

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water Company under Section 1102(a) of the Pennsylvania Public Utility Code, 66 Pa C.S. § 1102(a), for approval of (1) the transfer, by sale, of substantially all of the Township of Exeter’s assets, properties and rights related to its wastewater collection and treatment system to Pennsylvania-American Water Company, and (2) the rights of Pennsylvania-American Water Company to begin to offer or furnish wastewater service to the public in portions of the Township of Exeter, and in portions of Alsace and Lower Alsace Townships, to one bulk service interconnection point with Alsace Township, and to four bulk service interconnection points with St. Lawrence Borough, Berks County, Pennsylvania.

Docket No. A-2018-3004933

In re: Application of Pennsylvania-American Water Company under Section 1329 of the Pennsylvania Public Utility Code, 66 Pa. C.S. § 1329, for approval of the use for ratemaking purposes of the lesser of the fair market value or the negotiated purchase price of the Township of Exeter’s assets related to its wastewater collection and treatment system.

Docket No. A-2018-_____

Petition of Pennsylvania-American Water Company, related to its acquisition of the Township of Exeter wastewater collection and treatment system, for approval under Section 1329 of the Pennsylvania Public Utility Code, 66 Pa. C.S. § 1329, to (i) collect a distribution system improvement charge, (ii) for book and ratemaking purposes, accrue Allowance for Funds Used During Construction for post-acquisition improvements not recovered through the distribution system improvement charge, and (iii) for book and ratemaking purposes, defer depreciation related to post-acquisition improvements not recovered through the distribution system improvement charge.

Docket No. P-2018-_____

In re: Filing by Pennsylvania-American Water Company under Section 507 of the Pennsylvania Public Utility Code, 66 Pa. C.S. § 507, of (i) the Asset Purchase Agreement Between Pennsylvania-American Water Company and the Township of Exeter, as amended; and (ii) 3 agreements with municipal corporations to be effective at, or assumed by, Pennsylvania-American Water Company upon closing of its acquisition of substantially all of the Township of Exeter’s assets related to its wastewater collection and treatment system.

Docket No U-2018-_____;
U-2018-_____, U-2018-_____,
U-2018-_____

AMENDED APPLICATION

TO THE HONORABLE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

1. Pennsylvania-American Water Company (“PAWC” or “Applicant”) hereby respectfully requests that the Pennsylvania Public Utility Commission (“Commission”) issue such Certificates of Public Convenience as necessary to evidence its approval under Section 1102(a) of the Pennsylvania Public Utility Code (“Code”), 66 Pa. C.S. § 1102(a), of: (a) the transfer, by sale, of substantially all of the Township of Exeter’s (“Exeter”) assets, properties and rights related to Exeter’s wastewater collection and treatment system (the “System”) to PAWC; and, (b) PAWC’s right to begin to offer, render, furnish and supply wastewater service in the areas served by Exeter in the Township of Exeter,¹ in portions of Alsace and Lower Alsace Townships, to one bulk service interconnection point with Alsace Township, and to four bulk service interconnection points with St. Lawrence Borough, Berks County, Pennsylvania, as well as to the Windy Willows development² in Alsace Township, which is not currently served by Exeter (the “Service Area”) (including approval to make effective upon closing the *pro forma* tariff supplement attached hereto as **Appendix A-13 REV**).

2. PAWC also respectfully requests that the Commission approve, pursuant to Code Section 1329, 66 Pa. C.S. § 1329: (a) the use for ratemaking purposes of the lesser of the fair market value or the negotiated purchase price of Exeter’s assets related to the System;³ (b) collection of a distribution system improvement charge (“DSIC”) related to the System prior to

¹ Exeter presently provides service in a portion of Exeter and, by a connection through a privately-owned line, to the Daniel Boone Homestead State Park located in a separate portion of Exeter Township. See the maps at **Appendix A-16-a-h REV**.

² This development is currently in the land development process.

