

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application and related filings of Pennsylvania-American :
Water Company under Sections 507, 1102(a), and 1329 of the :
Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 507, 1102(a), :
1329, for approval of its acquisition of wastewater system assets : Docket No. A-2018-_____ *et al.*
of Exeter Township's Wastewater System, related wastewater :
service rights, fair market valuation ratemaking treatment, :
deferral of the post-acquisition improvement costs, and certain :
contracts with municipal corporations :

**DIRECT TESTIMONY OF JEROME C. WEINERT, ASA, PE, CDP
UTILITY VALUATION EXPERT SELECTED BY
PENNSYLVANIA-AMERICAN WATER COMPANY**

Date: September 11, 2018

4

PAWC Statement No.

1 **INTRODUCTION**

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

3 A. Jerome C. Weinert, ASA, PE, CDP, with business addresses at 2405 Park Drive Suite 203,
4 Harrisburg, PA and 8555 West Forest Home Avenue Suite 201, Greenfield, Wisconsin
5 53228.

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

8 A. I am employed by Associated Utility Services, Inc. ("AUS") as a Principal and Director in
9 AUS's consulting operation ("AUS Consultants"), a position I have held since 1987. AUS
10 was founded in 1967 as a financial consulting firm specializing in utility rate-making and
11 regulatory matters. AUS Consultants is based in Mount Laurel, New Jersey, with various
12 subsidiary offices located in Harrisburg, Pennsylvania; Greenfield (Milwaukee),
13 Wisconsin; and Albuquerque, New Mexico. AUS Consultants comprises several
14 subsidiary groups, including Utility Services Group, C.A. Turner Utility Reports,
15 Valuation and Depreciation Services Group.

16
17 **Q. WHAT ARE YOUR RESPONSIBILITIES AS PRINCIPAL AND DIRECTOR OF**
18 **AUS CONSULTANTS?**

19 A. As a Principal of AUS Consultants, I am responsible for appraisals and depreciation studies
20 which AUS Consultants performs for its clients. As Director of AUS Consultants, I am
21 responsible for the daily and administration and operations of AUS Consultants' staff and
22 offices in Harrisburg, PA; Greenfield, WI; and Albuquerque, NM.

23

1 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS**
2 **EXPERIENCE.**

3 A. I received a Bachelor of Science Degree in Mechanical Engineering from the Milwaukee
4 School of Engineering in Milwaukee, WI, in 1972 and a Master of Business Administration
5 Degree from Marquette University in 1988.

6 I am registered as a Professional Engineer (E-15552) in the State of Wisconsin. I
7 have held a Professional Engineer's License continuously since 1976, when I completed
8 the State of Wisconsin's engineering certification requirements. Those requirements
9 include successfully completing two 8-hour written examinations along with four years of
10 qualifying engineering experience. Wisconsin also requires that licensed engineers
11 complete continuing education requirements of 15 professional development hours on a bi-
12 annual basis for renewal of a Professional Engineers license. I most recently renewed my
13 Wisconsin Professional Engineers' license on July 31, 2016.

14 Since 1982, I also have been an Accredited Senior Appraiser ("ASA") in the
15 American Society of Appraisers, which is a technical society whose charter is to ensure the
16 integrity and continuation of the appraisal profession. My accreditation is in the specialty
17 of Technical Specialties, which includes public utility valuation. I recertify in this specialty
18 every five years, I am currently in the process of recertifying. I also hold Senior
19 Membership in Public Utility Valuation. To become a senior member, a candidate must
20 have five years of qualifying experience in the designated field and pass a written
21 examination that covers general appraisal principles and issues specific to the candidate's
22 field. Finally, the candidate's work is reviewed for a selected number of valuation
23 problems, which, for Public Utility Valuation, requires the applicant to demonstrate

1 understanding of values, both tangible and intangible, for utility property. These valuations
2 may be in connection with rate case studies, sale or acquisition, eminent domain
3 (condemnation), ad valorem property tax appraisals, and insurance risk management
4 appraisals. These valuations require special knowledge in order to take into account the
5 unique economic and value characteristics of public utility properties and properly
6 recognize regulatory factors which influence value conclusions. Senior membership in
7 Public Utility Valuation also requires an understanding of the principles and practices
8 necessary in developing appropriate capital recovery (depreciation) accrual rates for public
9 utilities.

