

**Application of Pennsylvania-American Water Company for Acquisition of
the Wastewater Assets of the Township of Exeter
66 Pa. C.S. §1329
Application Filing Checklist – Water/Wastewater
Docket No. A-2018-3004933**

14. Provide direct testimony for the application.

RESPONSE: See enclosed PAWC direct testimony of the following:

Direct Testimony of Bernard J. Grundusky, Jr., Senior Director, Business Development, on behalf of Pennsylvania-American Water Company, PAWC Statement No. 1 REV.

Direct Testimony of Rod P. Nevirauskas, Senior Director of Rates and Regulations, for the Mid Atlantic Division of the American Water Works Company, on behalf of Pennsylvania-American Water Company, PAWC Statement No. 4 REV.

The following PAWC direct testimony has not been changed. As a result, copies are not attached to the Amended Application:

Direct Testimony of Robert R. Burton, Senior Director, Operations, Eastern Pennsylvania, on behalf of Pennsylvania-American Water Company, PAWC Statement No. 2.

Direct Testimony of David R. Kaufman, Vice President - Engineering, on behalf of Pennsylvania-American Water Company, PAWC Statement No. 3.

Direct Testimony of Jerome C. Weinert, P.E., Principal and Director for AUS Consultants, Inc., Utility Valuation Expert for Pennsylvania-American Water Company, PAWC Statement No. 5.

In addition, the following testimony on behalf of Exeter Township has not been changed. Consequently, copies are not attached to the Amended Application:

Direct Testimony of John A. Granger, Manager, on behalf of Exeter Township, Exeter Statement No. 1.

Direct Testimony of Harold Walker, III, Manager Financial Studies, Gannett Fleming Valuation and Rate Consultants, LLC, on behalf of Exeter Township, Exeter Statement No. 2.

**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 *et al.*

**DIRECT TESTIMONY OF
BERNARD J. GRUNDUSKY, JR.
ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

**DIRECT TESTIMONY OF
BERNARD J. GRUNDUSKY, JR.**

INTRODUCTION

1

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.**

3 **A.** My name is Bernard J. Grundusky, Jr. and my business address is 852 Wesley Drive,
4 Mechanicsburg, Pennsylvania 17011.

5

6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 **A.** I am employed by Pennsylvania-American Water Company (“PAWC”) as the Senior
8 Director of Business Development.

9

10 **Q. WHAT ARE YOUR RESPONSIBILITIES AS PAWC’S SENIOR DIRECTOR OF**
11 **BUSINESS DEVELOPMENT?**

12 **A.** I develop and maintain necessary contacts to stay abreast of new business opportunities.
13 In addition, I direct the business development team in the preparation of proposals, policies
14 and strategies for acquisitions, and other related business ventures. Finally, I participate in
15 developing PAWC’s short- and long-range plans. These responsibilities necessitate that I
16 maintain a working knowledge of regulatory and technical developments, new
17 technologies and current trends as they affect the water and wastewater utility industries,
18 and that I be familiar with legislation, regulation and public policy affecting business
19 opportunities.

20

21 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EDUCATION AND EXPERIENCE.**

1 A. I received a Bachelor of Science (B.S.) degree in Accounting from Pennsylvania State
2 University in August of 1990 and a Master of Business Administration degree (MBA) from
3 Lebanon Valley College in 1995. My experience in the waterworks industry began in
4 March 1991 when I was employed as a Rate Analyst in the Rates and Revenue Department
5 of the American Water Works Service Company (“Service Company”). As a Rate Analyst,
6 I was responsible for preparing financial analysis and written testimony to support PAWC
7 rate increase requests. On July 1, 1995, I was promoted to Senior Rate Analyst. On
8 October 16, 1996, I was promoted to Financial Analyst in PAWC’s Administration
9 Department. My principal duties in that capacity included the preparation and
10 administration of the revenue, operating and maintenance budgets and assistance in the
11 preparation of the capital budgets; the review of results of operations by budget categories;
12 and, the annual review and refinement of budgeting techniques. On July 1, 1997, I was
13 promoted to Intermediate Financial Analyst, and, on July 1, 1998, I was promoted to Senior
14 Financial Analyst. On January 1, 1999, I transferred to PAWC’s Business Development
15 Department. On July 1, 2000, I was promoted to Manager of Business Development. On
16 April 1, 2009, I was promoted to the position of Senior Manager of Business Development
17 for PAWC. On September 30, 2013, I was promoted to the position of Director of Business
18 Development for PAWC. On May 21, 2018, I was promoted to Senior Director of Business
19 Development. I have been in that position since then and am currently the Senior Director
20 of Business Development.

21
22 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
23 **PUBLIC UTILITY COMMISSION (“COMMISSION”)?**

1 A. Yes. I have previously testified before the Commission as a company witness for several
2 rate cases in the early to mid-1990's, as a witness for the complaint of the Municipal
3 Authority of the Township of Robinson against PAWC at Docket No. C-20030092, and as
4 a company witness for PAWC's 2013 and 2017 base rate case filings. I also recently
5 testified before the Commission as a company witness in the transaction between PAWC
6 and The Borough of New Cumberland ("BNC") at Docket No. A-2016-2544151, PAWC's
7 acquisition of The Sewer Authority of the City of Scranton ("SSA") at Docket No. A-2016-
8 2537209, and PAWC's acquisition of the Municipal Authority of the City of McKeesport
9 ("MACM"), in which PAWC acquired the wastewater collection and treatment systems of
10 BNC, SSA, and MACM respectively.