³ PAWC reserves its right in future proceedings to make rate base claims related to the acquisition as may otherwise be permitted under the Code.

the first base rate case in which the System plant-in-service is incorporated into rate base; (c) the accrual of Allowance for Funds Used During Construction (“AFUDC”) for post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes; and, (d) the deferral of depreciation related to post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes. Attached here to as **Appendix A** is the Commission’s current “66 Pa. C.S. § 1329 Application Filing Checklist -Water/Wastewater (Revised March 17, 2017)” (“Section 1329 Checklist”) as prepared by the Commission’s Bureau of Technical Utility Services pursuant to the Commission’s *Final Implementation Order for Implementation of Section 1329 of the Public Utility Code*, Docket No. M-2016-2543193 (Order entered Oct. 27, 2016) (“*Final Implementation Order*”). For the ease of reference and review, the sub-appendices to **Appendix A** (such as **Appendix A-1**, **Appendix A-2**, etc.) correspond directly with the filing requirements listed in the Commission’s Section 1329 Checklist. Certain appendices contain proprietary information and are, accordingly, labeled as **CONFIDENTIAL** and filed with the Commission’s Secretary under seal.⁴

3. PAWC further requests, pursuant to Code Section 507, 66 Pa. C.S. § 507, the issuance of Certificates of Filing or approvals for the following agreements between PAWC and a municipal corporation:⁵

a. Asset Purchase Agreement By and Among the Township of Exeter, as Seller, and Pennsylvania-American Water Company, as Buyer, dated as of May 29, 2018 (attached hereto as **Appendix A-24-a**), as amended by the First Amendment to Asset Purchase Agreement, executed November 26, 2018 (attached hereto as **Appendix A-24-a-1**) (together, the “APA”). The APA is marked “**CONFIDENTIAL**”.

⁴ To promote administrative efficiency, PAWC has generally only attached to this Amended Application copies of documents that were not submitted with the original Application. Detailed instructions on documents to be added to or removed from the Application are contained in the transmittal letter at Appendix A-1 REV.

⁵ Attached are the best available copies. Some have blanks and/or are not fully executed. PAWC will submit better copies if and when they become available.

b. The following agreements that are subject to Section 507 (as explained in more detail in Section D below):

(i) Intermunicipal Agreement with the Township of Alsace dated December 16, 1996, as amended (to be assumed by PAWC at closing of the Transaction as defined in ¶ 12, below) (attached hereto as **Appendix B-1**);

(ii) a Leachate Treatment Agreement dated December 12, 2016 with the Chester County Solid Waste Authority (attached hereto as **Appendix B-2 REV**); and

(iii) a Sewage Treatment and Conveyance Agreement between Pennsylvania-American Water Company and the Borough of St. Lawrence, which will be effective upon closing on the Transaction. This agreement, which is currently being negotiated, is being provided as a *pro forma* agreement (attached hereto as **Appendix B-3 REV (CONFIDENTIAL)**) and the final, executed version will be provided to the Commission as a supplement to this Application.⁶

4. The name and address of the Applicant is:

Pennsylvania-American Water Company
800 West Hershey Park Drive
Hershey, PA 17033

5. The names and addresses of PAWC's attorneys are:

David P. Zambito, Esquire
Jonathan P. Nase, Esquire
Cozen O'Connor
17 North Second Street, Suite 1410
Harrisburg, PA 17101
(717) 703-5892
dzambito@cozen.com
jnase@cozen.com

⁶ Attached hereto as **Appendix B-3-a** is a copy of a letter from St. Lawrence Borough indicating that it is engaged in good faith negotiations with PAWC regarding the agreement.

Susan Simms Marsh, Esquire
Pennsylvania-American Water Company
800 West Hershey Park Drive
Hershey, PA 17033
(717) 533-5000
susan.marsh@amwater.com

6. PAWC is a regulated public utility corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania, and is engaged in the business of collecting, treating, storing, supplying, distributing and selling water to the public, and collecting, treating, transporting and disposing of wastewater for the public. Water and wastewater service is furnished by PAWC to the public in a service territory encompassing more than 400 communities across the Commonwealth with a combined population of over 2,400,000. A description of PAWC's existing certificated water and wastewater service territory is found in **Appendix B**, along with a detailed corporate history, outlining all of the mergers, acquisitions and consolidations, which have created PAWC as it exists on the date of this Application.