10 I am also a founding member of the Society of Depreciation Professionals. Formed
11 in 1987, the Society of Depreciation Professionals is an international society whose
12 purpose is to recognize the professional field of depreciation engineering and those
13 individuals contributing to that field; to promote the development and professional ethics
14 of the profession; and collect and exchange information concerning depreciation
15 engineering and analysis. Its membership, of which there are approximately 200 individual
16 and corporate members, is comprised of professionals from regulated industries (telephone,
17 electric, gas, and water), regulatory agencies, consulting firms, and educational institutions.
18 I have held various offices with the Society including serving as treasurer in 1993, vice
19 president in 1994, and president in 1995.

20 I gained the status of a Certified Depreciation Professional from the Society of
21 Depreciation Professionals in 1997. To obtain this status, a candidate must have five years
22 of qualifying experience in the field of depreciation, pass a written examination that covers
23 depreciation engineering principles and practices, and provide references to his or her work

1 and qualifications as a depreciation professional. I have re-certified every five years since
2 1997 with the most recent re-certification effective January 1, 2013.

3
4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
5 **PUBLIC UTILITY COMMISSION (“COMMISSION”)?**

6 A. Yes. In valuation matters related to utility rate base, I most recently testified before the
7 Commission in the matter of the applications of Pennsylvania-American Water Company
8 and Aqua Pennsylvania Wastewater, Inc., pursuant to Sections 1102 and 1329 of the
9 Pennsylvania Public Utility Code (“Code”), 66 Pa. C.S. §§ 1102 and 1329, for approval of
10 their acquisitions of the wastewater systems assets of New Garden Township, Docket No.
11 A-2016-2580061 and East Bradford, on behalf of Aqua Pennsylvania, Inc., The
12 McKeesport Municipal Wastewater System, on behalf of Pennsylvania-American Water
13 Company and Sadsbury Township’s wastewater collection system, on behalf of
14 Pennsylvania American Water Company. I have also presented testimony on the subject
15 of depreciation to the public service commissions in the states of Alaska, Arkansas, Illinois,
16 Indiana, Iowa, Nebraska, Nevada, North Carolina, Ohio, and Oregon. I have testified on
17 depreciation matters before the Federal Energy Regulatory Commission (“FERC”) and the
18 CRTTC. In addition, I have testified on valuation matters before the Massachusetts
19 Superior Court; the Court of Common Pleas, Fayette County, Ohio; the Twentieth Judicial
20 Circuit Court in Charlotte County, Florida; the Nineteenth Judicial Circuit Court in St.
21 Lucie County, Florida; the New Hampshire Public Service Commission; the California
22 Board of Equalization and Assessment; and the Valuation Adjustment Boards in the
23 Florida counties of Duval, Hillsborough, Okeechobee, and Palm Beach. Attached to this

1 direct testimony as **Appendix A** is a copy of my current curriculum vitae which includes a
2 listing of cases in which I have participated.

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

4 A. The purpose of my testimony is to describe the fair market value appraisal of the
5 wastewater system and related plant, property, equipment and assets (collectively the
6 “System”) of Exeter Township that I and my staff performed on behalf of Pennsylvania-
7 American Water Company (“PAWC”), the buyer of the System. Our report dated
8 September 1, 2018, is entitled “Exeter Township, Pennsylvania Wastewater Utility Fair
9 Market Value Appraisal as of January 1, 2018.” The appraisal and its report was developed
10 to meet the criteria established in paragraph Section 1329 of the Pennsylvania Public Utility
11 Code (“Code”), 66 Pa. C.S. § 1329 (“Determination of the fair market value of water and
12 wastewater assets”).

13 In its 2015-2016 legislative session, the Pennsylvania Legislature passed Act 12 of
14 2016 that session and Governor Wolf signed into law Section 1329 of the Code establishing
15 the legislative guidelines facilitating the acquisition of municipal and regional water and
16 wastewater systems by private investor-owned utilities and other entities which are rate-
17 regulated by the Pennsylvania Public Utility Commission (“PUC”). This legislation was
18 intended to facilitate the acquisition of water and wastewater system in order to facilitate
19 capital improvements to the water and or wastewater properties.

