
EXHIBIT U1

TESTIMONY OF MARC A. LUCCA

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

AQUA PENNSYLVANIA WASTEWATER, INC.

DOCKET NO. A-2019-3015173

AQUA STATEMENT NO. 1

**DIRECT TESTIMONY OF
MARC A. LUCCA**

**With Regard To
An Overview of Aqua Pennsylvania Wastewater, Inc.
Overview and Reasons for Transaction
Fitness
Public Benefits of the Transaction**

March 3, 2020

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Marc A. Lucca. My business address is 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010.

Q. By whom are you employed and in what capacity?

A. I am President of Aqua Pennsylvania Wastewater, Inc. ("Aqua" or the "Company"). I am also President of Aqua Pennsylvania, Inc. ("Aqua PA"). Aqua PA is the parent company to Aqua.

Q. Please provide a brief description of your education and work experience.

A. I graduated from Temple University with a Bachelor of Science degree in Environmental Engineering Technology. I obtained my Master of Engineering Degree from The Pennsylvania State University. I also completed my Master of Business Administration at Drexel University. I am a licensed Professional Engineer in Pennsylvania and California.

Prior to joining Aqua PA, I worked in management positions for the Marina Coast Water District in Marina, California; the Santa Clara Water Valley District in San Jose, California; and in the engineering department at American Water Works and at its California subsidiary. I joined Aqua PA in 2007 as its Vice President of Production overseeing the Aqua PA's treatment plants and wells. I served as Vice President of Production until 2015 when I became Vice President of Network (Distribution)

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1 overseeing Aqua PA's water distribution system. In 2016, I was named President of
2 Aqua PA.

3
4 **Q. What are your duties as President of Aqua?**

5 A. As President of Aqua PA and Aqua, I am responsible for the overall leadership,
6 management and operations of Aqua PA and Aqua, which serves approximately 430,000
7 water customers and 35,000 wastewater customers across the Commonwealth.

8
9 **Q. Have you previously testified before the Pennsylvania Public Utility Commission**
10 **(“PUC” or the “Commission”)?**

11 A. No.

12
13 **Q. What is the purpose of your testimony?**

14 A. The purpose of my testimony is to: (1) provide an overview of the Company; (2)
15 provide an overview of the reasons for the proposed transaction (“Proposed Transaction”)
16 and merger of operations between Aqua and the Delaware County Regional Water
17 Quality Control Authority (“DELCORA”); (3) present an overview of the plan to expand
18 the Western Regional Treatment Plant, which will enable DELCORA to end reliance on
19 the City of Philadelphia Water Department (“PWD”); and (4) to explain the benefits of
20 the Proposed Transaction.

21
22 **Q. Are you sponsoring any Exhibits with your testimony?**

23 A. No.

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Q. Are there any other witnesses submitting testimony with this application?

A. Yes, Aqua is submitting the following statements in support of the Application:

- Aqua Statement No. 2 – Direct Testimony of William C. Packer. Mr. Packer will provide testimony regarding rates and rate impact, discussion of the Company’s proposal to include payments from the DELCORA Customer Trust on the DELCORA customer bills, and provide a summary of affirmative public benefits described in the Proposed Transaction.
- Aqua Statement No. 3 – Direct Testimony of Erin M. Feeney. Ms. Feeney will provide testimony regarding legal and financial fitness, the Asset Purchase Agreement (“APA”) rate provision and the Section 1329 process, including Utility Valuation Expert (“UVE”) fees and transaction and closing costs.
- Aqua Statement No. 4 – Direct Testimony of Mark J. Bubel, Sr. Mr. Bubel will provide testimony regarding the specifics of the system being acquired from an operations/engineering perspective and Aqua’s prospective capital plans.
- Aqua Statement No. 5 – Direct Testimony of Robert Willert. Mr. Willert will provide testimony regarding the background and benefits of the Proposed Transaction from DELCORA’s perspective.
- Aqua Statement No. 6 – Direct Testimony of John Pileggi. Mr. Pileggi will provide testimony regarding DELCORA’s current rate structure in support of Mr. Packer’s direct testimony.