7. Exeter is a Township of the Second Class, organized and existing under the laws of the Commonwealth of Pennsylvania, with its offices located at 4975 DeMoss Road, Reading, Pennsylvania. Exeter owns and operates the System, providing wastewater service to the public in portions of Exeter Township and portions of Alsace and Lower Alsace Townships. Exeter also has one bulk service interconnection point with Alsace Township, and four bulk service interconnection points with St. Lawrence Borough, in Berks County, Pennsylvania.

8. Exeter will soon file an application *nunc pro tunc* for a certificate of public convenience from the Commission because Commission staff contends that Exeter is providing wastewater service to the public (approximately 29 customers) for compensation in a portion of Lower Alsace Township. PAWC hopes to consolidate Exeter's *nunc pro tunc* application proceeding with the instant Application proceeding. Commission staff wants Exeter to obtain a

certificate of public convenience for its service in Lower Alsace Township before or when such service territory is transferred to PAWC pursuant to the instant Application.

9. As of July 31, 2018, Exeter furnished direct wastewater service to 9,015 customers including 8,747 residential, 236 commercial, and 12 industrial and 20 municipal customer connections.

10. As of July 31, 2018, PAWC furnished wastewater service to approximately 65,139 residential, commercial, industrial, municipal and bulk customers in Pennsylvania. As of July 31, 2018, PAWC furnished water services 659,687 customers.

11. The completion of the below-defined Transaction will confer benefits upon the long-term financial health of Exeter, while ensuring that its residents receive safe, adequate, and reliable wastewater service at just and reasonable rates.

A. TRANSFER, BY SALE, OF ALL OF EXETER'S ASSETS, PROPERTIES AND RIGHTS RELATED TO THE SYSTEM TO PAWC (OTHER THAN THE EXCLUDED ASSETS)

Summary of the Transaction

12. Exeter has entered into the APA, along with detailed schedules, with PAWC to sell all of Exeter's assets, properties and rights relating to the System (other than the Excluded Assets, as defined by the APA) (the "Transaction").

13. The Transaction will be completed in accordance with the APA.

14. Among other things, the APA: (i) requires PAWC and Exeter to complete the Transaction after receipt of all governmental approvals (including from this Commission) and the satisfaction of all conditions precedent; (ii) requires PAWC to assume certain contracts; (iii) requires PAWC initially to adopt Exeter's rates in effect at the time of closing of the Transaction

(see *pro forma* tariff supplement attached hereto as **Appendix A-13 REV**);⁷ and, (iv) sets forth rates for the Service Area that will be fair to both Exeter’s current customers and PAWC’s current customers.⁸

Applicable Legal Standards

15. Under Code Section 1103, the Joint Applicants must demonstrate that PAWC is legally, technically, and financially fit. *Seaboard Tank Lines v. Pa. Pub. Util. Comm’n*, 502 A.2d 762, 764 (Pa. Cmwlth. 1985); *Warminster Township Mun. Auth. v. Pa. Pub. Util. Comm’n*, 138 A.2d 240, 243 (Pa. Super. 1958). As a currently certificated public utility, PAWC’s fitness is presumed by law to be continuing. See e.g., *South Hills Movers, Inc. v. Pa. Pub. Util. Comm’n*, 601 A.2d 1308, 1310 (Pa. Cmwlth. 1992).

16. The Commission may issue a certificate of public convenience upon a finding that “the granting of such certificate is necessary or proper for the service, accommodation, convenience, or safety of the public.” 66 Pa. C.S. § 1103(a). PAWC will “affirmatively promote the service, accommodation, convenience, or safety of the public in some substantial way.” *City of York v. Pa. Pub. Util. Comm’n*, 449 Pa. 136, 151, 295 A.2d 825, 828 (1972). The “substantial public interest” standard is satisfied by a simple preponderance of the evidence of benefits. *Popowsky v. Pa. Pub. Util. Comm’n*, 594 Pa. 583, 611, 937 A.2d 1040, 1057 (2007).

