

## Statement of Reasons for the 2022 Rate Increase Request

We asked the Pennsylvania Public Utility Commission (PUC) to approve a tariff that, if fully implemented, would increase Pennsylvania American's present annual operating water and wastewater revenues by \$173.2 million, or 20.8 percent. From our past experience, it is likely that the PUC will suspend and investigate this request and that any changes in rates are not likely to occur until January of 2023.

The primary reasons for the rate increase are as follows:

- Pennsylvania American is committed to investing in its water and wastewater treatment facilities and distribution and collection systems to replace aging infrastructure, help ensure service reliability, enhance water quality and increase fire protection for customers.
- Between 2022 and 2023, Pennsylvania American will have invested approximately \$1.13 billion in system improvements. While customers are already enjoying the benefits of many of these improvements, only a portion of the cost to finance them is covered in the Company's current service charges.
- Pennsylvania American has worked diligently to keep operating expenses relatively flat on a per customer basis for the past 10 years by working more efficiently, improving processes, utilizing technology, and leveraging economies of scale. The operating and maintenance expense in this case represents a compound annual growth rate of only 2.2% since the conclusion of the Company's last base rate proceeding.
- Pennsylvania American continues to see a decline in residential class usage. Consistent with national trends, customers are using approximately two percent less water every year resulting in a revenue deficiency of \$20.7 million.
- By the time new rates go into effect, Pennsylvania American will have acquired three water and five wastewater systems. The Company is seeking recovery for \$7.5 million invested in water system acquisitions and \$276 million in wastewater system acquisitions.
- To finance needed system investments, the Company must be able to raise capital on reasonable terms. Unless adjusted, the Company's present rates will not ensure our ability to attract the capital necessary to continue to make the investments in infrastructure that will help to provide high quality service.