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- 1 • Aqua Statement No. 7 – Direct Testimony of Michael DiSantis. Mr. DiSantis will
2 provide testimony regarding DELCORA’s current operations and information on
3 its systems.
- 4 • Aqua Statement No. 8 – Direct Testimony of Harold Walker III. Mr. Walker will
5 provide testimony regarding the appraisal of the DELCORA wastewater system
6 assets conducted on behalf of the Company.
- 7 • Aqua Statement No. 9 – Direct Testimony of Dylan D’Ascendis. Mr. D’Ascendis
8 will provide testimony regarding the appraisal of the DELCORA system assets
9 conducted on behalf of DELCORA.

11 **Q. Has the Company filed an application with the Commission for regulatory approval**
12 **to acquire DELCORA’s wastewater system assets?**

13 A. Yes. Aqua filed its Application on March 3, 2020.

15 **Q. What is Aqua seeking in its Application?**

16 A. There are three requests. First, Aqua is requesting approval of the Proposed Transaction
17 under Section 1102 of the Public Utility Code, 66 Pa. C.S. § 1102, similar to many
18 requests that come before the Commission. Second, pursuant to Act 12 of 2016 (“Act
19 12” or the “Act”), 66 Pa. C.S. § 1329, Aqua is seeking to utilize fair market value for the
20 determination of the ratemaking rate base of the DELCORA wastewater system assets.
21 Third, Aqua is requesting that the Commission approve, if necessary, its APA with
22 DELCORA, as well as a pro-forma Memorandum of Understanding between Aqua and
23 DELCORA and the assignment of 163 contracts under Section 507, 66 Pa. C.S. § 507.

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Q. What does Section 1329 require to be included in an application?

A. Section 1329 requires that an application include (1) copies of two fair market value appraisals based off a common engineering listing of assets, (2) the purchase price, (3) ratemaking rate base, (4) transaction and closing costs, and (5) the proposed tariff. A rate stabilization plan could also be required if it is applicable to the transaction.

Q. What is the purpose of Section 1329 as addressed by the Commission?

A. As stated by the Commission, “Section 1329 works to: (1) provide certainty as to the value of acquired utility property; (2) remove regulatory barriers to the prudent sale of public water and wastewater assets; (3) protect a Seller from having to offer public assets for sale at below-market rates; and (4) allow a Buyer to recover market-based investment in those public assets through regulated rates.”¹ I also agree with the Commission that Section 1329 “encourages a realistic approach to the sale of public assets based upon the fair market value of those assets.”² Moreover, as further explained by the Commission:

Section 1329 recognizes that no reasoned argument would propose that these public assets are of marginal value simply because the book value and the Commission’s traditional rate setting methodology dictate as much. Rather, the valuation methods of Section 1329 provide municipalities and authorities with a wholistic recognition of the fair market value of the public assets they seek to sell based on a balancing of accepted business valuation principles, specifically, the cost, market, and income approaches. 66 Pa. C.S. § 1329(a). Thus, for sale purposes, Section 1329 works to value the public assets as the businesses they are as opposed to what their value might be under regulatory accounting for depreciated utility assets.³

¹ *Implementation of Section 1329 of the Public Utility Code*, Docket No. M-2016-2543193 Tentative Supplemental Implementation Order at 4 (Sep. 20, 2018) (hereinafter “TSIO”).
² TSIO at 7.
³ TSIO at 6.

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...

Section 1329 enables a Seller to price its public assets at a market value based on reasonable business valuation principles and enables a Buyer to recover its investment in those public assets at that market-based value.⁴

Q. What does the Commission require for approval of a Section 1329 Application?

A. In its Final Implementation Order entered October 27, 2016, in Docket No. M-2016-2543193 (“Final Implementation Order”), the Commission referenced the checklist in the Tentative Implementation Order for items to include with a Section 1329 application for it to be processed in a six-month time frame. This checklist was subsequently updated in March 2017. The Commission released its Final Supplemental Implementation Order on February 28, 2019 in Docket No. M-2016-2543193, which included an updated checklist, standard data requests (“SDR”), jurisdictional exceptions, and form testimony for UVEs. Aqua’s Application includes a checklist with references indicating where in the Application the required information can be found.