17. Code Section 1329 establishes a voluntary process whereby the acquiring public utility and the selling municipality may choose to have the fair market value of the assets established through independent appraisals conducted by Utility Valuation Experts (“UVEs”). For ratemaking purposes, the valuation will be the lesser of the fair market value or the negotiated purchase price. 66 Pa. C.S. § 1329.

⁷ Section 7.1 of the APA requires Exeter to increase its current rates at least 60 days in advance of closing of the Transaction.

⁸ The rate commitments set forth in the APA do not fall within the definition of a “rate stabilization plan” as defined by 66 Pa. C.S. § 1329 because PAWC has not made any commitments to control rates beyond Closing as set forth in the APA. See Direct Testimony of Rod Nevirauskas, **Appendix A-14 REV**, PAWC St. No. 4 REV.

18. Section 1329 also allows, as a matter of law, the acquiring public utility (i) to collect a DSIC for the Service Area prior to the first base rate case in which the Service Area plant-in-service is incorporated into rate base, (ii) to accrue AFUDC for post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes, and (iii) to defer depreciation related to post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes. In order to obtain this ratemaking treatment, the acquiring public utility must produce certain documents and information as required by the Commission in the context of a future base rate proceeding. 66 Pa. C.S. § 1329; *see Final Implementation Order*.

19. Code Section 507, 66 Pa. C.S. § 507, requires that contracts between a public utility and a municipal corporation, except for contracts to furnish service at a regular tariffed rate, be filed with the Commission at least 30 days before the effective date of the contract. The Commission acknowledges the contract by issuing a certificate of filing unless it decides to institute proceedings to determine whether there are any issues with the reasonableness, legality, or any other matter affecting the validity of the contract. Should the Commission initiate proceedings, the contract or agreement is not effective until the Commission grants its approval. 66 Pa. C.S. § 507.

Background Financial Information

20. Attached hereto is the unaudited internal balance sheet of Exeter as of December 31, 2017 (**Appendix C**), and PAWC's audited balance sheet as of December 31, 2017 (**Appendix D**).

21. Attached hereto is the unaudited income statement of Exeter for the 12 months ended December 31, 2017 (**Appendix E**), and PAWC's audited income statement for the 12 months ended December 31, 2017 (**Appendix F**).

22. All the annual reports, tariffs, certificates of public convenience, applications, securities certificates and similar documents filed with this Commission by PAWC and its predecessors are made a part hereof by reference.

Terms and Impact of the Transaction

23. As noted above, this Application seeks, among other things, approval of the transfer to PAWC of all of the assets, properties and rights of the System (other than the Excluded Assets, as defined by the APA)(**Appendix A-24-a and Appendix A-24-a-1**)(CONFIDENTIAL) .

24. PAWC and Exeter are not affiliated with each other.

25. The Transaction is, and was negotiated, at arm's length.

26. Attached hereto as **Appendix G** is a *pro forma* balance sheet of PAWC as of December 31, 2017, giving effect to the transfer.

27. Attached hereto as **Appendix H** is a *pro forma* consolidated income statement of PAWC and Exeter for the 12 months as of the dates noted in Paragraph 20 above.

28. Attached hereto as **Appendix I** is a certified copy of the resolutions adopted by the Board of Directors of PAWC authorizing the execution of the APA and the consummation of the proposed transfer.

29. Attached hereto as **Appendix J** is a copy of the minutes of Exeter's Board of Supervisors indicating that the Board voted to authorize the execution of the APA. Minutes of Exeter's Board of Supervisors indicating that the Board voted to authorize the execution of the First Amendment to the Asset Purchase Agreement are not yet available. PAWC will submit them when they become available.

Transaction's Effect on Service and Rates and Other Affirmative Benefits

30. The Transaction will have no detrimental effect on the service provided to PAWC's existing customers or the wastewater customers transferred to PAWC by Exeter.

31. The Transaction will have a beneficial effect on the wastewater customers of Exeter. They will receive the benefit of PAWC's experience in managing and operating water and wastewater systems, which will result in efficiencies impacting rates in a beneficial way, and improvements in the service to the customers to be transferred. PAWC's existing water and wastewater customers will benefit, in part, because the Transaction will expand the customer base over which existing costs are recovered, thereby stabilizing or reducing per-customer costs over the long-term.