11
12 **Q. HAS PAWC FILED AN APPLICATION WITH THE COMMISSION FOR**
13 **REGULATORY APPROVAL TO ACQUIRE THE WASTEWATER SYSTEM OF**
14 **THE TOWNSHIP OF EXETER ("EXETER") AND RELATED APPROVALS?**

15 A. Yes. PAWC filed its Application on September 25, 2018 for approval of PAWC's
16 acquisition of Exeter's wastewater collection and treatment system ("System"). On
17 October 1, 2018, the Commission declined to accept PAWC's application on the grounds
18 it was incomplete. An amended Application was filed on December 5, 2018. For ease of
19 reference, I will refer to the September 25 Application and the December 5 Amended
20 Application together as the "Application." I will refer to the acquisition in my testimony
21 as the "Transaction."

22 The Application was prepared and filed under my direct supervision. As indicated
23 in my Verification attached to the Application, the Application and its numerous

1 appendices, are true and correct to the best of my knowledge, information, and belief. We
2 used PAWC records, as well as Exeter records made available by Exeter, to prepare the
3 Application. For purposes of having a complete evidentiary record in this proceeding upon
4 which the Commission can base its decision, I submit the Application and all of its
5 appendices (Appendices A through K) as **PAWC Exhibit No. BJG-1**.

6
7 **Q. WHAT IS PAWC SEEKING IN ITS APPLICATION?**

8 **A.** There are four basic requests. First, PAWC is requesting approval of the acquisition under
9 Section 1102, 66 Pa. C.S. § 1102, similar to many requests that come before the
10 Commission. Specifically, PAWC seeks approval to acquire the System and to obtain the
11 right to begin service in the areas currently served by Exeter, as well as a small portion of
12 Alsace Township that is not currently served by Exeter known as the Windy Willow
13 Development (“Service Area”). The Application contains a *pro forma* tariff supplement
14 under which Exeter’s rates would be initially adopted.

15 Second, pursuant to Act 12 of 2016, 66 Pa. C.S. § 1329 (“Section 1329”), PAWC
16 is seeking to utilize fair market value for the ratemaking rate base of Exeter. As explained
17 more-fully below, fair market value under Section 1329 is the lesser of the stated purchase
18 price in the Asset Purchase Agreement, dated May 29, 2018¹ or the average of the appraisal
19 of Exeter’s Utility Valuation Expert (“UVE”) and the appraisal of PAWC’s UVE.

20 Third, PAWC is also seeking confirmation of its right under Section 1329 to collect
21 a distribution system improvement charge (“DSIC”) for the new service area and seeking

¹ As discussed below, the Asset Purchase Agreement was subsequently amended. For ease of reference, the Asset Purchase Agreement and the First Amendment to the Asset Purchase Agreement will be collectively referred to herein as the “APA.”

1 the accrual and deferral of certain post-acquisition improvement costs. Specifically,
2 PAWC is seeking the accrual of Allowance for Funds Used During Construction
3 (“AFUDC”) for post-acquisition improvements not recovered through its DSIC for book
4 and ratemaking purposes and the deferral of depreciation related to post-acquisition
5 improvements not recovered through the DSIC for book and ratemaking purposes.

6 Fourth, PAWC is seeking Certificates of Filing or approvals under Code Section
7 507 for the APA and municipal agreements to be assumed or entered into by PAWC as a
8 result of the Transaction.

9
10 **Q. WHAT DOES SECTION 1329 REQUIRE TO BE INCLUDED IN THE**
11 **APPLICATION?**

12 **A.** Section 1329 requires that the Application include (1) copies of the two UVE appraisals,
13 (2) the purchase price, (3) the ratemaking rate base, (4) the transaction and closing costs,
14 and (5) the proposed tariff. However, as will be explained later in my testimony, the
15 Commission has expanded the filing requirements beyond those specifically required by
16 the statute.

17
18 **Q. WHAT DOES THE COMMISSION REQUIRE FOR THE APPROVAL OF THE**
19 **FAIR MARKET VALUE RATEMAKING TREATMENT PERMITTED UNDER**
20 **SECTION 1329?**

21 **A.** In its Final Implementation Order entered October 27, 2016, at Docket No. M-2016-
22 2543193 (“*Final Implementation Order*”), the Commission referenced the checklist in the
23 Tentative Implementation Order entered July 21, 2016, at the same docket for items to

1 include with an application for it to be processed in a six-month time frame. The
2 Commission's Bureau of Technical Utility Services has prepared an extensive list of
3 specific Section 1329 "Filing Requirements." The most-recent version of the Filing
4 Requirements, as of the date of Application filing, was dated March 17, 2017. PAWC's
5 Application is structured around those Filing Requirements. Appendix A to the
6 Application and its sub-appendices directly address each of the Filing Requirements.

7
8 **Q. IS PAWC FILING SUPPLEMENTAL INFORMATION IN ADDITION TO WHAT**
9 **IS REQUIRED FOR THE APPROVAL OF THE FAIR MARKET VALUE**
10 **RATEMAKING TREATMENT PERMITTED UNDER SECTION 1329?**

11 **A.** Yes. As a courtesy, PAWC's Application includes the written direct testimony of Exeter's
12 selected UVE, Mr. Harold Walker III, Manager of Financial Studies, Gannett Fleming
13 Valuation and Rate Consultants, LLC and the written direct testimony of Exeter Township
14 Manager, John Granger. PAWC is not sponsoring the testimony of Mr. Walker or Mr.
15 Granger, but has included it in the Application as a courtesy in anticipation of Exeter's
16 potential participation in the proceeding. PAWC reserves its right to submit rebuttal
17 testimony regarding Exeter's testimony, as appropriate.