II. OVERVIEW OF AQUA PA AND AQUA

Q. Please provide a general overview of Aqua PA and Aqua.

A. Aqua PA is the second largest investor owned regulated water/wastewater utility operating in the Commonwealth of Pennsylvania. Aqua PA provides water and wastewater utility service to approximately 465,000 customers, consisting of 430,000 water customers and 35,000 wastewater customers. Aqua PA employs approximately 600 highly trained utility professionals. In addition, Aqua PA is one of eight regulated

⁴ TSIO at 7.

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1 subsidiaries, which brings to bear its own financial, technical, and managerial resources
2 to assist in our mission.

3 Aqua is a subsidiary of Aqua PA and is engaged in the business of collecting,
4 treating, transporting, and disposing of wastewater for the public. Aqua has operating
5 divisions headquartered in Sharon, Shamokin, Honesdale, Limerick, Media and southeast
6 PA, with Aqua's headquarters located in Bryn Mawr, PA. Aqua provides wastewater
7 service to approximately 35,000 customers in Adams, Bucks, Carbon, Chester, Clarion,
8 Clearfield, Delaware, Lackawanna, Luzerne, Monroe, Montgomery, Pike, Schuylkill,
9 Venango, and Wyoming Counties. Aqua has extensive experience in providing
10 wastewater service to customers throughout the Commonwealth. Aqua operates 37
11 wastewater treatment plants ("WWTP") throughout the Commonwealth of Pennsylvania,
12 and 21 systems of Aqua's Southeast Division are in proximity to DELCORA's system
13 allowing for operational efficiencies.

14
15 **III. OVERVIEW AND REASONS FOR THE PROPOSED TRANSACTION**

16 **Q. Please provide an overview of the Proposed Transaction.**

17 A. In the summer of 2019, Aqua and DELCORA entered into discussions for a sale of the
18 assets of DELCORA to Aqua. The Proposed Transaction would seek to provide Aqua
19 and DELCORA and their customers' benefits through meeting necessary capital and
20 financial obligations, growth in overall customers, and economies of scale from similar
21 geographic areas served. After arms-length negotiations concluded, Aqua and
22 DELCORA entered into an APA on September 17, 2019, and a First Amendment to APA
23 on February 24, 2020, providing for the sale of the assets, properties and rights of the

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1 wastewater system. The purchase price was \$276,500,000. According to the APA, the
2 acquired DELCORA customers will be charged DELCORA's existing base rates upon
3 closing. Aqua's tariff rules and regulations will apply following closing. Aqua will
4 offer employment to all of the DELCORA employees, subject to onboarding
5 requirements.

6
7 **Q. Why was DELCORA exploring a sale of its assets?**

8 A. As explained by Mr. Willert in Aqua Statement No. 5, DELCORA was facing increased
9 costs related to its contribution to PWD's long-term control plan ("LTCP") of
10 approximately \$606 million to continue to send wastewater flows to PWD. DELCORA
11 therefore sought options to mitigate these costs to its customers and to improve the
12 overall quality of the wastewater treatment in southern Delaware County and its
13 customers in Chester County. DELCORA, in a sense, wanted to control its own destiny
14 for the future costs that would be necessary to run its wastewater operations.

15 DELCORA and Aqua began discussions that ultimately led to the Proposed
16 Transaction, which brings to DELCORA Aqua's expertise in business operations,
17 production and treatment of wastewater and engineering as applied to design,
18 construction and start-up of pipe main and treatment plant expansion.