32. The Transaction is in the public interest, will provide affirmative public benefits of a substantial nature, and satisfies the applicable standard of Code Section 1103, 66 Pa. C.S. § 1103, for, among other, the following reasons:

a. PAWC has the managerial, technical and financial capabilities and fitness to safely and adequately operate the System in compliance with the Code, the Pennsylvania Clean Streams Law (35 P.S. §§ 691.1-691.801), and other requisite regulatory requirements, and to make improvements, as needed, on a short- and long-term basis;

b. The acquisition will further the Commission's goal of regionalization. *See* 52 Pa. Code § 69.721(a). Exeter's System will become part of a larger organization that is more viable from a costs and rates standpoint and is committed to providing improved service in the future;

c. The transferred wastewater customers will be served by a large, financially-sound company that has the capability to finance necessary capital additions. Given its size, access to capital and its recognized strengths in system planning, capital budgeting and construction management, PAWC is well-positioned to ensure that high quality wastewater service meeting federal and state requirements is provided to Exeter's customers and maintained for PAWC's existing customers;

d. The transferred wastewater customers will benefit from enhanced customer service in a number of areas, such as, but not limited to, additional bill payment options, extended customer service and call center hours, customer information and education programs, and PAWC's customer assistance program;

e. PAWC provides water service to the majority of Exeter's sewer customers and the geographic proximity of the System and PAWC's existing water certificated service territory creates opportunities for functional and operational consolidation, and associated efficiencies and cost savings. The System will be operated and managed in conjunction with PAWC's existing "Southeast Area Operations";

33. The Transaction will have no immediate effect on the rates for service to be charged to PAWC's existing customers. With regard to the wastewater customers to be transferred by Exeter, PAWC will -- as shown in the *pro forma* tariff submitted with this Application as **Appendix A-13 REV** -- adopt Exeter's customer and wastewater consumption charges existing at the time of closing of the Transaction. Exeter's current rates, rates as increased by Exeter under Section 7.1 of the APA, and PAWC's proposed rates, are shown on **Schedule 7.1 of Appendix A-24-a (CONFIDENTIAL)**. Additionally, immediately following closing of the Transaction, the customers in the Service Area will be subject to PAWC's prevailing wastewater tariff on file with, and as approved by, the Commission with respect to all rates other than the customer charge (known under PAWC's current tariff as "monthly service charge") and consumption charge, including but not limited to capacity reservation fees, reconnection fees and the like, as well as non-rate related terms and conditions of service, including but not limited to, billing frequency, termination procedures, and the like. PAWC respectfully requests approval from the Commission to make effective upon closing of the Transaction its existing rules and regulations regarding conditions of service as revised with the proposed changes shown on the *pro forma* tariff supplement attached hereto as **Appendix A-13 REV**.

34. Exeter embarked on the sale and monetization of Exeter's assets to provide its wastewater customers with the best prospect for stable rates in the face of potential capital and operating expenditures required to be made to maintain Exeter's System and comply with environmental requirements. After an extensive request for proposal process, PAWC emerged as the successful bidder based on Exeter's assessment of PAWC's knowledge and expertise in operating water and wastewater service in the Commonwealth at reasonable rates. This is a substantial and material benefit of the Transaction, along with enabling Exeter officials to better anticipate potential deficits and take proactive steps to address any expected shortfalls. The negotiated purchase price is memorialized in Article 26 of the APA attached hereto as **Appendix A-24-a and A-24-a-1 (CONFIDENTIAL)**. Exeter's potential ability to mitigate its financial situation through the satisfaction of its debt associated with the System is a material benefit of the Transaction.

B. THE RIGHTS OF PAWC TO OFFER OR FURNISH WASTEWATER SERVICE TO THE PUBLIC IN PORTIONS OF THE TOWNSHIP OF EXETER AND IN PORTIONS OF ALSACE AND LOWER ALSACE TOWNSHIPS, TO ONE BULK SERVICE INTERCONNECTION POINT WITH ALSACE TOWNSHIP AND TO FOUR BULK SERVICE INTERCONNECTION POINTS WITH ST. LAWRENCE BOROUGH, BERKS COUNTY, PENNSYLVANIA.