20
21 **QUALIFICATION AS UTILITY VALUATION EXPERT**

1 **Q. IS AUS CONSULTANTS ON THE COMMISSION’S REGISTRY OF UTILITY**
2 **VALUATION EXPERTS?**

3 A. Yes. AUS Consultants is a Utility Valuation Expert (“UVE”) in the Commonwealth of
4 Pennsylvania approved by the PUC (Utility Code 9919181).

5
6 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH AUS CONSULTANTS WAS**
7 **PLACED ON THE COMMISSION’S REGISTRY OF UTILITY VALUATION**
8 **EXPERTS.**

9 A. After passage of Section 1329 of the Pennsylvania Consolidated Code, the Commission
10 established an application process by which the Commission would approve and designate
11 firms to be placed on the Commission’s “Registry of Utility Valuation Experts (UVE).”
12 AUS Consultants submitted its application and the required proof of experience in July of
13 2016 and received confirmation and approval from the Commission of AUS Consultants’
14 placement on the Commission’s UVE Registry in August 2016. AUS Consultants applied
15 with the Commission to renew its registrations as a UVE with the Commission for 2018
16 and received notification on February 12, 2018 as a qualified UVE by the Commission.

17
18 **Q. PLEASE EXPLAIN YOUR QUALIFICATIONS TO ACT AS A UVE IN THIS**
19 **PROCEEDING.**

20 A. I have been involved in utility consulting in the valuation and depreciation area for my
21 entire 46-year career. I have been a Registered Professional Engineer since 1978, an
22 Accredited Senior Appraiser (“ASA”) since 1982 in the American Society of Appraiser in
23 their Technical Valuation specialty which includes utilities such as water and wastewater

1 utilities, and I am a Certified Depreciation Professional (“CDP”) since 2000 in the Society
2 of Depreciation Professionals.

3 I have prepared fair market value appraisal for numerous clients during my career
4 as well as numerous depreciations studies in support of utilities depreciation rates for rate
5 making. In my capacity as Principal and Director for AUS, I have performed numerous
6 appraisals of water, wastewater, gas, electric and telecommunication companies and their
7 property. Similarly, in the area of depreciation studies, I have performed depreciation
8 studies for water, gas, electric and telecommunications companies. Prior to my
9 employment with AUS, I worked for 14 years in the Regulated Industries Group at
10 American Appraisal Associates, a national appraisal firm, with emphasis on performing
11 public utility appraisals and depreciation studies.

12
13 **Q. HAVE YOU EVER HAD YOUR PROFESSIONAL CREDENTIALS REVOKED**
14 **OR SUSPENDED?**

15 A. I am currently in the process of recertifying my ASA status in the American Society of
16 Appraisers. My status as a Wisconsin PE and a CDP in the Society of Depreciation
17 Professionals are also being recertified.

18
19 **Q. DO YOU HAVE SPECIFIC EXPERIENCE WITH THE VALUATION AND**
20 **APPRAISAL OF UTILITY ASSETS?**

21 A. Yes. I annually prepare several fair market valuation appraisals for clients for various
22 purposes. In recent years, AUS Consultants has been quite active in the consulting in the
23 water and wastewater industry, particularly in Pennsylvania. This consulting included

1 original cost studies, depreciated original cost studies, and fair market value appraisals for
2 municipalities and investor-owned utilities. During my career, I have participated in or
3 have been responsible for more than 208 valuation studies and 128 depreciation studies.
4 These appraisals and depreciation studies are identified in my curriculum vitae attached
5 hereto as Appendix A. Over the course of my career, I have submitted depreciation study
6 results to the public service commission's in the states of Alabama, Alaska, Arkansas,
7 Colorado, Florida, Georgia, Illinois, Indiana, Idaho, Iowa, Kentucky, Michigan,
8 Minnesota, Mississippi, Missouri, Montana, Nebraska, North Carolina, Ohio, Oregon,
9 Pennsylvania, Washington, and Wisconsin. I also have submitted depreciation study
10 results to the Federal Communications Commission; the Canadian Radio, Television, and
11 Telephone Commission ("CRTTC"); and the State of New York's Board of Equalization
12 and Assessment.