19
20 **Q. Why did Aqua decide to proceed with the Proposed Transaction?**

21 A. Aqua moved forward with this Proposed Transaction because it made economic and
22 business sense for Aqua, DELCORA, and their respective customers. Aqua and
23 DELCORA share similar service types and geographical locations. Due to the similar

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1 service areas and types, both organizations would be able to leverage the economies of
2 scale and the combined expertise of both entities. Other benefits will be outlined more
3 specifically below, including Aqua's expertise in implementing large-scale projects and
4 compliance with Pennsylvania Department of Environmental Protection ("DEP") and US
5 Environmental Protection Agency regulations. Moreover, the Proposed Transaction will
6 bring substantial public benefits that will be realized by both Aqua's existing customers
7 and DELCORA customers. These substantial public benefits are discussed further below
8 and in Aqua Statement No. 2, and Aqua Statement No. 5.

9
10 **Q. Can you elaborate on Aqua's experience in implementing large-scale improvement**
11 **projects, including proposed plant expansion and pipe installation?**

12 A. Yes. Aqua and Aqua PA's capital plan includes thousands of miles of pipe replacement
13 over the last two decades years, plant upgrades and plant expansion, pump station repairs,
14 and other infrastructure investment. Aqua has substantial experience in both continuing
15 facility operations and maintaining regulatory compliance when performing and
16 completing substantial plant upgrades. For example, Aqua is currently undergoing a
17 significant plant expansion in its Media wastewater treatment plant, to improve treatment
18 quality at the plant. This plant remained in service during this multi-year construction
19 period.

20
21 **IV. FITNESS**

22 **Q. Is Aqua fit to acquire the DELCORA Wastewater System?**

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1 A. Yes. I have been advised by counsel that, as a certificated provider of utility service,
2 Aqua's fitness is presumed. However, financial and legal fitness are addressed further in
3 Aqua Statement No. 3, the Direct Testimony of Erin M. Feeney. Operational fitness is
4 addressed further in Aqua Statement No. 4, the Direct Testimony of Mark J. Bubel, Sr.

5
6 **V. PUBLIC INTEREST**

7 **Q. Please explain generally why the Proposed Transaction provides substantial**
8 **affirmative public benefits and is in the public interest regarding consolidation?**

9 A. The Commission has a long-standing record of support for consolidation/regionalization
10 of water/wastewater systems. The Commission understands that in doing so, the utility
11 industry will realize the benefits of consolidated management practices, economies of
12 scale, and the resulting greater customer/environmental/economic benefits. The
13 Commission has stated that "acquisitions of smaller systems by larger more viable
14 systems will likely improve the overall long-term viability of the water and wastewater
15 industry. Additionally, these types of acquisitions will also enhance the quality of
16 ratepayers' daily lives, promote community economic development, and provide
17 environmental enhancements."⁵ Ultimately, these benefits inure to customers both
18 existing and acquired. Although this proceeding does not involve a small system, the
19 Proposed Transaction embodies all of the principles noted in the Commission's policy
20 statement, and is fully consistent with Aqua PA's successful acquisition of numerous
21 water/wastewater utilities in its over 130 years of operation.

⁵ Pennsylvania Public Utility Commission, Final Policy Statement on Acquisitions of Water and Wastewater Systems, Docket No. M-00051926, Final Order at 18 (Aug. 17, 2006).

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2 **Q. Please discuss Aqua's track record of acquiring and improving wastewater systems**
3 **in the Commonwealth.**

4 A. Aqua currently provides utility service to approximately 35,000 wastewater customers in
5 the Commonwealth and has years of experience operating wastewater treatment and
6 collection systems in a safe, reliable and efficient manner. Moreover, Aqua has the
7 managerial, technical, and financial resources to continue to operate, maintain and
8 improve the DELCORA wastewater system.

