FORMAL RATE COMPLAINT WITH THE SECRETARY. You can open and use an eFiling account – free of charge – through the Commission's website. An eFiling account gives you an additional benefit – you can sign up for "subscription" services – allowing you to track the progression of the rate case and receive an email alert any time a filing is made on the docket. You can also file a formal rate complaint by mail to the Secretary. Once filed and processed by the Secretary, your rate complaint receives a "C docket" number and becomes a part of the official record of the rate case. Your rate complaint will be served on the utility.

FILING A FORMAL RATE COMPLAINT MEANS YOU BECOME AN ACTIVE PARTY IN THE LITIGATION OF THE RATE CASE. You will be expected to respond to interrogatories among the parties, appear at evidentiary hearings, and provide testimony under oath regarding the issues you have raised in your rate complaint and why the rate increase proposal should be denied. You will also have the responsibility to keep your contact information updated, and accept service of all documents sent to you by the ALJ and the other parties.

PAPUC
 Pennsylvania Public Utility Commission
 1-800-692-7380
 For people with speech or hearing loss, dial 7-1-1 (Telecommunications Relay Service)
www.puc.pa.gov
ConsumerEd@pa.gov
 f X in @ v

1.12 Cost-of-service (cost-based) ratemaking

- Prevailing practice emphasizes revenues and rates based on the cost of service
 - ▶ Cost-based rates are (mostly) considered efficient and equitable (see Part 5)
 - ▶ Cost-based prices help send efficient signals to producers and consumers
 - ▶ "Cost-plus" ratemaking (cost plus a return) is not an accurate description
 - ▶ Nonutility and non-jurisdictional financials should be excluded and ring-fenced
- Revenue requirements
 - ▶ A regulatory construct derived by a study of embedded accounting costs for a rate period or "test year"
 - ▶ Revenue requirement formulas are "solved" with simultaneous equations
 - ▶ Cost analysis is distinct from cost-of-service analysis (allocation and rate design) and may be separately docketed
- Key differences between non-private and private utilities in ratemaking
 - ▶ Calculation of revenue requirements
 - ▶ Debt, equity, and cost of capital
 - ▶ Contributed capital
 - ▶ Depreciation expense
 - ▶ Taxes and tax equivalents (e.g., PLoT or PILT)
 - ▶ Cash flow, working capital, and reserves

1.12 Competitive firms vs. utilities

- Competitive firms
 - ▶ Revenues - Expenses = **Net income** (accounting “profit”)

- Regulated utilities
 - ▶ **Revenue requirements** = Net income + Expenses

- Non-private utilities (government and cooperatively owned)
 - ▶ **Revenue requirements (budget)** = Debt service + Expenses + Amount to maintain reserves

1.13 Test year in ratemaking

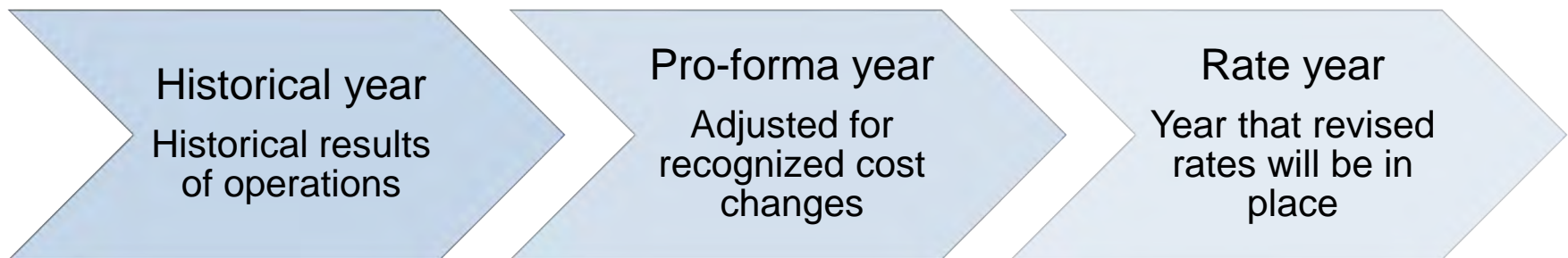
- Test year is a regulatory construct to inform tariff setting for the “rate year”
 - ▶ The rate year is when the rates will be in effect
 - ▶ The test year is a period of measurement for a recent, consecutive twelve-month period consisting of a full year of operations where data are readily available (NRCAM, 2003)
 - ▶ The “test” is whether authorized returns are or can be earned under proposed rates
 - ▶ Some commissions use “test year” to refer to the period when rates will be in effect
- Test-year purpose
 - ▶ Used to examine earned returns compared to either previously authorized or requested earnings (NRCAM, 2003) and establish rates for a rate year
 - ▶ Data are adjusted to reflect conditions for the rate-year period
 - ▶ Retroactive ratemaking to adjust for variances is considered unconstitutional
- Test-year periods used in ratemaking
 - ▶ Thirteen-month average is prevalent and facilitates matching
 - ▶ Average of beginning and end of year account balances
 - ▶ End-of-year account balances (used for the York case study)
 - ▶ Projected or fully projected rate-year period – a year beyond when rates go into effect
 - ▶ Multi-year rate period – similar to price-cap model under incentive regulation (PBR)

1.13 Test year (continued)

- Determining the appropriateness of the test year (NRCAM, 2003)
 - ▶ While many jurisdictions have and continue to use historical test year data, some either allow or mandate projected or future test years
 - ▶ In either case, the test year is used to examine earned returns compared to either
 - Previously authorized earnings (based on approved rates of return) or
 - Requested earnings (based on requested or recommended rates of return)
 - ▶ Whether using a future or historic test year, the auditor should judge the appropriateness of the proposed test year
 - ▶ Is it representative, after adjustments, of the period in which rates will take effect?
- Test year and matching challenges
 - ▶ Revenues and expenses ("budget") must be matched, synchronized, and consistent
 - ▶ Accounting time periods based on the fiscal year (annual reports), tax year, and test year for ratemaking are asynchronous
 - ▶ Dynamic effects of one item on other items in the period must be considered (e.g., smart meter capital investment may displace meter reader expenditures)