13
14 **Q. HAVE YOU OR AUS CONSULTANTS OR ANY OF ITS STAFF DERIVED ANY**
15 **MATERIAL FINANCIAL BENEFIT FROM THE SALE OF THE EXETER**
16 **TOWNSHIP'S ASSETS OTHER THAN FEES FOR YOUR SERVICES**
17 **RENDERED?**

18 A. No.

19
20 **Q. ARE YOU OR AUS CONSULTANTS OR ANY OF ITS STAFF AN IMMEDIATE**
21 **FAMILY MEMBER OF A DIRECTOR, OFFICER, OR EMPLOYEE OF EITHER**
22 **PAWC OR EXETER TOWNSHIP?**

23 A. No.

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Q. IS AUS CONSULTANTS IN COMPLIANCE WITH APPLICABLE PENNSYLVANIA LAWS?

A. Yes.

Q. DOES AUS CONSULTANTS HAVE THE FINANCIAL AND TECHNICAL FITNESS, INCLUDING PROFESSIONAL LICENSES AND TECHNICAL CERTIFICATIONS, TO PERFORM A FAIR MARKET VALUATION OF THE ASSETS OF EXETER TOWNSHIP?

A. Yes. As described earlier I am an accredited Senior Appraiser (ASA designation) in the American Society of Appraisers, a registered Professional Engineer in the State of Wisconsin (WI license E-15552) and a Certified Depreciation Professional (CDP designation) in the Society of Depreciation Professionals all societies and state licensing agencies involved in various aspects of the valuation and depreciation profession. These designations coupled with my 46 years of appraisal and depreciation experience demonstrate my and AUS Consultants' financial and technical capabilities to perform utility appraisals.

Q. ARE YOU AWARE OF ANY FACT, INCLUDING BUT NOT LIMITED TO ANY POTENTIAL CONFLICT OF INTEREST, THAT WOULD CAST DOUBT UPON YOUR ABILITY TO PROVIDE A THOROUGH, OBJECTIVE, UNBIASED, AND FAIR VALUATION IN THIS PROCEEDING?

A. No.

1
2 **FEES PAID FOR UTILITY VALUATION EXPERT SERVICES**

3 **Q. HOW IS AUS CONSULTANTS BEING COMPENSATED FOR ITS SERVICES IN**
4 **THIS MATTER?**

5 A. AUS Consultants is being compensated on a fee-and-expenses basis for the initial appraisal
6 and a per-diem rate plus fee-and-expenses basis for activities beyond the issuance of a final
7 appraisal report. True, correct, and complete copies of AUS Consultants' invoices to
8 PAWC for this matter, as of the date of Application filing, are attached to PAWC's
9 Application as **Appendix A-4 and** I incorporate those invoices in my direct testimony as if
10 set forth in their entirety.

11
12 **Q. WHAT IS THE ESTIMATED TOTAL COMPENSATION THAT AUS**
13 **CONSULTANTS WILL RECEIVE FOR ITS SERVICES IN THIS MATTER?**

14 A. The fee for our initial appraisal is \$32,000 plus expenses and our per-diem rate for activities
15 subsequent to the initial appraisal range from \$150 to \$250 per hour depending on the
16 consultant involved. My per-diem rate is \$250 per hour. Expenses include travel, lodging,
17 and report production and shipping expenses, all of which are billed at cost.

18
19 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH THIS COMPENSATION WAS**
20 **NEGOTIATED?**

21 A. AUS Consultants met with PAWC personnel to describe the corporate appraisal and
22 depreciation capabilities of AUS Consultants and for AUS Consultants to understand
23 PAWC's requested scope of work. After that meeting, AUS Consultants provided a fee

1 estimate for the appraisal of the System including a schedule of per-diem rates for activities
2 subsequent to the appraisal report. Next, the parties drafted a contract, including a non-
3 disclosure agreement, which were both signed. The contract and non-disclosure agreement
4 form the basis of the relationship between AUS Consultants and PAWC. True, correct,
5 and complete copies of the contract and non-disclosure agreement are attached as
6 **Appendix A-8 of PAWC's** Application and I incorporate them in my direct testimony as if
7 set forth in their entirety.