18
19 **Q. IS PAWC PROPOSING THAT ITS APPLICATION BE EVALUATED USING THE**
20 **FAIR MARKET VALUE PROVISION OF CODE SECTION 1329?**

21 **A.** Yes. PAWC's Application has been prepared in accordance with the fair market value
22 provision of Code Section 1329. Specifically, PAWC is requesting that the ratemaking
23 rate base related to the System be based on the lesser of the average of the UVE fair market

1 value appraisals included in the Application or the APA purchase price. I note however
2 that PAWC reserves its right to make alternative ratemaking proposals in future
3 proceedings as may be permitted under the Code.

4
5 **Q. ARE THERE ANY OTHER COMMISSION PROCEEDINGS RELATED TO THE**
6 **APPLICATION?**

7 A. Yes. Exeter will soon file a *nunc pro tunc* application for a certificate of public
8 convenience from the Commission, because Commission staff contends that Exeter is
9 providing wastewater service to the public (approximately 29 customers) for compensation
10 in a portion of Lower Alsace Township. PAWC hopes to consolidate Exeter's *nunc pro*
11 *tunc* application proceeding with the instant application proceeding. Commission staff
12 wants Exeter to obtain a certificate of public convenience for its service in Lower Alsace
13 Township before or when such service territory is transferred to PAWC pursuant to the
14 instant Application.

15
16 **Q. ASIDE FROM AUTHENTICATING THE APPLICATION FOR ITS ADMISSION**
17 **INTO THE EVIDENTIARY RECORD AND IDENTIFYING ITS REQUESTS FOR**
18 **RELIEF, WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
19 **PROCEEDING?**

20 A. My direct testimony describes the Transaction. I will explain why the Transaction is in the
21 public interest and provides affirmative public benefits of a substantial nature, and should
22 be promptly approved by the Commission. I will also discuss why PAWC is legally,
23 financially, and technically fit to acquire and operate the System.

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Q. PLEASE IDENTIFY THE OTHER PAWC WITNESSES WHO WILL BE PROVIDING WRITTEN DIRECT TESTIMONY AND THEIR SUBJECT MATTER AREAS.

A. In addition to my direct testimony, PAWC will submit the written direct testimony of: Mr. Robert Burton, PAWC Senior Director of Operations, Eastern Pennsylvania; Mr. David R. Kaufman, PAWC Vice President - Engineering; and, Mr. Rod P. Nevirauskas, American Water Works Service Company Senior Director of Rates and Regulation, for Mid-Atlantic Division. PAWC is also sponsoring direct testimony by its selected UVE, Mr. Jerome C. Weinert, Principal & Director of AUS Consultants. As discussed above, as a courtesy, PAWC is also including in its Application the direct testimony of Exeter’s UVE and Township Manager in anticipation of Exeter’s potential participation in the proceeding. PAWC reserves its right to submit rebuttal testimony regarding Exeter’s testimony, as appropriate.

Mr. Burton will address the anticipated day-to-day operation of the System once it is acquired by PAWC, including staffing and the customer service enhancements that PAWC intends to implement for the benefit of Exeter’s customers. Mr. Kaufman will describe engineering and environmental issues associated with the System, support PAWC’s technical fitness to operate the System, explain certain commitments and improvements to be made by PAWC and other matters. Mr. Nevirauskas will address the initial rates, rules, and regulations for the Exeter customers as well as the impact of the Transaction on PAWC’s existing customers. Mr. Nevirauskas will also discuss the

1 financing of the Transaction and the overall financial fitness of PAWC. Mr. Weinert will
2 provide supporting testimony for his fair market valuation report.

3
4 **DESCRIPTION OF THE TRANSACTION**

5 **Q. PLEASE PROVIDE A DESCRIPTION OF THE TRANSACTION NEGOTIATION**
6 **PROCESS.**

7 **A.** On March 29, 2017, Exeter issued a Request for Bids For the Sale of Wastewater System
8 Township of Exeter, Pennsylvania with proposals initially due May 24, 2017 but later
9 extended to July 20, 2017. On July 20, 2017, PAWC submitted a proposal to acquire the
10 Exeter Wastewater Treatment Facilities Assets. After subsequent arms-length
11 negotiations, on April 23, 2018, Exeter's Board approved the Sale of the Exeter
12 Wastewater Treatment Facilities to PAWC. On May 29, 2018, Exeter and PAWC entered
13 into the APA for the sale of substantially all of the assets, properties, and rights of Exeter's
14 System at an agreed-upon price. On November 26, 2018, Exeter and PAWC entered into
15 the First Amendment to the APA.

16
17 **Q. CAN YOU PLEASE PROVIDE AN OVERVIEW OF THE APA?**

18 **A.** Yes. The May 29, 2018 APA is attached as **Appendix A-24-a** to the Application and the
19 First Amendment to the APA is attached as **Appendix A-24-a-1** to the Application (both
20 **CONFIDENTIAL**) (**PAWC Exhibit BJG-1**). The APA sets forth the terms and
21 conditions pursuant to which Exeter will sell, and PAWC will purchase, the System, as
22 well as substantially all assets, properties and rights that Exeter owns and uses in
23 connection with the System. The APA sets forth the entire understanding of the parties

1 with respect to the Transaction. Under the APA, the closing of the Transaction will occur
2 after the receipt of all applicable governmental approvals, including approvals from this
3 Commission, and after all applicable conditions have been met (or waived) by the parties.

4 Upon closing of the Transaction, PAWC will take ownership of the System and
5 begin rendering wastewater services to Exeter's current customers and Exeter will
6 permanently discontinue providing or furnishing wastewater service to the public.
7 Additionally, Exeter will assign its bulk service agreements with Alsace Township to
8 PAWC upon closing of the Transaction and cease providing bulk service. As described
9 further below, PAWC will also enter into a bulk service agreement with the Borough of St.
10 Lawrence, to be effective at closing on the Transaction.