35. Exeter currently provides wastewater service to approximately 9,015 customers in the Service Area. Exeter also provides bulk wastewater service to a small portion of Alsace Township and to St. Lawrence Borough through four interconnection points.

36. Except for the Windy Willows Development in Alsace Township, Exeter provides wastewater service directly to the public in the same territory as PAWC's applied-for service territory, which is shown on the map in **Appendix A-16-a through A-16-h REV** and is further described in that appendix. The applied-for service area is consistent with the Act 537 Service Area within Exeter Township.

37. No corporation, partnership or individual other than Exeter is now furnishing or has corporate or franchise rights to furnish service similar to that to be rendered by PAWC in the territory covered by this Application, and no competitive condition will be created. As part of this Application, PAWC has requested approval to acquire, by purchase, all of the assets, properties and rights of the System (other than the Excluded Assets, as set forth in the APA). Upon closing of the Transaction, Exeter will permanently discontinue all wastewater service to the public.

38. The estimated annual revenues and expenses of PAWC in the Service Area are set forth in **Appendix K**.

C. FAIR MARKET VALUATION UNDER CODE SECTION 1329

39. **Appendix A** and related Section 1329 Checklist appendices satisfy the filing requirements of the Code Section 1329, the *Final Implementation Order*, and the Section 1329 Checklist. The Section 1329 appendices correspond directly with the numbered requirements of the Section 1329 Checklist (*e.g.*, **Appendix A-1** (Requirement No. 1), **Appendix A-2** (Requirement No. 2), etc.).

40. The fair market valuation reports of the seller's and buyer's UVEs are contained in **Appendix A-5** (with electronic working documents included at **Appendix A-4**); the fair market valuation reports are also included in **Schedule 2.2** of **Appendix A-24-a**. Buyer's UVE's written direct testimony in support of its report is set forth in **Appendix A-14 REV**.⁹

41. PAWC's other written direct testimony in support of this Application can also be found in **Appendix A-14 REV**.

⁹ PAWC is submitting the direct testimony of Exeter's UVE and Exeter's Township Manager as a courtesy to the parties. PAWC's submission of this testimony should not be considered support for or sponsoring of such testimony. PAWC anticipates that Exeter will intervene in this matter and will submit the direct testimony of its UVE. PAWC reserves its right to submit rebuttal testimony regarding Exeter's testimony as appropriate.

42. As PAWC has strictly followed the requirements of Code Section 1329, the *Final Implementation Order*, and the Section 1329 Checklist, the Application should be deemed perfected within the 10-day review period and PAWC should be permitted to: (a) use for ratemaking purposes the lesser of the fair market value or the negotiated purchase price of the Exeter assets related to the System; (b) collect a DSIC related to the Service Area prior to the first base rate case in which the Service Area plant-in-service is incorporated into rate base; (c) accrue AFUDC for post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes; and, (d) defer depreciation related to post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes.

D. FILING OF CONTRACTS PURSUANT TO CODE SECTION 507

43. The APA, because it is between PAWC and a municipal corporation, is required to be filed with the Commission under 66 Pa. C.S. § 507. Likewise, as part of the Transaction, several contracts executed by Exeter, and certain municipal contracts between Exeter and certain municipal corporations, will be assumed by PAWC upon closing of the Transaction. The Section 507 Agreements (including the APA) are attached hereto as **Appendices A-24-a, A-24-a-1 (both CONFIDENTIAL) and B-1 through B-3 REV (CONFIDENTIAL)**. In addition, PAWC is in the process of negotiating an agreement with St. Lawrence Borough, which will be provided to the Commission as a supplement to this Application. A *pro forma* version of such agreement is attached hereto as **Appendix B-3 REV (CONFIDENTIAL)**. A final version of the agreement will be filed upon execution.¹⁰

¹⁰ Attached hereto as **Appendix B-3-a** is a copy of a letter from St. Lawrence Borough indicating that it is engaged in good faith negotiations with PAWC regarding the agreement. Also attached as **Appendix B-3-b REV** for informational purposes only, is an existing agreement between Exeter Township and St. Lawrence Borough that is not being assumed by or assigned to PAWC.,