1.13 Test year (continued)

- Historical test-year data are adjusted on a “pro-forma” (“as to form”) basis
 - ▶ Restated for data anomalies and adjusted for known and measurable factors expected to affect revenues and expenses in the rate year
 - ▶ Adjustments must be documented and supported by the record
 - ▶ Results of different methods should be similar (e.g., pro forma and prospective)
- Many regulatory jurisdictions allow or mandate a future test year (FTY)
 - ▶ Forward-looking, forecasted, projected, or fully projected future test year" (FPFTY in PA)
 - ▶ Accounts for “lag” between cost incurrent and recovery, and thus returns (see Part 4)
 - ▶ Mixed or hybrid approaches are also used (e.g., pro forma plus forecast)
 - ▶ Implications for cost and revenue-adjustment mechanisms – and thus risk



Q. What are the advantages and disadvantages of the different approaches?

1.13 Revenue and expense forecasting ⓘ

- Three types of financial statements (AICPA Attestation Standards Section 301.06)
 - ▶ Pro Forma. Historical statements adjusted for known and measurable changes; AICPA does not consider pro forma statements prospective
 - ▶ Forecast. Presents the financial position reflecting the conditions expected to exist in the rate year.
 - ▶ Projection. Presents the financial position expected to exist in the rate year given one or more hypothetical assumptions
- Methods used to forecast revenues and expenses
 - ▶ Growth rates
 - ▶ Regression analysis
 - ▶ Budgets (zero-based)
 - ▶ Price and volume analysis
 - ▶ Blending of methods

1.13 Test year (NRCAM, 2003) ⓘ

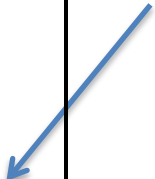
- Whether using a future or historic test year
 - ▶ The auditor should judge the appropriateness of the test year that has been proposed.
 - ▶ Is it representative, after adjustments, of the period in which rates take effect?
- When looking at an historic test year
 - ▶ One of the first questions asked is whether the test year is too stale to make it a reasonable basis upon which to establish rates for a future period.
 - ▶ In looking at the appropriateness of the test year (and whether it might be too old), one should look at what has happened since the end of the test year and the current time.
 - ▶ Are the historic costs and revenues normal or recurring?
 - ▶ Has extraordinary growth occurred during the intervening time (e.g., has a new industrial customer come online)?
 - ▶ Has there been a negative impact on revenues through shift reductions at the local foundry?
 - ▶ In looking at the months beyond the end of the test year, have the growth rates for rate base, expenses, and revenues all remained fairly close and constant, maintaining the test year relationship among these three elements, or has one element changed dramatically, making the test year out of kilter with current operations?
 - ▶ If so, can this situation be resolved through adjustments to the test year?
- When looking at a future test year
 - ▶ One will want to examine the test year selected for reasonableness
 - ▶ Is this period mandated by rules, statute, or Commission directive?
 - ▶ Is the test year founded on a historical base or documented figures, such that its projections are readily understandable and traceable?

1.13 Poll: Test year for ratemaking

- Which of the following is **true**?
 - A. A future test year grants preapproval for utility expenditures based on prudence
 - B. A forecasted test year multiplies total historical revenues by a growth factor
 - C. Regulators can always revisit past rates and make needed adjustments and refunds to ratepayers
 - D. Authorized returns should account for test-year effects

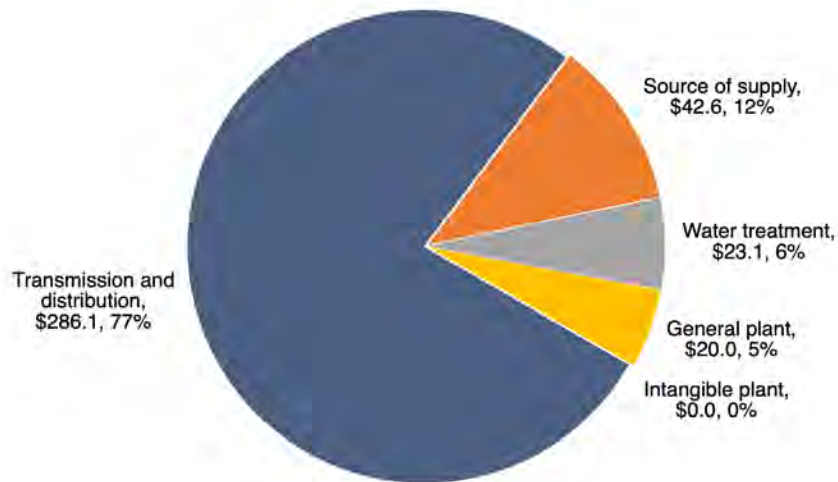
1.14 Components of revenue requirements

Revenue requirements	Variable costs of operation	Operations and maintenance		Labor	Above the line: ratepayers cover the prudent cost of service	
	Fixed costs of operation			Resource inputs (energy, water)		
				Other inputs and variable operating costs		
				Insurance, contracts and other costs (may be fixed in the short term)		
				Depreciation		
		Taxes				
	Capital recovery	Cost of capital	Interest on debt	Below the line: ratepayers compensate debt holders and equity shareholders (net of disallowances that reduce returns)		
			Return on equity			
						Disallowances
						Nonregulated activities

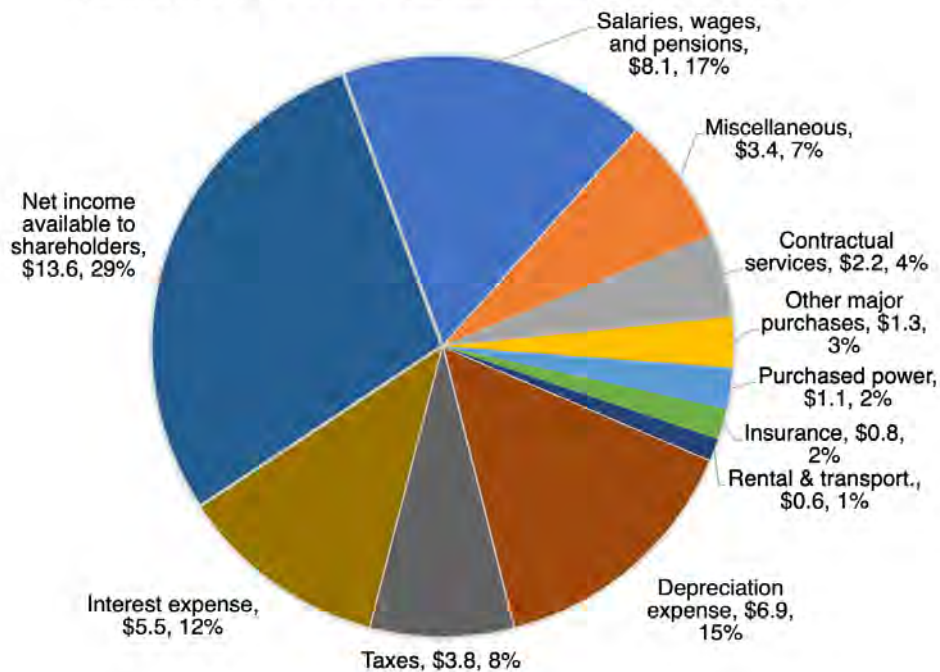


1.14 Distribution of plant investment and revenues

ALLOCATION OF UTILITY PLANT IN SERVICE
(\$371.9 MIL. IN 2018)