8
9 **Q. ARE THESE FEES CONSISTENT WITH COMPENSATION RECEIVED FOR**
10 **SIMILAR SERVICES PROVIDED TO OTHER CLIENTS?**

11 A. Yes.

12
13 **FAIR MARKET VALUATION OF EXETER TOWNSHIP'S ASSETS**

14 **Q. PLEASE IDENTIFY APPENDIX A-4 TO THE APPLICATION IN THIS**
15 **PROCEEDING?**

16 A. **Appendix A-4 of PAWC's** Application contains my appraisal report dated September 1,
17 2018 which I prepared for PAWC to be filed with its Application.

18
19 **Q. HOW DO YOU RECOGNIZE IT?**

20 A. I personally prepared and supervised AUS Consultants personnel in preparing the report,
21 and recognize it as AUS Consultants' work product.

1 **Q. IS THE AUS REPORT CONTAINED IN APPENDIX A-4 A TRUE, COMPLETE,**
2 **AND ACCURATE COPY OF YOUR VALUATION REPORT?**

3 A. Yes, and I incorporate it into my direct testimony as if set forth in its entirety.
4

5 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH YOU PREPARED THE**
6 **VALUATION REPORT.**

7 A. In accordance with Section 1329 of the Code, PAWC and Exeter Township utilized
8 Gannett Fleming Valuation and Rate Consultants, LC (Gannett) as the licensed engineer to
9 conduct an assessment of the tangible assets of Exeter Township’s wastewater system.
10 PAWC engaged AUS to prepare the fair market valuation report for the System. PAWC
11 provided financial statements from Exeter Township regarding the System and a copy of
12 the Engineering Assessment (August 2018) development by Gannett as required by Section
13 1329(a)(4). AUS Consultants received financial and system data information relative to
14 the System. After reviewing that information, AUS Consultants inspected the System on
15 August 7, 2018, with Exeter personnel conducting the on-site tour. After those activities
16 and data gathering, we developed the appraisal.

17 The appraisal contains a letter of transmittal; a table of contents detailing all the
18 sections of the report and work papers; certification describing that the appraisal was
19 prepared in conjunction with the Uniform Standards of Professional Appraisal Practices
20 (“USPAP”); a narrative report containing an Executive Summary; a Purpose and Scope of
21 the Work; a description of the water and wastewater industry – nationally and in the state
22 of Pennsylvania; a description of the System including the assets, property, plant, and

1 equipment; the appraisal procedures and supporting data and analysis; Gannett’s Engineer
2 Assessment; and miscellaneous public documents describing Section 1329 of the Code.

3 The intent of the valuation report is to provide the appraisal results, as well as the
4 entire appraisal work file, in sufficient detail to satisfy the parties’ and Commission’s
5 review requirements of Section 1329 and the Commission’s Final Implementation Order,
6 *In re: Implementation of Section 1329 of the Public Utility Code*, Docket No. M-2016-
7 2543193 (Order Entered October 27, 2016). In addition to a copy of my appraisal report,
8 I have provided supporting work papers for the appraisal report in Appendix A-5 to
9 PAWC’s Application. The relevant work papers have also been submitted to the
10 Commission and provided to the public advocates in live electronic format.

11
12 **Q. IS THERE ANYTHING THAT YOU WOULD CHANGE IN THE VALUATION**
13 **REPORT SINCE ITS PREPARATION?**

14 A. No.

15
16 **Q. WAS THE FAIR MARKET VALUATION OF THE EXETER’S ASSETS**
17 **DETERMINED IN COMPLIANCE WITH THE UNIFORM STANDARDS OF**
18 **PROFESSIONAL APPRAISAL PRACTICE (“USPAP”)?**

19 A. Yes. Included in my appraisal report is a document entitled “Compliance with Uniform
20 Standard of Professional Appraisal Practice (USPAP) 2018-2019” which described our
21 reports compliance with USPAP.