44. The agreements are reasonable and otherwise lawful. Assumption or execution of the agreements by PAWC is necessary for PAWC to abide by the existing contractual arrangements of Exeter and in order for PAWC to provide safe, adequate and reasonable wastewater service to the Service Area customers at just and reasonable rates. Approval of the agreements will also allow PAWC to provide bulk service to Alsace Township, and St. Lawrence Borough, which Exeter has historically provided. These municipalities are dependent upon such bulk service for the convenience of its customers. PAWC requests that the Commission issue Certificates of Filing or otherwise approve the agreements attached at **Appendices A-24-a, A-24-a-1 (both CONFIDENTIAL) and B-1 through B-3 REV (CONFIDENTIAL)**, for the reasons described in detail in the testimony of Bernard J. Grundusky, PAWC Statement No. 1 REV, **Appendix A-14 REV**, if the Commission deems that Certificates of Filing or approvals for such agreements are necessary under 66 Pa. C.S. § 507.

E. APPROVAL OF *PRO FORMA* TARIFF SUPPLEMENT TO INCORPORATE INDUSTRIAL PRETREATMENT PROGRAM FOR EXETER AREA CUSTOMERS

45. The *pro forma* tariff supplement attached hereto as **Appendix A-13 REV** would, if approved by the Commission, incorporate, by reference, an Industrial Pretreatment Program (“IPP-E”) into PAWC’s tariff for customers in the Service Area. Under the terms of the tariff supplement, the IPP-E must be reviewed and consented to by the Pennsylvania Department of Environmental Protection. The IPP-E mandates the pretreatment of certain types of industrial waste and sets forth the conditions under which PAWC will accept industrial wastewater into the System for further treatment. Fees for treatment service are set forth in the IPP-E. The IPP-E is necessary in order to preserve the integrity of the System, extend the life of the System’s treatment facilities, and place the costs of treatment on the appropriate cost-causers. The IPP-E is modeled

upon the tariff supplement previously approved by the Commission for PAWC's Scranton-area and McKeesport-area wastewater customers.¹¹

F. NOTICE

45. As evidenced by the Certificate of Service accompanying this Application, PAWC is serving copies of this filing by certified mail on the Office of Consumer Advocate, the Office of Small Business Advocate, and the Commission's Bureau of Investigation and Enforcement. Once the Application is reviewed and accepted by Commission Staff, PAWC will serve copies of the Application upon the municipal entities required to be provided with copies by the Commission's regulations at 52 Pa. Code § 3.501(f) and by the Section 1329 Checklist and upon the Pennsylvania Department of Environmental Protection ("DEP") Central Office and Southeast Regional Office. Similarly, notice will be published in local newspapers of general circulation. Additionally, in compliance with *McCloskey v. Pa. Pub. Util. Comm.*, 1627 C.D. 2017 (Pa. Cmwlth. October 11, 2018),¹² PAWC will provide individualized customer notice over a 30-day period via bill insert to all of its wastewater and water customers. Exeter will provide individualized customer notice to all of its wastewater customers via direct mailer.¹³ Forms of these notices are attached as **Appendix A-18-D REV**. Upon completion of notice to PAWC's and Exeter's customers, PAWC will file a verification at this docket that the individualized customer notice has been completed.

¹¹ The IPP-E is described in greater detail in the Direct Testimony of David R. Kaufman, PAWC Vice President - Engineering, PAWC Statement No. 3, attached in **Appendix A-14 REV**.

¹² A Petition for Allowance of Appeal has been filed with the Pennsylvania Supreme Court. As of this date, the Pennsylvania Supreme Court has not decided whether to allow the appeal.

¹³ As stated previously, Section 7.1 of the APA requires Exeter to increase its current rates at least 60 days in advance of closing of the Transaction. Consequently, **Appendix A-18-D** includes two versions of Exeter's notice to customers: (1) a version that will be used if rates are increased on January 1, 2019, and (2) a version will be used if rates are increased after January 1, 2019.