ALLOCATION OF UTILITY REVENUES (\$47.3 MIL. IN 2018)



1.14 Cash-needs vs. utility basis for ratemaking

Cash-needs basis

- Used by publicly owned utilities
- Accepted by government auditors
- Accepted by credit-rating agencies
- May not incorporate depreciation expense
- May not promote intergenerational equity in cost allocation
- Easier to understand and more adaptable

Utility basis

- Used by privately owned and regulated utilities (some public)
- Accepted by state regulators
- Consistent with GAAP
- Incorporates depreciation expense
- May promote intergenerational equity in cost allocation
- Challenging to understand and less adaptable

1.14 Cash-needs, debt-service, or budget basis: non-private

$$\mathbf{RR = Capex + Opex + DS + Teq + Res}$$

where:

RR = total test year (annualized) revenue requirements from rates (Totex)

Capex = current capital expenditures not contributed or debt-financed
(recorded as assets)

Opex = operation & maintenance expenses, including administrative & general

DS = debt service (loan and revenue bond payments) for utility plant

Teq = tax equivalents (gross receipts or PILT) and other payments state or local governments based on obligations, costs, or risks

Res = reserve payment based on debt service coverage or other criteria

Cost-based rates and revenue sufficiency are a function of both the numerator and denominator:

$$\frac{\text{Revenue requirements (RR)}}{\text{Estimated sales (billing determinants)}}$$

1.14 Utility, enterprise, or investment basis: private and some public

$$RR = r_a (RB) + O\&M + D + T$$

where:

RR = total test year (annualized) revenue requirements from rates

r_a = authorized (not guaranteed) rate of return to compensate debt holders and equity shareholders

RB = rate base (original cost of invested utility plant in service net of accumulated depreciation and adjustments)

O&M = operation & maintenance expenses, including administrative & general

D = depreciation and amortization expense

T = income tax expense and other taxes not included in O&M or billed

Cost-based rates and revenue sufficiency are a function of both the numerator and denominator:

$$\frac{\text{Revenue requirements (RR)}}{\text{Estimated sales (billing determinants)}}$$



1.14 Poll: Recoverable and unrecoverable costs

- All costs incurred by public utilities are recoverable from their ratepayers
 - A. True
 - B. False

1.14 Recoverable and unrecoverable costs

- Regulators and their auditors look for abuses of "monopoly money"
 - ▶ Examples: storm damage, service line replacement, charging stations, covid-19 impact
 - ▶ Prudence and usefulness standards help avoid stranded investment
 - ▶ For further discussion, see Parts 2 and 3

- Recoverable costs – potential allowances
 - ▶ Utility plant that is used and useful to ratepayers
 - ▶ Prudent capital and operating expenditures
 - ▶ Spending needed to meet standards and mandates
 - ▶ Spending to remain a going concern
 - ▶ Compensation of holders of debt and equity

- Unrecoverable costs – potential disallowances
 - ▶ Utility plant that is not used and useful to ratepayers
 - ▶ Imprudent capital and operating expenditures
 - ▶ Fines, penalties, and certain legal liabilities and defense
 - ▶ Spending and excesses disallowed by regulatory policy
 - ▶ Unacceptable compensation paid to company officers

- Allowances and disallowances are anticipated
 - ▶ Disallowances may result from utility's action or inaction (e.g., emergency planning)
 - ▶ Some disallowances may be symbolic – to show that regulators are watching
 - ▶ Allowances and disallowances may be negotiated in settlement processes

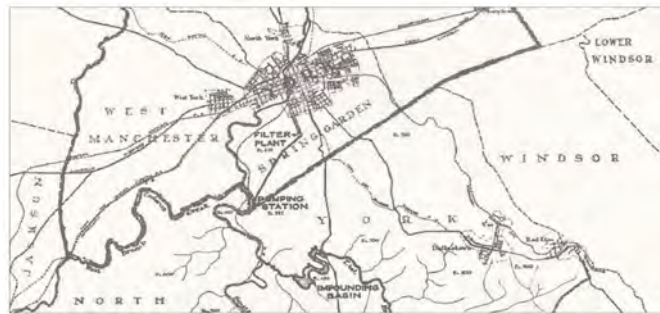


1.14 How does this work in practical terms?

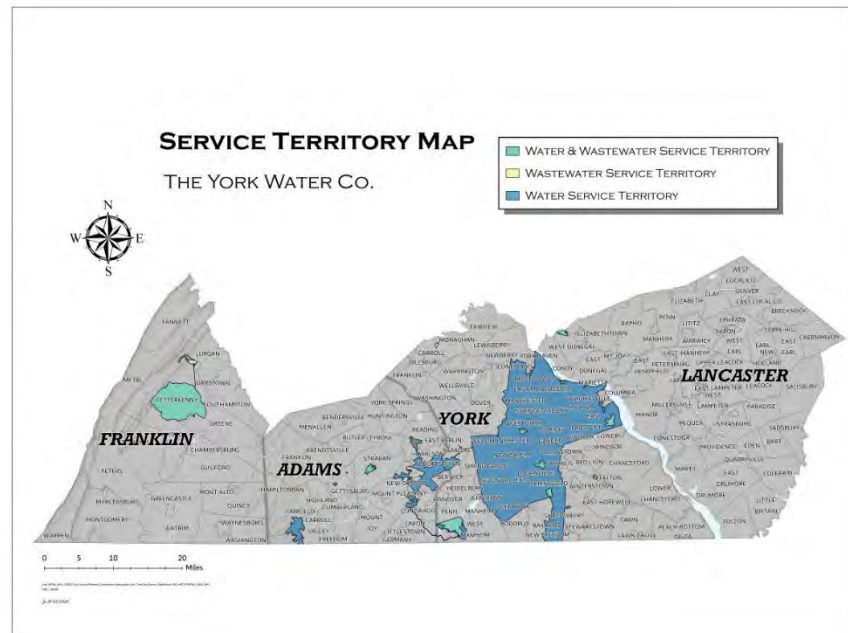
- Utilities invest in and manage infrastructure assets for a public purpose
- Privately owned utilities are strongly motivated to invest in the rate base
- Investors are entitled to a return on (r) and of (depreciation) their investments
- Cost recovery is allowed for useful and prudent investments and expenditures
- Depreciation expense compensates for “using up” the assets over time
- Regulators adjust, restate, or impute costs (vs. compel action or micromanage)
- Resulting returns and rates must be deemed “just and reasonable”