11
12 **Q. CAN YOU PLEASE PROVIDE A SUMMARY OF THE APA'S PROVISIONS**
13 **GOVERNING THE TRANSFER OF ASSETS?**

14 **A.** The specific properties, assets and rights to be transferred to PAWC are defined and
15 described in the APA's Article 2.1, while the excluded assets are defined in Article 2.2 of
16 the APA. Generally, the APA states that every asset, property, business, goodwill and
17 rights owned by Exeter and used in the provision of sanitary wastewater service, whether
18 real, personal, mixed, tangible or intangible, and including all the physical plant, property,
19 equipment and facilities comprising the System owned by Exeter shall be conveyed to
20 PAWC. The Engineering Assessment contains a list of the wastewater system inventory
21 used in connection with the System to be conveyed to PAWC. All interests in real estate,
22 including leases, easements and access to public rights-of-way, owned by Exeter and

1 relating to the System are defined and described in Schedule 5(h), as well as all assigned
2 contracts to be conveyed to PAWC. Schedule 2.1(b) Amended.

3 Items that will not be transferred include: Exeter's cash and cash equivalents,
4 including accounts receivable; sewer laterals from the edge of the road or curb to and
5 throughout each customer's property; any and all grinder pumps of individual customers;
6 Exeter's insurance policies; all rights to any action, suit or claims being pursued by Exeter;
7 all assets, properties and rights used by Exeter other than those which primarily relate to
8 the operations of the System; the MS4 System Real Property; and, certain Agreements.

9
10 **Q. HAS PAWC AGREED TO ASSUME ANY LIABILITIES OF EXETER AS PART**
11 **OF THE TRANSACTION?**

12 A. Yes. PAWC is accepting certain "Assumed Liabilities" as part of this Transaction on the
13 day of and after closing on the Transaction. Per Article 2.3 of the APA, PAWC will
14 assume: (i) all obligations, conditions, and requirements associated with the Licenses and
15 Permits following their transfers on the day of and after Closing; (ii) all liabilities and
16 obligations related to the System or the Assets occurring after Closing; (iii) all liabilities
17 and obligations of Exeter related to or arising out of the Act 537 Plan as referenced in
18 Article 3.6 of the APA; (iv) and, all liabilities and obligations of Exeter arising under or to
19 be performed under the Assigned Contracts after Closing. PAWC will not assume or be
20 liable for any liabilities or obligations relating to "Excluded Liabilities" or other liabilities
21 or obligations, including liabilities and obligations that arise from any Assigned Contracts
22 prior to Closing, including, but not limited to, all accounts payable, all of which liabilities
23 and obligations constitute Excluded Liabilities, that are not "Assumed Liabilities."

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Q. CAN YOU PLEASE SUMMARIZE THE APA’S PROVISIONS GOVERNING THE NEGOTIATED PURCHASE PRICE OF THE TRANSACTION?

A. The consideration for the purchase of the System as set forth in Article 2.6 of the APA is the negotiated purchase price of \$96,000,000.

Q. PLEASE EXPLAIN THE RATES THAT WILL APPLY TO EXETER’S CUSTOMERS FOLLOWING THE CLOSING OF THE TRANSACTION.

A. As set forth in Article 7.1 of the APA and as will be explained more-fully in the Direct Testimony of Mr. Nevirauskas, at least sixty (60) days prior to Closing, Exeter will adopt rates as shown on Schedule 7.1 as Exeter’s rates, and such rates shall become effective by a date no later than the Closing Date. PAWC has committed to adopt, upon closing of the Transaction, Exeter’s current customer charges and consumption charges then in effect at the time of Closing as PAWC’s base rates in the Service Area. Moreover, the parties recognize that ratemaking authority is vested with the Commission. Immediately upon Closing, Exeter customers will be subject to PAWC’s prevailing wastewater tariff on file with the Commission with respect to all rates other than the customer charge and consumption charge, including capacity reservation fees, reconnection fees and the like, as well as non-rate related terms and conditions of service. Exeter’s customers are currently billed either monthly or quarterly. As PAWC customers, all Exeter customers will be billed monthly. The monthly rates are shown in **Appendix A-13 REV** to the Application (**PAWC Exhibit. BJG-1**).

1 **Q. HAS PAWC MADE ANY COMMITMENTS IN THE APA THAT WILL BE**
2 **IMPLEMENTED AFTER THE CLOSING OF THE TRANSACTION?**

3 **A.** Yes, PAWC has made certain commitments to improve the System (see Section 7.6 of the
4 APA). My colleague, David R. Kaufman, will discuss these commitments in greater detail
5 in his written direct testimony, PAWC Statement No. 3. In addition, PAWC has committed
6 to offer employment to eligible Exeter employees following the closing of the Transaction
7 (see Section 7.4 of the APA). My colleague, Robert Burton, will discuss anticipated day-
8 to-day operation of the System once it is acquired by PAWC, including staffing, in his
9 written direct testimony, PAWC Statement No. 2.

10
11 **TRANSACTION IS IN THE PUBLIC INTEREST**

12 **Q. PLEASE PROVIDE AN OVERVIEW OF PAWC.**

13 **A.** PAWC, a subsidiary of American Water Works Company Inc., (“American Water”), is the
14 largest regulated public utility corporation duly organized and existing under the laws of
15 the Commonwealth of Pennsylvania, engaged in the business of collecting, treating,
16 storing, supplying, distributing, and selling water to the public, and collecting, treating,
17 transporting and disposing of wastewater for the public. Water and wastewater service is
18 furnished by PAWC to the public in a service territory encompassing more than 400
19 communities in 36 counties, including Berks County and neighboring counties of
20 Montgomery, Chester and Lancaster. Overall, PAWC serves a combined population of
21 over 2,400,000 across the Commonwealth and is American Water’s largest subsidiary with
22 nearly 21 percent of American Water’s regulated customer base.