1 **Q. DID YOU EMPLOY THE COST, MARKET AND INCOME APPROACHES IN**
2 **PREPARING YOUR VALUATION?**

3 A. Yes. We developed our appraisal utilizing the cost, income, and market approaches as
4 required by USPAP and Section 1329 of the Code. These approaches are summarized
5 below.

6 *Cost Approach.* The cost approach has as its basis the principle of substitution in
7 that the maximum value of the property is the cost to construct a replacement property of
8 similar capacity, quality, and condition. In this appraisal, we utilized the trend cost method
9 to determine the cost new, evaluated the condition of the property using age-life
10 depreciation, and evaluated external obsolescence based on the income and market
11 approaches.

12 *Income Approach.* Under the income approach, the valuation basis is the value of
13 an income producing property as defined by its economic returns. There are several income
14 approach valuation methods, primarily the direct capitalization (of income from operation)
15 and the discounted cash flow methods. In the direct capitalization method, the economic
16 returns of the property, as defined by its operating income, are directly capitalized into
17 value by dividing a single estimate of the near-term income with a capitalization rate. In
18 the discounted cash flow, the result of future periods operations are determined with each
19 periods' cash flow being forecast and then discounted to appraisal date values using a
20 discount rate. The two procedures are similar in nature in that they both estimate the value
21 of the property based on capitalizing or discounting future economic returns of the
22 property's operation. The capitalization of income approach attempts to incorporate all
23 future periods' changes in revenues, operating expenses, and working capital into a single

1 operating income estimate while the discounted cash flow method allows the appraiser to
2 forecast each future periods' operating results considering changes to customer growth,
3 changing revenues and operating expenses in the analysis. Considering that Exeter's
4 operations will be undergoing a change from municipal operation to an investor-owned,
5 rate-regulated operation, the flexibility of the discounted cash flow to adjust the operating
6 inputs and criteria make it superior to the capitalized income approach.

7 *Market Approach.* The market or comparable sales approach to value looks to
8 market sales of comparable properties in order to arrive at value. In this appraisal, the
9 market approach was addressed from a comparable sales approach (Pennsylvania
10 wastewater systems) and market value to book value ratios based on investor-owned water
11 utilities reported in Value Line Investment Survey.

12
13 **Q. DID YOU RELY UPON A LICENSED ENGINEER'S ASSESSMENT OF THE**
14 **TANGIBLE ASSETS OF MACM IN PERFORMING YOUR VALUATION?**

15 A. Yes. PAWC and Exeter Township engaged Gannett Fleming Valuation and Rate
16 Consultants, LC as the licensed engineer to conduct an assessment of the tangible assets of
17 Exeter. PAWC provided a copy of the Engineering Assessment development by Gannett
18 as required by Section 1329(a)(4). A copy of the Engineering Assessment is attached to
19 the appraisal.

20
21 **Q. DID THE LICENSED ENGINEER'S ASSESSMENT INCLUDE AN INVENTORY**
22 **OF THE USED AND USEFUL UTILITY PLANT ASSETS TO BE TRANSFERRED**
23 **COMPILED BY YEAR AND ACCOUNT?**

1 A. Yes.

2

3 **Q. DID THE LICENSED ENGINEER'S ASSESSMENT IDENTIFY SEPARATELY**
4 **ANY UTILITY PLANT THAT IS BEING HELD FOR FUTURE USE?**

5 A. Yes.

6

7 **Q. DID THE LICENSED ENGINEER'S ASSESSMENT LIST ALL NON-**
8 **DEPRECIABLE PROPERTY SUCH AS LAND AND RIGHTS-OF-WAY?**

9 A. Yes.

10

11 **Q. TO THE BEST OF YOUR KNOWLEDGE, WAS THE LICENSED ENGINEER'S**
12 **INVENTORY DEVELOPED FROM AVAILABLE RECORDS, MAPS, WORK**
13 **ORDERS, DEBT ISSUE CLOSING DOCUMENTS FUNDING CONSTRUCTION**
14 **PROJECTS, AND OTHER SOURCES TO ENSURE AN ACCURATE LISTING OF**
15 **UTILITY PLANT INVENTORY BY UTILITY ACCOUNT?**