Q. How does York Water compare to other water utilities?

1.15 Case-study overview: York Water Company



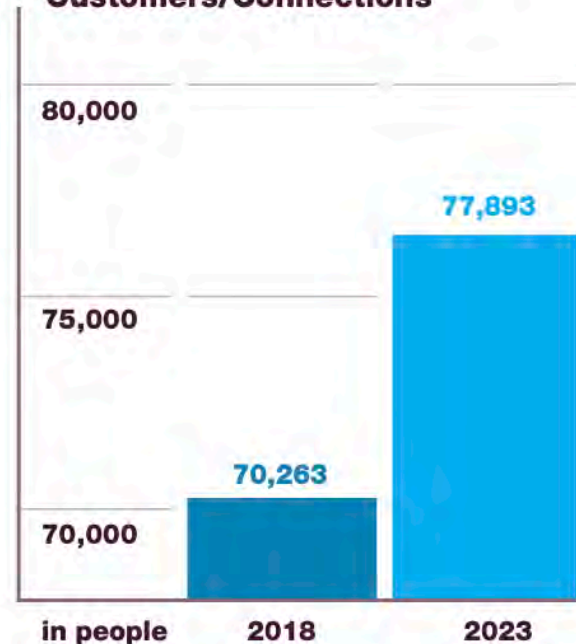
In 1927 we served 7 municipalities. Today we provide "That good York water" to 48 municipalities.



Proudly Serving Lancaster County

In October 2023, The York Water Company crossed the Susquehanna River to provide the Conewago Industrial Park tenants with a supply of reliable water and wastewater services. York Water is excited to have crossed the River for the first time in over 200 years and we look forward to providing portions of Lancaster County with high-quality utility services.

Water & Wastewater Customers/Connections



1.15 York Water overview

- Founded in 1816 (when James Madison was U.S. President), York is the oldest continuing investor-owned water utility in the U.S.
- York has paid a record 615 consecutive dividends as of August 2024
- York was formed by a group of local citizens to provide fire protection
- York is an investor-owned company not part of an interstate holding company
- York's 130 employees serve about 78,000 residential, commercial, and industrial water and wastewater customers on a regional basis to more than 50 cities
- York is regulated by the Pennsylvania Public Utility Commission (PA PUC)
- York is the smallest water utility listed on the stock exchange (NASDAQ)
- Comprehensive financial data are publicly available, including a recent rate case
- Water companies and cases are comparable but less complex than energy
- For information, visit yorkwater.com

Q. How does York Water compare to other water utilities?

1.15 York Water history and mission

■ Mission statement

- ▶ The York Water Company is committed to providing our customers with safe, dependable, high-quality water, wastewater, and related services that meet or exceed customer expectations at reasonable rates in an environment encouraging dedicated employees to achieve their highest standard of performance while earning a fair return for our shareholders.



Log in to Your Account

Log In



February 18, 1816, The York Water Company was formed by a group of leading York Citizens to protect against the danger of fire. Today the company is the oldest investor owned utility in the United States.

- 1840 *Original wooden mains replaced with cast iron pipes.*
- 1848 *First step into the modern era, extension of water mains, pumping station built, and reservoir expanded.*
- 1897 *Brillhart raw water-pumping station built.*
- 1899 *The York Water Company Filtration Plant, designed by George W. Fuller, is placed in service.*
- 1912 *The Company's first impounding dam to create Lake Williams Reservoir completed.*
- 1967 *Lake Redman Reservoir completed.*
- 1977 *William H. Kain County Park open to the public for year-round recreational use.*
- 2005 *Pumping station built on the Susquehanna River.*
- 2016 *The York Water Company celebrates the 200th anniversary of uninterrupted service!*

1.15 Message from the CEO in the “glossy”



IT Hand

Dear Shareholders,

2023 will be remembered as a year of impressive growth and steadfast resilience. Growth is reflected in the Company’s record revenue, record capital placement, record earnings, and record complement of employees. Our resilience can be assessed through our collective resolve and response as we’ve been tested through environmental, operational, financial, and human challenges.

Footprints enshrined in concrete in 1912, unearthed and discovered in 2023, certainly created a moment for corporate reflection. We follow in the footsteps of those who set our course and upon whose shoulders we stand. As was our predecessors’, our generational investment at our Lake Williams Dam bears testament to our strategy to expand our Company’s superior value proposition financially, operationally, and geographically. For York Water’s first 190 years, our Company proudly served the residents and municipalities of York County, Pennsylvania until early in our 191st year when we acquired the water system of the Borough of Abottstown, Adams County, marking our westward expansion. In the Company’s 205th year, we began wastewater and then water service further west in Franklin County, and in 2023, our 207th year, we acquired the water and wastewater assets of the Conewago Industrial Park, crossing the Susquehanna River and serving eastward into Lancaster County. The Company now serves almost 78,000 customers and a population of over 202,000 across the fastest-growing region in the state.

In 2023, our Company, *An Icon of York*, whose threads are woven in a tapestry spanning 207 years of service to our customers and communities, was resilient despite Mother Nature’s diabolic sense of humor. After nearly 18 months of managing water resources to protect the Lake Williams Dam construction site and keeping a buffer in our upstream Lake Redman Reservoir, 2.67” of rain fell in five days to close out April 2023. With the construction site in jeopardy of flooding, the Company opened valves, diverted flow, reinforced buffers, and weathered the storm. And, then, Mother Nature chuckled, and put our strategy of redundant and resilient utility infrastructure to the test. She turned off the faucet and plunged York County into drought. With a mere 0.33” of rain in the month of May 2023, Lake Williams empty, a deficit of 15” of rain, mandatory water conservation measures in place, and the fourth consecutive day with a high temperature above 90°, on September 6, 2023, the Company turned on the redundant Susquehanna River Pumping Station (SRPS) and transported 1.8 million gallons of water from the Susquehanna River to Lake Redman and the East Branch, Codorus Creek. Completed in 2004, this was the first time the Company needed to engage the pumps and 15-mile transmission pipeline for the purpose of drought response. Within a few days, the SRPS was moving nearly 12 million gallons per day to support our customer demand.