1 PAWC currently employs approximately 1,100 professionals with expertise in all
2 areas of water and wastewater utility operations, including engineering, regulatory
3 compliance, water and wastewater treatment plant operation and maintenance, distribution
4 and collection system operation and maintenance, materials management, risk
5 management, human resources, legal, accounting and, most importantly, customer service.
6 PAWC has the expertise, the record of environmental compliance, the commitment to
7 invest in necessary capital improvements and resources, and the experienced managerial
8 and operating personnel necessary to provide safe and reliable sewer services to the residents
9 of Exeter and surrounding areas.

10
11 **Q. PLEASE DESCRIBE PAWC'S HISTORICAL RELATIONSHIP WITH EXETER.**

12 A. PAWC's Glen Alsace division provides direct water service to the citizens of Exeter
13 Township as well as portions of Amity Township and St. Lawrence Borough. PAWC has
14 a strong foothold in the Southeast area of Pennsylvania through its Glen Alsace, Penn,
15 Royersford, and Norristown operating divisions. PAWC currently provides water service
16 to over 71,484 customers in these areas. PAWC also owns and operates regional water and
17 wastewater systems proximate to Exeter serving the City of Coatesville and surrounding
18 communities. We take pride in being a good corporate citizen by participating in local
19 events, providing environmental and firefighting grants, offering the "H2O Assistance
20 Program," and supporting economic growth through infrastructure improvements in the
21 communities we serve. PAWC is eager to partner with The Township of Exeter in
22 providing a sustainable long-term future for the wastewater assets, helping Exeter meet its
23 current challenges, and supporting economic development. Exeter and its residents will

1 benefit from a stable company with a robust business model and reliable service that the
2 community has come to expect and deserve.

3
4 **Q. HOW MANY CUSTOMERS DOES THE EXETER SYSTEM CURRENTLY
5 SERVE AND HOW MANY CUSTOMERS DOES PAWC CURRENTLY SERVE?**

6 **A.** As of July 31, 2018, Exeter furnished direct wastewater services to 9,015 customers. As
7 of July 31, 2018, PAWC served approximately 65,139 wastewater customers across
8 Pennsylvania, inclusive of 59,975 residential, 4,927 commercial, 33 industrial and 204
9 other customers in 12 Pennsylvania Counties. As of July 31, 2018 PAWC furnished water
10 services to 659,687 customers, inclusive of 607,090 residential, 45,359 commercial, 521
11 industrial customers, 2,400 municipal, 4,295 fire protection customers, and 22 sales for
12 resale customers.

13
14 **Q. CAN YOU PLEASE EXPLAIN WHY THE PROPOSED TRANSACTION IS IN
15 THE PUBLIC INTEREST?**

16 **A.** Yes. The Transaction will result in affirmative public benefits of a substantial nature. First,
17 PAWC, as a large and long-established public utility, has the managerial, technical, and
18 financial fitness to operate the System in a safe and efficient manner in compliance with
19 the Pennsylvania Public Utility Code, the Pennsylvania Clean Streams Law, and all other
20 applicable statutory and regulatory requirements. PAWC has extensive experience in the
21 operation of wastewater collection and treatment systems including specific experience
22 with the types of treatment technologies employed in the Exeter system. PAWC continues
23 to develop expertise for the benefit of the Commonwealth through its current operation of

**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 : Docket No. A-2018-3004933 *et al.*
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. ;

**DIRECT TESTIMONY OF
ROD P. NEVIRASKAS ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

Date: December 5, 2018

PAWC Statement No. 4 REV

**DIRECT TESTIMONY OF
ROD P. NEVIRASKAS**

INTRODUCTION

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.

A. Rod P. Neviraskas, 800 West Hersheypark Drive, Hershey, PA 17033.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by American Water Works Service Company (“Service Company”) as Senior Director of Rates and Regulations for the Mid Atlantic Division, which includes Pennsylvania-American Water Company (“PAWC” or the “Company”).

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I received a Bachelor’s Degree in Economics from the University of Massachusetts. Since beginning my employment with a subsidiary of the American Water Works Company (“AWW” or “American Water”) in 1980, I have held various positions of increasing responsibilities in rates and finance. In October 2004, I was named Director of Rates and Regulations for the American Water Works Shared Services Center (“SSC”), a financial services organization providing national support to AWW’s subsidiary operating companies. In 2005, I was promoted to the position of Director of Financial Services at the SSC. In that capacity, I led the SSC Rates and Regulations group in supporting rate case filings for all of AWW’s regulated operating subsidiaries. On January 1, 2009, I assumed the position of Director of Rates and Regulations for the states of Pennsylvania, Virginia and Maryland. In late 2011, AWW re-organized its

1 divisional structure, and responsibility for rate and regulatory matters in West Virginia,
2 Virginia and Maryland were transferred to the Mid-Atlantic Division of AWW, of which
3 PAWC is a member. On April 1, 2017, I was promoted to Senior Director with regulatory
4 responsibility for Pennsylvania and West Virginia.