G. CONCLUSION AND REQUEST FOR RELIEF

WHEREFORE, Pennsylvania-American Water Company respectfully requests that the Pennsylvania Public Utility Commission approve the Application and order that:

(a) such Certificates of Public Convenience be issued as necessary to evidence its approval under 66 Pa. C.S. § 1102(a) of (i) the transfer, by sale, of substantially all of the Township of Exeter's assets, properties and rights related to its wastewater collection and treatment system to Pennsylvania-American Water Company, and (ii) Pennsylvania-American Water Company's right to begin to offer, render, furnish and supply wastewater service in portions of the Township of Exeter, portions of Alsace and Lower Alsace Townships, to one bulk service interconnection point with Alsace Township, and to four bulk service interconnection points with St. Lawrence Borough, Berks County, Pennsylvania, as well as to the Windy Willows Development in Alsace Township that is not currently served by Exeter Township;

(b) the *pro forma* tariff supplement attached hereto as **Appendix A-13 REV**, including all rates, rules and regulations regarding conditions of Pennsylvania-American Water Company's wastewater service as revised herein, be permitted to become effective immediately upon closing of the transaction;

(c) pursuant to 66 Pa. C.S. § 1329, Pennsylvania-American Water Company be permitted to use for ratemaking purposes the lesser of the fair market value or the negotiated purchase price of the assets purchased pursuant to the Transaction;

(d) pursuant to 66 Pa. C.S. § 1329, Pennsylvania-American Water Company be permitted to collect a distribution system improvement charge prior to the first base rate case in which the Service Area plant-in-service is incorporated into rate base;

(e) pursuant to 66 Pa. C.S. § 1329, Pennsylvania-American Water Company be permitted to accrue Allowance for Funds Used During Construction for post-acquisition

improvements not recovered through the distribution system improvement charge for book and ratemaking purposes;

(f) pursuant to 66 Pa. C.S. § 1329, Pennsylvania-American Water Company be permitted to defer depreciation related to post-acquisition improvements not recovered through the DSIC for book and ratemaking purposes;

(g) pursuant to 66 Pa. C.S. § 507, Certificates of Filing or approvals be issued for the following agreements between Pennsylvania-American Water Company and a municipal corporation:

(1) Asset Purchase Agreement By and Among the Township of Exeter, as Seller, and Pennsylvania-American Water Company, as Buyer, dated as of May 29, 2018, as amended (attached hereto as **Appendices A-24-a and A-24-a-1**) (**both CONFIDENTIAL**);

(2) The following agreements attached hereto as **Appendix B-1 through B-3 REV** (**CONFIDENTIAL**) that may be subject to Section 507:

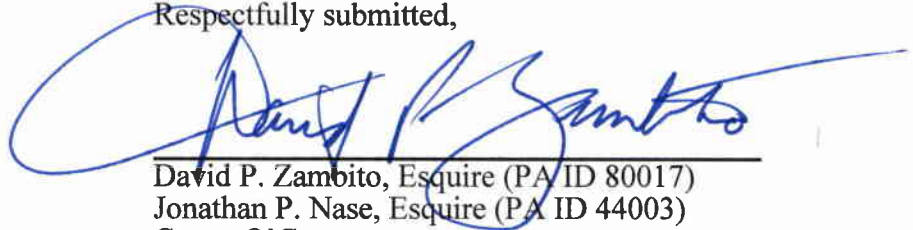
(i) Intermunicipal Agreement with the Township of Alsace dated December 16, 1996, as amended (to be assumed at closing of the Transaction) (attached hereto as **Appendix B-1**);

(ii) Leachate Treatment Agreement dated December 12, 2016 between Exeter Township and Chester County Solid Waste Authority (attached hereto as **Appendix B-2 REV**); and;

(iii) Sewage Treatment and Conveyance Agreement between Pennsylvania-American Water Company and the Borough of St. Lawrence, which will be effective upon closing on the Transaction (a *pro forma* copy of this agreement is attached hereto as **Appendix B-3 REV**) (**CONFIDENTIAL**).

(h) the issuance of any other approvals or certificates appropriate, customary, or necessary under the Code to carry out the Transaction contemplated in this Application in a lawful manner.

Respectfully submitted,



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Amended date: December 5, 2018