“During 2004, the Company made a massive commitment to strategically position itself to continue to meet our current and future customers’ water supply requirements. The Company constructed and installed an intake, pumping station and 15-mile transmission pipeline to connect the Susquehanna River to the Company’s Lake Redman Impounding Reservoir. All of our customers face a more secure future because of this project.”

– Jeffrey S. Osman, President and Chief Executive Officer, The York Water Company Annual Report, 2004

How prescient were the officers and directors of the Company who envisioned this condition, secured the capital, and strengthened the Company’s defense against drought, nearly twenty years before. With improving precipitation trends and colder temperatures, along with near-substantial completion of the Lake Williams Dam improvements, at midnight, December 18, 2023, the Company lifted its mandatory nonessential water use restriction.

Resilience can take many forms, requiring strength of purpose and resolve, and in 2023, our Company’s leadership was tested at the highest level. Our board chair, Cindy Dotzel, who had secured the Chair’s gavel on May 1, 2021, and served as York Water’s first female board chair until May 1, 2023, passed away on July 27, 2023. She battled disease with the fortitude of a warrior, was courageous, determined, and undaunted in her journey to find healing. We mourn her loss. With a heavy heart, the singular interests of the Company in mind, and the confidence of his board, Past Chair George Hodges graciously secured the gavel and resumed his duties, and we gratefully acknowledge his leadership, his acumen, and unwavering dedication to serve our Company.

We are grateful to our shareholders for their trust and confidence in our Nation’s Oldest Investor-Owned Utility.

Joseph J. Johnson

President and Chief Executive Officer

1.15 York summary of operations

THE YORK WATER COMPANY 2023 Annual Report

Highlights of Our 208th Year
(In thousands of dollars, except per share amounts)

Summary of Operations					
FOR THE YEAR	2023	2022	2021	2020	2019
Operating revenues.....	\$ 71,031	\$ 60,061	\$ 55,119	\$ 53,852	\$ 51,578
Operating expenses.....	41,500	35,578	31,723	29,421	27,792
Operating income.....	29,531	24,483	23,396	24,431	23,786
Interest expense.....	2,894	3,613	3,705	4,177	4,758
Gain on life insurance.....	-	-	-	515	-
Other income (expenses), net.....	(1,603)	(1,275)	(1,587)	(2,153)	(2,386)
Income before income taxes.....	25,034	19,595	18,104	18,616	16,642
Income taxes.....	1,277	15	1,120	2,018	2,240
Net income.....	\$ 23,757	\$ 19,580	\$ 16,984	\$ 16,598	\$ 14,402
Per Share of Common Stock					
Book value.....	\$ 15.43	\$ 14.50	\$ 11.64	\$ 10.97	\$ 10.31
Earnings per share:					
Basic.....	1.66	1.40	1.30	1.27	1.11
Diluted.....	1.66	1.40	1.30	1.27	1.11
Weighted average number of shares outstanding during the year:					
Basic.....	14,294,910	13,957,788	13,076,263	13,033,681	12,964,080
Diluted.....	14,295,713	13,958,915	13,077,290	13,034,520	12,966,292
Cash dividends declared per share.....	0.8189	0.7874	0.7571	0.7280	0.7001
Utility Plant					
Original cost, net of acquisition adjustments.....	\$ 610,817	\$ 539,963	\$ 482,113	\$ 434,963	\$ 398,065
Construction expenditures.....	64,640	50,532	34,409	32,123	18,425
Other					
Total assets.....	\$ 588,205	\$ 510,595	\$ 458,853	\$ 406,957	\$ 363,529
Long-term debt including current portion.....	180,007	139,465	146,369	123,573	101,035

For Management's Discussion and Analysis of Financial Condition and Results of Operations, please refer to Item 7 in the Company's Annual Report on Form 10-K.

1.15 York rate matters as reported to the SEC (10-K, 2019)

- “From time to time, the Company files applications for rate increases with the PPUC and is granted rate relief as a result of such requests.
- The most recent rate request was filed by the Company on May 30, 2018, seeking an annual increase in water rates of \$6,399 and an annual increase in wastewater rates of \$289.
- Effective March 1, 2019, the PPUC authorized an increase in water rates designed to produce approximately \$3,361 in additional annual revenues and an increase in wastewater rates designed to produce approximately \$289 in additional annual revenues.”

Rate Matters (Details) - PPUC [Member] - USD (\$) \$ in Thousands	3 Months Ended		6 Months Ended	
	Jun. 30, 2019	Jun. 30, 2018	Jun. 30, 2019	Jun. 30, 2018
Rate Matters [Abstract]				
Amount agreed to be returned to customers for effects of 2017 Tax Act	\$ 2,117		\$ 2,117	
Revenue recorded as regulatory liability for effects of 2017 Tax Act	(21)		(305)	
Reclassification from excess accumulated deferred income taxes on accelerated depreciation	0		27	
Negative surcharges returned to customers for effects of 2017 Tax Act	541		798	
Rate Request Filed on May 30, 2018 [Member] Water [Member]				
Rate Matters [Abstract]				
Requested increase in annual revenue			6,399	
Authorized dollar increase in annual revenues from the PPUC			3,361	
Rate Request Filed on May 30, 2018 [Member] Wastewater [Member]				
Rate Matters [Abstract]				
Requested increase in annual revenue			289	
Authorized dollar increase in annual revenues from the PPUC			289	
DSIC [Member]				
Rate Matters [Abstract]				
Distribution system improvement charge revenue	\$ 0	\$ 436	\$ 249	\$ 916
DSIC [Member] Maximum [Member]				
Rate Matters [Abstract]				
Distribution system improvement charge percentage over base rate			5.00%	
DSIC [Member] Minimum [Member]				
Rate Matters [Abstract]				
Distribution system improvement charge percentage over base rate			0.00%	