5
6 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**
7 **PENNSYLVANIA PUBLIC UTILITY COMMISSION (THE “COMMISSION” OR**
8 **“PUC”)?**

9 **A.** Yes. I have testified on numerous occasions on behalf of utility subsidiaries of AWW in
10 support of rate filings and financings in the States of Connecticut, Rhode Island, New
11 Jersey, New Hampshire, Maryland, New York, Ohio, Virginia, West Virginia and the
12 Commonwealths of Massachusetts and Pennsylvania.

13
14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

15 **A.** My testimony first addresses the financial fitness of PAWC to acquire and operate the
16 wastewater collection system (“System”) currently owned and operated by Exeter
17 Township (“Exeter”), which PAWC has agreed to purchase (“Transaction”). Second, my
18 testimony addresses: (a) the identification of ratemaking rate base as required in 66 Pa.
19 C.S § 1329 for PAWC’s acquisition of the System; (b) an estimate of the range of
20 transaction and closing costs incurred by PAWC; (c) an overview of the rate provisions
21 contained in the Asset Purchase Agreement (“APA”) for PAWC’s acquisition of the
22 System; (d) the benefits of the Transaction; and, (e) a statement regarding PAWC’s

1 intentions with respect to accrual of certain post-acquisition improvement costs and
2 deferral of related depreciation.

3
4 **TRANSACTION IS IN THE PUBLIC INTEREST**

5 **Q. WHAT, IF ANY, BENEFIT DO YOU SEE TO EXETER'S CUSTOMERS AS A**
6 **RESULT OF THE TRANSACTION?**

7 A. The System's customers will be served by a large, financially sound company that has the
8 capability to finance necessary capital additions. Given its size, access to capital and its
9 recognized strengths in system planning, capital budgeting and construction management,
10 PAWC is well-positioned from a financial perspective to ensure that high quality
11 wastewater service meeting all federal and state requirements is provided to Exeter's
12 customers and maintained for PAWC's existing customers.

13
14 **Q. DO YOU ANTICIPATE THE TRANSACTION HARMING PAWC'S FINANCIAL**
15 **STATUS IN ANY MANNER?**

16 A. No, not at all. PAWC does not anticipate that the acquisition of the System will have a
17 negative impact on PAWC's cash flows, credit ratings or access to capital and, therefore,
18 will not deteriorate in any manner PAWC's ability to continue to provide safe, adequate,
19 and reasonable service to its existing customers at just and reasonable rates.

20
21 **PAWC'S FINANCIAL FITNESS**

22 **Q. PLEASE DISCUSS PAWC'S FINANCIAL FITNESS.**

1 A. PAWC is the Commonwealth’s largest water and wastewater provider, with total assets of
2 \$4.6 billion and annual revenues of \$661 million for 2017. For 2017, PAWC had operating
3 income of approximately \$346 million and net income of approximately \$161 million.
4 These operating results produced cash flows from operations of approximately \$337
5 million.

6 In addition to generating positive operating cash flows, PAWC may also obtain
7 financing as follows:

8 **Line of Credit**

9 PAWC presently has liquidity through a \$400 million line of credit through American
10 Water Capital Corp. (“AWCC”), a wholly owned subsidiary of American Water Works
11 Company, Inc. (“American Water”). PAWC’s strong credit ratings allow PAWC to obtain
12 additional capacity on this line of credit.

13 **Long Term Debt Financing**

14 PAWC carries a corporate credit rating of “A3” from Moody’s Investors Services and an
15 “A” rating from Standard and Poor’s Rating Services. PAWC obtains long-term debt
16 financing through AWCC at favorable interest rates and payment terms. When applicable,
17 PAWC also uses low-cost financing through the Pennsylvania Infrastructure Investment
18 Authority (“PENNVEST”) and the Pennsylvania Economic Development Financing
19 Authority (“PEDFA”).

20 **Equity Investments**

21 PAWC may obtain additional equity investments through American Water based on its
22 strong operating performance.

23

1 **Q. DOES PAWC HAVE THE OVERALL FINANCIAL FITNESS AND ACCESS TO**
2 **CAPITAL TO ACQUIRE EXETER'S ASSETS?**

3 A. Yes. PAWC has strong operating cash flows and net income and, therefore, a strong
4 balance sheet. PAWC's strong operating and financial performance allows it to obtain
5 competitive interest rates for long-term debt financing and access to equity investments
6 from its parent company. In my opinion, PAWC is a financially-sound business that can
7 financially support the acquisition of the System as well as the ongoing operating and
8 investment commitments that will be required to operate, maintain and improve those
9 assets in serving the public.

10

11 **Q. PLEASE EXPLAIN HOW PAWC INTENDS TO FUND THE ACQUISITION.**

12 A. PAWC will initially fund the Transaction with short-term debt and will later replace it with
13 a combination of long-term debt and equity capital.

14

15 **Q. WHAT IMPACT, IF ANY, DO YOU ANTICIPATE THAT THE ACQUISITION OF**
16 **THE ASSETS WILL HAVE ON PAWC'S CORPORATE CREDIT RATINGS?**

17 A. As stated above, PAWC does not anticipate that the acquisition of the System will have a
18 significant impact on its credit ratings.

19

20 **FAIR MARKET VALUE RATE BASE**

21 **Q. PLEASE STATE THE RATE BASE REQUESTED IN THE APPLICATION**
22 **PURSUANT TO 66 Pa. C.S § 1329.**

1 A. The negotiated purchase price for the acquired assets is \$96,000,000 and the average of the
2 appraisals of the buyer's Utility Valuation Expert ("UVE") and the seller's UVE is
3 \$102,968,500. Accordingly, the negotiated purchase price of \$96,000,000 is the fair
4 market value for ratemaking purposes under Section 1329 (*i.e.* the lower of the negotiated
5 purchase price and the average of the UVEs' appraisals). The fair market value as
6 determined by the Section 1329 process, which, in addition to the transaction and closing
7 costs described below, becomes part of PAWC's rate base for ratemaking purposes. Note,
8 however, that PAWC reserves its right in future proceedings to make rate base claims
9 related to the acquisition as may otherwise be permitted under the Pennsylvania Public
10 Utility Code.

