**General**

1. 66 Pa. C.S. § 1329(a) requires the use of the current biennial edition of the Uniform Standards for Processional Appraisal Practice (USPAP) to develop cost, market, and income valuations of the Selling Utility. Valuations developed from outdated or expired editions of the USPAP do not constitute competent evidence and will not be accepted by the Commission as satisfying the Application Checklist.

2. By Order, the Commission recognizes the use of the Jurisdictional Exception Rule of the USPAP. Materials submitted in support of a request for Section 1329 fair market valuation pursuant to the USPAP must conform to applicable Pennsylvania law even if in conflict with USPAP. For purposes of Section 1329, Pennsylvania law includes the Pennsylvania Constitution, statutes, regulations, court precedent, and administrative rules and orders issued by administrative agencies.

3. UVEs, along with Seller and Buyer, must establish that a UVE:

a. is a Commission registered UVE

b. has no conflict of interest pursuant to the USPAP

c. fee is limited to 2.5% of fair market value

d. incorporated the licensed engineer’s assessment of the tangible assets of the Selling Utility into the UVE appraisal as required by Section 1329(a)(4)

e. has verified that valuation methods used (cost, income and market) comply with the current edition of the USPAP

4. UVE materials submitted in support of a request for Section 1329 fair market valuation must:

a. explain the basis of the individual weight given to the cost, market, and income approach

b. use the Commission’s quarterly earnings report for capital structure, cost of debt, cost of equity and weighted average cost of capital. The quarterly earnings report used must be contemporaneous with the production of the valuation.

5. Both the Seller and Buyer UVE will support their respective appraisals with data and written direct testimony at the time a request for Section 1329 valuation is filed with the Commission. The Commission will not accept untimely direct testimony, or untimely testimony in the nature of direct, regarding a UVE appraisal.

**Cost Approach**

1. Cost approach may measure value by:

a. determining investment required to replace or reproduce future service capability

b. developing total cost less accrued depreciation for Selling Utility assets

c. determining the original cost of the system

2. Cost approach materials shall:

a. explain choice of reproduction cost vs. replacement cost

b. not adjust the cost of land by the ENR index

c. exclude overhead costs, future capital improvements, and going concern value

d. use consistent rate of inflation for all classes of assets, unless reasonably justified

**Income Approach**

1. Income approach may measure value by:

a. Capitalization of earnings or cash flow

b. Discounted cash flow (DCF) method

2. Income approach materials shall exclude:

a. Going concern value

b. Future capital improvements

c. Erosion of cash flow

d. Rate base/rate of return estimates

**Market Approach**

1. Market approach shall use the current customer count of the Selling Utility

2. Market approach shall exclude:

a. Future capital improvements

b. Any type of adjustment or adder in the nature of “going concern” or goodwill