1.15 York Water rate case (2018)

- York Water Company filed its case on May 30, 2018
 - ▶ Rates had not been changed for five years (2013)
 - ▶ Parties agreed to settle the case on November 20, 2018
 - ▶ A final order on the case was issued on January 17, 2019
 - ▶ Revenues and rates are based on a fully projected future test year
 - ▶ New rates will be effective Mar. 1, 2019, through Feb. 29, 2020 (Leap Day!)
- Parties to the rate case – the "Joint Petitioners" in the settlement
 - ▶ Pennsylvania Office of the Consumer Advocate (OCA)
 - ▶ Pennsylvania Office of Small Business Advocate (OSBA)
 - ▶ Michael Eifert (individual intervenor)
 - ▶ Pennsylvania PUC Bureau of Investigation and Enforcement (I&E or Staff)
- Key issues in the York rate case
 - ▶ Recovery of \$77 million in capital expenditures
 - ▶ Recovery of operating costs, net of efficiency gains
 - ▶ Accounting for the 2017 reduction in the corporate tax rate
 - ▶ Low-income assistance and lead service line replacement
- Resulted in a "black-box settlement"
 - ▶ Joint petitioners filed their agreement, which was the basis for the ALJ recommendation
 - ▶ Details on rate base, adjustments, and returns are not disclosed

1.15 Issues in the York Water rate case (2018)

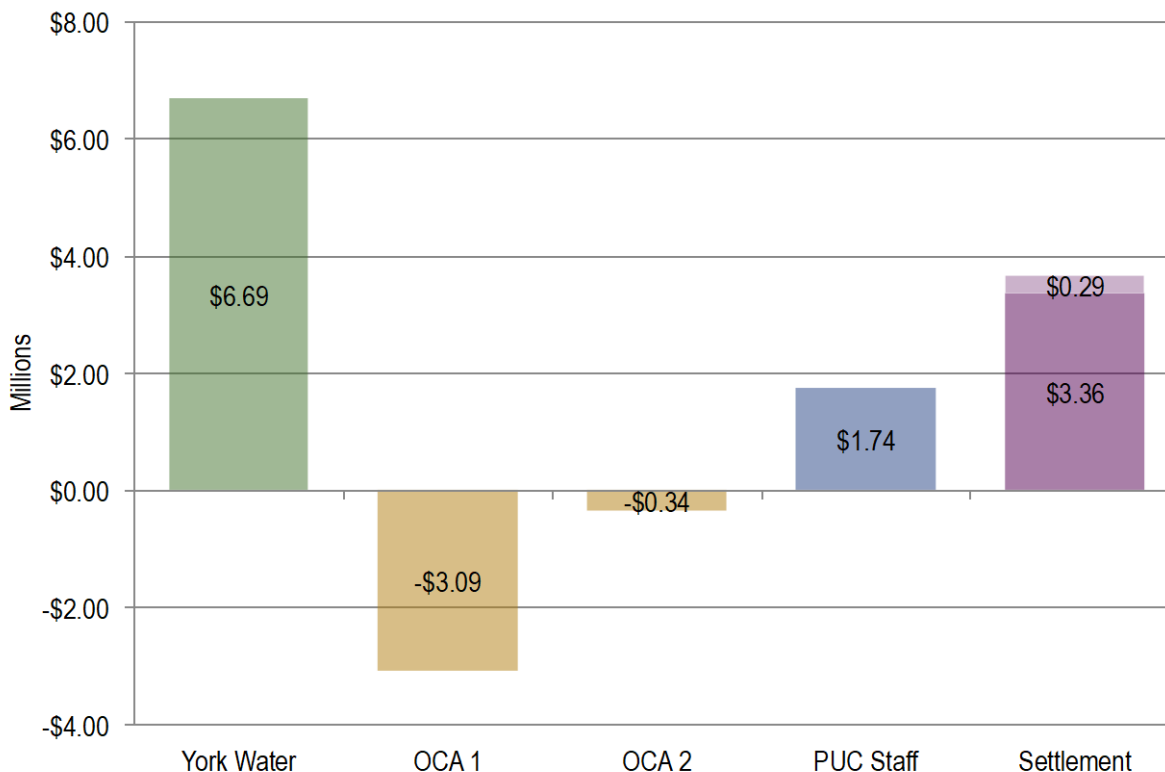
- ISSUE ¶28. Increase in operating revenues and customer rates
- ISSUE ¶29. Refund of Federal Tax Adjustment Credit (FTAC) pursuant to the 2018 TCJA
- ISSUE ¶30. Amortization of acquisition adjustments and costs related to lead service lines
- ISSUE ¶31. Negative acquisition adjustments
- ISSUE ¶32. Tax benefit from catch-up deduction on tangible property
- ISSUE ¶33. Recovery of pension contribution costs
- ISSUE ¶34. State Tax Adjustment Surcharge (STAS)
- ISSUE ¶35. Distribution System Improvement Charge (DSIC) set to 0%
- ISSUE ¶36. Distribution System Improvement Charge (DSIC) return on equity
- ISSUE ¶37. Distribution System Improvement Charge (DSIC) income tax effect
- ISSUE ¶38. Future test year reporting requirements (FTY and FPFTY)
- ISSUE ¶39. Funding for low-income customer assistance program
- ISSUE ¶40. Ratemaking treatment of income taxes on contributions in aid of construction (CIAC)
- ISSUE ¶41. Wastewater cost-of-service study
- ISSUE ¶42. Reporting of deferred income taxes
- ISSUE ¶43. Quarterly Earnings Report (QER) filed with the PUC
- ISSUE ¶44. Stay-out period for next base rate case
- ISSUE ¶45. Residential customer charge

1.15 Test-year reporting requirements

- ISSUE ¶38. Future test year reporting requirements (FTY and FPFTY)
 - ▶ These settlement provisions adopt I&E's proposal, as slightly modified by the company's recommendations set forth in its rebuttal testimony.
 - ▶ On or before 6/1/19, York will provide the Commission's Bureau of Technical Utility Services ("TUS"), I&E, OCA, and OSBA an update to York's exhibits, which will include actual capital expenditures, plant additions and retirements for the twelve months ended 12/31/18.
 - ▶ On or before June 1, 2020, York Water will update Exhibit Nos. FV-12-4 and FV-12-4W, which will include actual capital expenditures, plant additions and retirements through 2/29/20.

1.15 Proposed increase and position of the parties

- ISSUE ¶28. Proposed increase in operating revenues and customer rates
 - ▶ The settlement rates will be designed to produce \$3.65 million in additional annual base rate operating revenue, which consists of \$3,361,375 in additional water revenue and \$288,625 in additional wastewater revenue, based upon the pro forma level of operations for the twelve (12) months ended February 29, 2020. York will be permitted to file tariff supplements to become effective 3/1/19.