11
12 **TRANSACTION AND CLOSING COSTS**

13 **Q. PLEASE DESCRIBE THE ESTIMATED TRANSACTION AND CLOSING COSTS**
14 **FOR THE TRANSACTION.**

15 A. As set forth in the Commission's *Final Implementation Order* at Docket No. M-2016-
16 2543193, transaction and closing costs include the UVE's appraisal fee and the buyer's
17 closing costs, including reasonable attorney fees. In accordance with the *Final*
18 *Implementation Order* and traditional ratemaking principles, reasonable transaction and
19 closing costs are not to be decided in this Application proceeding; instead, PAWC must
20 justify the costs by a "preponderance of the evidence" in a future base rate proceeding.

21 As a practical manner, the exact extent of such costs cannot be known at the time
22 of filing the Application and will not be finally known until after closing of the Transaction.
23 The costs depend on a number of variables, including whether this Application is settled

1 or fully-litigated. PAWC will track such costs and incorporate them into rate base in a
2 future base rate proceeding as appropriate. Nevertheless, attached to the Application, as
3 **Appendix A-12**, is PAWC's estimate of the anticipated range of transaction and closing
4 costs (approximately \$1,100,000 to \$1,300,000).

5
6 **APA RATE PROVISIONS**

7 **Q. PLEASE PROVIDE AN OVERVIEW OF THE RATE PROVISIONS OF THE APA.**

8 A. Article 7.1 of the APA, dated as of May 29, 2018, contains provisions related to rates. At
9 least sixty (60) days prior to Closing, Exeter will adopt rates as shown on Schedule 7.1 as
10 Exeter's rates, and such rates shall become effective by a date no later than the Closing
11 Date. PAWC has committed to adopt, upon closing of the Transaction, Exeter's current
12 customer charge and consumption charge then in effect at the time of closing. The current
13 usage rate (consumption charge) utilized by Exeter is a rate per thousand gallons. Under
14 PAWC ownership, and set forth in the *pro forma* tariff, attached as **Appendix A-13 REV**,
15 the usage rate per thousand gallons is converted to a usage rate per hundred gallons, thereby
16 corresponding to how all other PAWC customers are billed.

17 The initial rates to be applicable to the former Exeter wastewater customers are set
18 forth in the *pro forma* tariff supplement attached as **Appendix A-13 REV** to the
19 Application. System customers will be governed by rates for new Exeter Rate Zone "XX."
20 After PAWC closes the Transaction, System customers will be subject to PAWC's
21 prevailing wastewater tariff on file with the Commission with respect to all rates other than
22 the customer charge and consumption charge, including capacity reservation fees,
23 reconnection fees and the like, as well as non-rate related terms and conditions of service.

1 Exeter’s customers are currently billed quarterly. PAWC is the water provider
2 within Exeter Township with the exception of 48 customers whose water service is
3 provided by Mount Penn Borough. There are also over 1,200 customers that are on private
4 wells directly connected to the sewer collection system. As PAWC customers, all Exeter
5 customers will be billed monthly.

6 PAWC will charge a capacity reservation fee of \$4,000 per new equivalent dwelling
7 unit for the allocation of treatment, pumping, and transmission, truck and interceptor main
8 capacity, commencing with the date of Closing. No capacity fee will be charged for any
9 applicant for wastewater service that meets the criteria of a Bona Fide Service Applicant,
10 as defined in 52 Pa. Code § 65.1 (excluding clause (iii) of that definition) if “wastewater”
11 were substituted for “water.”
12

13 **Q. DO THE RATE PROVISIONS OF THE APA INCLUDE A RATE**
14 **STABILIZATION PLAN AS DEFINED BY SECTION 1329?**

15 A. The APA does not set forth or require a “rate stabilization plan” as defined by Section
16 1329(g). Therefore, PAWC is not required under the *Final Implementation Order* at
17 Docket No. M-2016-2543193 to provide testimony, schedules, and work papers in support
18 of a plan.

19 Section 1329(g) defines a “rate stabilization plan” as “[a] plan that will hold rates
20 constant or phase rates in over a period of time after the next base rate case.” As detailed
21 in Article 7.1 of the APA, PAWC will be charging Exeter’s current rates (but not other
22 charges) as the Company’s base rates within the service territory.

1 Base rates for Exeter area customers will be addressed and adjusted, as appropriate
2 and without any form of contractual restriction, in PAWC's first base rate case in which
3 the Exeter system is included. Interested parties will have an opportunity to participate in
4 that rate case and address issues, including cost allocation, as appropriate.

5 PAWC was careful in negotiating the APA to respect the statutory authority of the
6 Commission to set just and reasonable rates.

7
8 **Q. DOES PAWC SEEK THE AUTHORITY TO CHARGE NON-BASE RATES PRIOR**
9 **TO PAWC'S FIRST BASE RATE CASE IN WHICH THE EXETER SYSTEM IS**
10 **INCLUDED?**

11 A. Yes. PAWC is requesting authority from the Commission to approve collection of a
12 distribution system improvement charge ("DSIC") related to the System in the future, prior
13 to the first base rate case in which the System plant-in-service is incorporated into rate
14 base. PAWC would not begin charging a DSIC charge until the eligible System plant is
15 approved by the Commission in PAWC's Long Term Infrastructure Improvement Plan for
16 wastewater.