9 Aqua has acquired 15 wastewater systems over the past 10 years.⁶ Many of these
10 systems required significant investment to correct service and environmental issues.
11 Other systems did not need substantial capital investment. Aqua and Aqua PA are
12 essentially the compilation of smaller systems that have been acquired over the last 130
13 years and make both utilities what they are today. The inherent combining of systems
14 and customers – both viable and smaller non-viable -- provides stability in the day to day
15 utility operations, in that, these systems do not all require major capital investments at the
16 same time and, therefore, the financial impacts of various discrete projects and
17 investments can be spread over the long term operations of the acquiring utility as a
18 whole. Both types of systems, viable and non-viable, are consistent with the
19 Commission's policy statements regarding acquisitions. The Proposed Transaction is
20 also consistent with the Commission's supported policy of consolidation and
21 regionalization.

⁶ Cheltenham (2019); East Bradford, Limerick (2018); Tobyhanna, Avon Grove (2017); Emlenton, Honeycroft (2016); Bunker Hill (2015); Penn Township (2014); Treasure Lake (2013); Sage Hill, Kidder Township, Beech Mountain, Village at Valley Forge (2012); and Stony Creek (2010).

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Q. Will DELCORA’s customers benefit from the Proposed Transaction?

A. Yes. DELCORA’s customers will become part of a larger-scale, efficiently operated, water and wastewater utility. Aqua has operations in nearby and overlapping service areas and will be able to merge and integrate DELCORA’s customers by folding them into a larger-scale, efficiently operated water and wastewater utility that over time will likely yield further efficiencies and improve long-term viability as envisioned in the Commission policy statement. The Proposed Transaction will not have any immediate impact on the rates of either DELCORA’s customers or Aqua’s existing customers. Moreover, as explained in Aqua Statement No. 6, DELCORA sets its budget each year prior to December 1 and has increased rates charged to customers in each year. Through the Proposed Transaction, Aqua will implement DELCORA’s existing base customer rates, which will remain in effect until Aqua’s next base rate case is filed and concluded. In addition, the WRTP expansion and any associated force main project would be fully reviewed in Aqua’s next base rate case.

Aqua is projecting lower operating and maintenance costs that will likely be realized through reductions in cost for wastewater treatment through the investment in the expansion of the WRTP and force main to divert flows to the WRTP from PWD, as well as efficiencies in administrative and general costs, such as insurance, auditing, legal among others.

Q. What customer service enhancements and protections will be provided by Aqua?

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1 A. Aqua has procedures in place under Chapter 14, 66 Pa. C.S. 1401 *et seq.*, that provide for
2 billing, payment, collection, termination and reconnection of service, payment
3 arrangements, medical certifications, and formal and informal complaint procedures. By
4 DELCORA becoming part of a regulated public utility, these protections will be available
5 to DELCORA's customers.

6
7 **Q. Will the DELCORA customers be able to enroll in Aqua's Helping Hand program**
8 **for low-income customers?**

9 A. Yes. Aqua's Helping Hand program is designed to assist the Company's residential low-
10 income payment troubled customers with a payment arrangement, conservation education
11 and assistance, and arrearage forgiveness. Aqua has also agreed to enhancements to the
12 Helping Hand program in its most recent rate case, which includes a grant program for
13 these customers.

14
15 **Q. Will Aqua's existing customers benefit from the acquisition?**

16 A. Yes. The acquisition of the DELCORA Wastewater system is significant to Aqua's
17 existing wastewater platform. As discussed in Aqua Statement No. 2, the addition of the
18 DELCORA customers will create the equivalent size of Aqua PA's Main Division that it
19 has had in its water operations for many years. The addition of the DELCORA
20 Wastewater system will increase Aqua's customer base by 45%. By virtue of the Aqua's
21 larger combined customer base, future infrastructure investments across the
22 Commonwealth driven by normal replacement cycles, emergency repairs, emergency

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1 response or compliance with new environmental regulations will be shared at a lower
2 incremental cost per customer for all of Aqua's customers over time.

3
4 **VI. CONCLUSION**

5 **Q. Does this conclude your testimony?**

6 Yes, it does. However, I reserve the right to supplement my testimony as additional
7 issues and facts arise during the course of this proceeding.