1.15 York Water: rate case settlement (2019)



News Release

The York Water Company
 130 East Market Street
 York, PA 17401



Contact: Jeffrey R. Hines, President and CEO
 or Matthew E. Poff, Chief Financial Officer

Phone: 717-845-3601

FOR IMMEDIATE RELEASE

THE YORK WATER COMPANY ANNOUNCES SETTLEMENT OF RATE CASE. DUE TO TAX RELIEF ACT, INITIAL AVERAGE RESIDENTIAL WATER BILLS WILL DECREASE.

York, Pennsylvania, January 18, 2019: Jeffrey R. Hines, President and CEO of The York Water Company (Nasdaq: YORW) announced today that the Pennsylvania Public Utility Commission (PPUC) approved a settlement at its January 17, 2019 meeting, allowing an increase in base rates for water and wastewater customers of The York Water Company. The settled rates provide for cost recovery for York Water, while maintaining affordability to customers.

Hines stated, "We believe this is a fair and reasonable settlement that allows us to recover an approximately \$77 million investment in system improvements and infrastructure replacements, and allows us to continue to meet the current and future needs of our customers."

1.15 Settlement policy (Pennsylvania PUC) ⓘ


- 52 Pa. Code §5.231 Offers of settlement
 - ▶ (a) It is the policy of the Commission to encourage settlements.
 - ▶ (b) Nothing contained in this chapter or Chapter 1 or 3 (relating to rules of administrative practice and procedure; and special provisions) preclude a party in a proceeding from submitting, at any time, offers of settlement or proposals of adjustment, or from requesting conferences for that purpose.
 - ▶ (c) Parties may request that the presiding officer participate in the settlement conferences or that an additional presiding officer or mediator be designated to participate in the settlement conferences.
 - ▶ (d) Offers of settlement, of adjustment, or of procedure to be followed, and proposed stipulations not agreed to by every party, including proposals intended to resolve discovery disputes, will not be admissible in evidence against a counsel or party claiming the privilege.
- 52 Pa. Code §69.401
 - ▶ In the Commission's judgment, the results achieved from a negotiated settlement or stipulation, or both, in which the interested parties have had an opportunity to participate are often preferable to those achieved at the conclusion of a fully litigated proceeding. It is also the Commission's judgment that the public interest will benefit by the adoption of §§ 69.402—69.406 and this section which establish guidelines and procedures designed to encourage full and partial settlements as well as stipulations in major section 1308(d) general rate increase cases.

1.15 Notes about the case

- All data are publicly available from York Water or governmental sources
- Snapshot end-of-year data for 2018 are used to illustrate key calculations
- Financial data in the spreadsheets will not match to the 2018 rate case
- Due to the black-box settlement, hypotheticals are used for some issues
- Focus will be mainly on water operations (excluding wastewater)
- Rate case data and tariffs are used to illustrate key regulatory issues
- Issues may be simplified for the purposes of this introductory course
- Some interrelated topics are revisited in more than one part of the course
- One case is not generalizable – utilities, rate cases, and regulatory policies vary
- Information provided is for educational purposes and not advisory

Q. What issues stand out in the York Water rate case and settlement?

1.15 York Water: recent rate case filing (2022)



York Water Co. seeks 33% rate increase: What this means for you

Tina Locurto
York Dispatch

Published 10:55 a.m. ET May 27, 2022 | Updated 12:53 p.m. ET May 31, 2022

The York Water Co. is looking to raise its base water rates and base wastewater rates — a 33.8% and 35% increase, respectively.

If the increase is approved by the Pennsylvania Public Utility Commission, residents would pay an additional \$13.12 per month while commercial customers would pay an additional \$79.71 per month. Industrial water customers would pay another \$437.53 per month.

The rate increase would be effective Aug. 1 if granted. The PUC, however, could delay the effective date to March 2023 and, after an investigation, grant all — or only part — of York Water's request, a news release from the water company states.

Although York Water Co. uses a single rate water structure across its entire service territory, wastewater rates will differ for each area served.

Here is an example of what residents could expect to pay additionally each month:

- Asbury Pointe Subdivision, East Prospect and Lower Windsor Area: \$18.05
- West York: \$22.90
- Jacobus: \$25.55
- Felton: \$1.05
- West Manheim Township: \$14.20

York Water Co. did not provide a breakdown of the rate increases for each municipality. For more information on rate increases, call 1-800-750-5561.

The rate increase is needed to pay for \$176 million in capital investments since 2018 made to improve resiliency and reliability of the utility systems, according to York Water President JT Hand.

News Release

Contact: JT Hand, President and CEO
or Matthew E. Poff, Chief Financial Officer
Phone: 717-845-3601

The York Water Company
130 East Market Street
York, PA 17401



FOR IMMEDIATE RELEASE

YORK WATER COMPANY FILES A RATE REQUEST

Proposes first general rate increase in 4 years.
Includes \$176 million capital investment in York, Adams, and Franklin Counties.

York, Pennsylvania, May 27, 2022: The York Water Company (NASDAQ:YORW) on May 27, 2022 asked the Pennsylvania Public Utility Commission (PUC) for a general increase in base water rates of \$18.8 million per year, or an overall 33.8% increase, and a general increase in base wastewater rates of \$1.5 million per year, or a 35% increase. If granted immediately, the rate increase would be effective August 1, 2022. The PUC may delay the effective date until March 2023, and after an investigation, grant all, some, or none of the request. As a result, the final effect on water and wastewater bills may be different than the Company's request. The request may also be reviewed by the Office of Consumer Advocate and the Office of Small Business Advocate.

The Company's filing with the PUC also requests to combine, in part, the revenue requirement for the Company's wastewater operations with the Company's water operations as authorized by legislation enacted in 2012.

If the increase were granted in its entirety, the typical residential water customer would pay an additional \$13.12 per month (44 cents per day), the typical commercial water customer would pay an additional \$79.71 per month (\$2.66 per day), and the typical industrial water customer would pay an additional \$437.53 per month (\$14.58 per day).

At the increased rates, the average cost of 1,000 gallons of water would remain slightly more than a penny per gallon.