17
18 **BENEFITS OF TRANSACTION**

19 **Q. WHAT, IF ANY, RATE BENEFITS ARE ANTICIPATED TO BE REALIZED BY**
20 **EXETER CUSTOMERS FROM THE TRANSACTION?**

21 A. In the long-term, the Transaction will help PAWC keep rates reasonable for all of its
22 customers -- including Exeter customers. Through its expertise in wastewater management
23 and the leveraging of economies of scale, PAWC will -- over time -- be able to improve

1 efficiencies and lower or slow the increase in the cost of operating the System. These
2 operational efficiencies -- while they cannot be precisely quantified at this time -- will
3 inevitably be realized because of the size of PAWC's water and wastewater operations.

4
5 **Q. WHAT IMPACT, IF ANY, WILL THERE BE ON THE RATES OF PAWC'S**
6 **CURRENT CUSTOMERS AS A RESULT OF THE ACQUISITION OF THE**
7 **SYSTEM?**

8 A. There will be no short-term impact on PAWC's current customers. As explained above,
9 PAWC has committed to adopt Exeter's current rates as its base rates. In the future,
10 Exeter's wastewater operations would be included in future base rate filings similar to the
11 other operations of PAWC.

12 In the long-term, the acquisition of the System will help PAWC keep rates
13 reasonable for all of its customers by sharing costs across a much larger customer base. I
14 would like to reiterate that nothing contained in the APA, if approved by the Commission,
15 would bind the Commission or other interested parties in future ratemaking proceedings.

16
17 **POST-ACQUISITION IMPROVEMENTS**

18 **Q. PLEASE STATE YOUR UNDERSTANDING OF SECTION 1329 WITH RESPECT**
19 **TO POST-ACQUISITION IMPROVEMENTS.**

20 A. I am advised by counsel that Section 1329(f) allows "an acquiring public utility's post
21 acquisition improvements that are not included in a distribution system improvement
22 charge [to] accrue allowance for funds used during construction ["AFUDC"] after the date
23 the cost was incurred until the asset has been in service for a period of four years or until

1 the asset is included in the acquiring public utility's next base rate case, whichever is
2 earlier." Section 1329(f) also provides that "[d]epreciation on an acquiring public utility's
3 post acquisition improvements that have not been included in the calculation of a
4 distribution system improvement charge shall be deferred for book and ratemaking
5 purposes."

6
7 **Q. DOES PAWC INTEND TO ACCRUE AFUDC FOR POSTACQUISITION**
8 **IMPROVEMENTS?**

9 A. Yes. As summarized in the Direct Testimony of PAWC Witness David R. Kaufman,
10 PAWC's Vice-President Engineering, PAWC Statement No. 3, PAWC will be making
11 post-acquisition improvements to the System. As such, PAWC will likely accrue AFUDC
12 consistent with what is permitted under Section 1329. Rate claims related to AFUDC can
13 then be adjudicated in the context of a future PAWC base rate proceeding.

14
15 **Q. DOES PAWC INTEND TO DEFER DEPRECIATION ON NON-DSIC-ELIGIBLE**
16 **POST-ACQUISITION IMPROVEMENTS FOR BOOK AND RATEMAKING**
17 **PURPOSES?**

18 A. Yes. Section 1329(f) permits such deferral of depreciation. The statute appears to allow
19 deferral without specific Commission approval; however, out of an abundance of caution,
20 PAWC is specifically petitioning the Commission, as part of this Application proceeding,
21 for permission to defer the depreciation for book and ratemaking purposes.

1 AUTHENTICATION OF APPLICATION APPENDICES

2 **Q. ARE YOU FAMILIAR WITH THE APPLICATION FILED BY PAWC IN THIS**
3 **PROCEEDING?**

4 A. Yes, I helped to prepare several of the appendices in support of the Application and I have
5 reviewed the final version of the Application and the appendices.

6
7 **Q. PLEASE IDENTIFY WHICH APPLICATION APPENDICES WERE PREPARED**
8 **BY YOU OR UNDER YOUR SUPERVISION AND CONTROL?**

9 A. PAWC's finance team prepared the response in **Appendix A-12** which is the Company's
10 estimate of the anticipated range of transaction and closing costs and the *pro forma* tariff
11 supplement attached as **Appendix A-13 REV** to the Application. In addition, they prepared
12 **Appendix C** (balance sheet of Exeter Township as of December 31, 2017, **Appendix D**
13 (audited balance sheet of PAWC as of December 31, 2017), **Appendix E** (income
14 statement of Exeter Township for the 12 months ended December 31, 2017), **Appendix F**
15 (audited income statement of PAWC for the 12 months ended December 31, 2017),
16 **Appendix G** (*pro forma* balance sheet of PAWC, giving effect to the transfer), **Appendix**
17 **H** (*pro forma* consolidated income statement of PAWC and Exeter Township for 12
18 months) and **Appendix K** (estimated annual revenues and Expenses).

19
20 **Q. HOW DID YOU PREPARE APPENDICES A-12, A-13 REV, APPENDICES C**
21 **THROUGH H, AND APPENDIX K?**

1 A. I reviewed the financial information of PAWC, to which I have direct access, and I
2 reviewed the financial and rate information of Exeter Township, to which I received access
3 through the Transaction due diligence process.

4
5 **Q. ARE APPENDICES A-12, A-13 REV, APPENDICES C THROUGH H, AND**
6 **APPENDIX K TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE,**
7 **INFORMATION, AND BELIEF?**

8 A. Yes.

9

10

CONCLUSION

11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 A. Yes. However, I reserve the right to supplement my testimony as additional issues and
13 facts arise during the course of the proceeding. Thank you.