16 A. Yes.

17

18 **Q. DO YOU HAVE ANY REASON TO DOUBT THE ACCURACY OF THE**
19 **LICENSED ENGINEER'S INVENTORY OF THE ASSETS?**

20 A. No.

21

22 **Q. DID YOU INCORPORATE THE LICENSED ENGINEER'S ASSESSMENT INTO**
23 **YOUR COST APPROACH IN DEVELOPING YOUR VALUATION?**

1 A. Yes.

2

3 **Q. DID YOU HAVE TO EXERCISE PROFESSIONAL DISCRETION IN**
4 **DEVELOPING ANY ASPECT OF YOUR VALUATION?**

5 A. Yes. In the Cost Approach the selection of costing factors such as the cost trends to be
6 utilized in developing the cost new and the depreciation factors such as service lives and
7 survival and retirement patterns were inputs to the depreciation portion of the cost
8 approach; all of these input were based on my expertise in appraising similar utility
9 property and an understanding of the significance of these inputs. In the Income Approach
10 the analysis of historical financial and how that analysis is used in forecasting future
11 expectation of the property's return(s), along with the selection of cost of capital inputs in
12 developing the present value of future returns which quantifies the income approach
13 conclusion are significant inputs which this appraiser exercises appraisal discretion. In the
14 Market Approach the selection of comparable sales required appraisal discretion. Finally,
15 the consideration of each of the individual value indicators, cost, income, and market, in
16 developing the final appraisal conclusion required appraisal discretion.

17

18 **Q. WHAT, IF ANY, FACTORS DID YOU TAKE INTO CONSIDERATION WHEN**
19 **HAVING TO MAKE DISCRETIONARY DECISIONS?**

20 A. I considered the interrelation of the inputs and how those inputs relate to the value of
21 wastewater property plant and equipment, its operations and resultant value.

22

23

CONCLUSION

1 **Q. WHAT IS YOUR CONCLUSION REGARDING THE FAIR MARKET VALUE OF**
 2 **THE EXETER TOWNSHIP ASSETS TO BE PURCHASED BY PAWC?**

3 A. The fair market value of the System to be purchased by PAWC is \$101,817,000, as of
 4 January 1, 2018. As described above, we utilized the cost, income, and market approaches
 5 to utility valuation for purposes of appraising the System. The results of those appraisal
 6 analyses and our conclusions as of January 1, 2018 are summarized in the following table:

**Pennsylvania-American Water Company
 Exeter Wastewater System
 Wastewater System
 Investor-Owned Utility
 As of January 1, 2018**

Fair Market Value Appraisal

Appraisal Approach	Investor-owned Utility	Weight	Wtd Valuation Indications
Cost Approach			
Depreciated Replacement Cost New	\$ 99,589,819		
Cost Approach Conclusion	99,589,819	50%	49,794,909
Income Approach			
	106,363,321		
Income Approach Conclusion	106,363,321	40%	42,545,328
Market Approach			
Market Approach Conclusion	94,769,671	10%	9,476,967
Appraisal Conclusion	\$ 101,817,204	100%	101,817,204
Conclusion (cost approach)	\$ 99,589,819		

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The fair market value determination of the tangible assets was based primarily on the cost approach with the income and market approaches being supportive of the cost approach conclusion. The System’s original cost was determined to be \$68,404,345 and its reproduction cost new as of January 1, 2018 is \$209,865,528. Because the System has aged and experienced depreciation, physical depreciation, and possibly function and external obsolescence, the condition of the property was determined using age-life depreciation. The cost new less depreciation under this methodology resulted in our preliminary cost approach conclusion of \$99,589,819. AUS Consultants utilized the income and market approaches to evaluate for external obsolescence. Under those analyses, the income \$106,363,321 and market \$94,769,671 conclusions indicate that no external obsolescence exists in the System at the preliminary cost approach conclusion of \$99,589,819. The cost approach therefore yields a fair market value of the System tangible assets as \$99,589,819. Based on all the factors that AUS Consultants evaluated in accordance with valuation standards and statutory requirements, the cost approach is the most reliable and useful indicator of the value of the Exeter assets, property, plant, and equipment of Exeter Township’s wastewater system to be acquired by PAWC.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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