While the Company implements a single rate water structure across its entire water service territory, wastewater rates are particular to the area served. For our wastewater customers: a typical Asbury Pointe Subdivision residential, East Prospect and Lower Windsor Area residential, and Straban Township Area residential or commercial wastewater customer would pay an additional \$18.05 per month (60 cents per day), a typical East Prospect and Lower Windsor Area commercial wastewater customer would pay an additional \$24.78 per month (83 cents per day), a typical West York Borough residential wastewater customer would pay an additional \$22.90 per month per dwelling unit (76 cents per day), a typical West York Borough commercial and industrial wastewater customer would pay an additional \$28.29 per month per dwelling unit (94 cents per day), a typical Jacobus Borough residential wastewater customer would pay an additional \$25.55 per month (85 cents per day), a typical Jacobus Borough commercial wastewater customer would pay an additional \$28.84 per month (95 cents per day), a typical Felton Borough wastewater customer would pay an additional \$1.05 per month per dwelling unit (3 cents per day), a typical Letterkenny Township wastewater customer would pay an additional \$35.55 per month per dwelling unit (\$1.19 per day), a typical West Manheim Township residential wastewater customer would pay an additional \$14.20 per month (47 cents per day) and a typical West Manheim Township commercial wastewater customer would pay an additional \$15.04 per month (50 cents per day).

JT Hand, President and CEO of York Water, said the increase is necessary due to approximately \$176 million in capital investments that the Company has made since its 2018 rate filing and will make through February of 2024. The capital investments are necessary to improve resiliency and reliability of the Company's utility systems. Capital investment has or will be made to: rehabilitate the Lake Williams Dam to comply with current regulatory standards; reinforce, replace, and reline aging water mains; replace service lines, meters, and hydrants, including replacement of all company-owned lead service lines within a compressed two-year time frame; construct a wastewater treatment plant to serve the wastewater needs of a growing community; enhance security across certain assets, and provide enhanced redundancy in case of emergencies; increase water quality and operational efficiency through upgrades to facilities and equipment; and expansion and improvements of the water and

1.15 York Water: recent rate case filing (2022)

PUC Approves Settlement for York Water Company Rates for Water and Wastewater Services

Published on 1/12/2023

Filed under: [Water and Wastewater](#)

HARRISBURG – The Pennsylvania Public Utility Commission (PUC) [today approved a joint settlement](#) that will result in a smaller overall increase in annual revenues for York Water Company (York Water) than was initially proposed by the utility.

York Water provides water service to more than 70,000 customers in parts of York and Adams counties, along with wastewater service to approximately 3,300 customers in parts of York, Adams and Franklin counties.

The Commission voted 5-0 to adopt the [recommended decision](#) of PUC Administrative Law Judge Katrina L. Dunderdale and adopt a joint settlement.

The settlement will result in a \$13.5 million increase in annual revenue for York Water, including an \$11.6 million increase in annual water revenues and a \$1.9 million increase in annual wastewater revenues. This is a substantially smaller overall increase than the original proposal by York Water, which called for a \$20.3 million increase in annual revenues, including a proposed \$18.85 million increase in annual water revenues and a proposed \$1.45 million increase in annual wastewater revenues.

News Release

Contact: JT Hand, President & CEO

or Matthew E. Poff, Chief Financial Officer

Phone: 717-845-3601

The York Water Company
130 East Market Street
York, PA 17401



FOR IMMEDIATE RELEASE

THE YORK WATER COMPANY ANNOUNCES SETTLEMENT OF RATE CASE

Rate request recognizes York Water's \$176 million investment to improve the communities' water and wastewater infrastructure

York, Pennsylvania, January 12, 2023: JT Hand, President and CEO of The York Water Company (Nasdaq: YORW) announced today that the Pennsylvania Public Utility Commission (PPUC) approved a joint settlement agreement at its January 12, 2023, public meeting, allowing an increase in base rates for water and wastewater customers of The York Water Company. The approved rates provide for cost recovery for York Water and an expanded customer assistance program while maintaining affordability for customers.

"The new rates approved by the PPUC affect approximately 75,000 water and wastewater customers throughout York, Adams, and Franklin Counties, Pennsylvania. Even with the approved increases, York Water remains one of the lowest cost providers and most efficient water and wastewater utilities in the nation.

Hand stated, "Although water and wastewater remain the most affordable utilities, York Water is sensitive to economy-wide inflationary pressures and increased costs for our residential and business customers. We believe this is a fair and reasonable result that allows the Company to recover approximately \$176 million in recent investments in system improvements and infrastructure replacements and allows us to continue to meet the current and future needs of our customers." It is estimated that the approved rates will increase the average residential water bill for customers using 4,027 gallons from \$46.49 per month to \$53.06 per month, or an increase of approximately 22 cents per day. Hand commented that "even with the increase, the cost of water service for our average customer is slightly more than one penny per gallon." The Company's last rate case increase occurred four years ago, with rates effective March 1, 2019.

Hand cited the following examples of necessary investments to improve resiliency, reliability, and redundancy:

- Relining, reinforcement, and replacement of 4.5% of the Company's water mains to reduce costs and service interruptions caused by water main breaks;
- Rehabilitation and improvements to the Lake Williams Dam to comply with modern design and regulatory standards and to secure this important reservoir for a second century of service;
- Replacement of service lines, water meters, fire hydrants, and all known Company-owned lead service lines;
- Replacement of customer-owned lead service lines when discovered at no direct cost to the customer;
- Construction of a wastewater treatment plant to serve the growing wastewater needs in the community;
- Enhanced physical and cyber security across certain physical and digital assets.

1.15 York Water: 2022 rate case filing ⓘ

- 10. Rate Matters (10-K, 2023)
- From time to time, the Company files applications for rate increases with the PPUC and is granted rate relief as a result of such requests. The most recent rate request was filed by the Company on May 27, 2022 and sought an **annual increase in water rates of [\$18.9 mil.] and an annual increase in wastewater rates of [\$1.5 mil.]**.
- Effective March 1, 2023, the PPUC authorized an increase in water rates designed to produce approximately **[\$11.6 mil.]** in additional annual revenues and an increase in wastewater rates designed to produce approximately **[\$1.9 mil.]** in additional annual revenues. [The case was settled.]
- The PPUC permits water utilities to collect a distribution system improvement charge, or DSIC. The DSIC allows the Company to add a charge to customers' bills for qualified replacement costs of certain infrastructure without submitting a rate filing. This surcharge mechanism typically adjusts periodically based on additional qualified capital expenditures completed or anticipated in a future period.
- The DSIC is capped at 5% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. The DSIC reset to zero when the new base rates took effect March 1, 2023.
- The DSIC provided revenues of \$249 in 2023 and \$2,243 in 2022. The DSIC is subject to audit by the PPUC.