
EXHIBIT U3

TESTIMONY OF ERIN M. FEENEY

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

AQUA PENNSYLVANIA WASTEWATER, INC.

DOCKET NO. A-2019-3015173

AQUA STATEMENT NO. 3

**DIRECT TESTIMONY OF
ERIN M. FEENEY**

**With Regard To
Financial and Legal Fitness of Aqua
APA Rate Provision and Rate Stabilization
An Overview of the Section 1329 Process
UVE Fees
Transaction and Closing Costs**

March 3, 2020

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Erin M. Feeney. 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 employed by Aqua Pennsylvania, Inc. ("Aqua PA") as Manager of Rates and Planning. Aqua PA is the parent company to Aqua Pennsylvania Wastewater, Inc. ("Aqua" or "Company").

Q. Please describe your education and business experience.

A. I graduated from La Salle University in 2012 with a Bachelor of Science degree in Business Administration, with a major in Accounting. I have also completed the Utility Rate School course sponsored by the National Association of Regulatory Utility Commissioners.

I have been employed by Aqua PA or Aqua Services, Inc. ("Aqua Services") since 2009. Throughout my university education, I worked at Aqua Services part-time in a variety of departments, including Finance Projects, Tax, and Financial Planning and Analysis. Upon graduation, I was hired as a full-time Financial Analyst in the Financial Planning and Analysis ("FP&A") department, and in 2014 I was promoted to a Financial & Systems Analyst. My duties in the FP&A department included developing, preparing and maintaining financial reports, variance analysis and other financial models while closely supporting the budgeting and long-term planning needs of Aqua America's

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1 subsidiaries. In 2016, I transferred to Aqua PA's Rates & Planning Department as a
2 Finance & Rate Analyst II. My duties in the Rates & Planning department included
3 assisting in the preparation of rate filings, quarterly and annual filings for Distribution
4 System Improvement Charge ("DSIC") surcharges, earnings report filings and tariff
5 updates. In addition, I built and maintained financial reports, variance analysis, ad hoc
6 reports, and other complex financial models while streamlining these processes and
7 automating reports. In 2019, I was promoted to my current position of Manager of Rates
8 and Planning for Aqua PA.

9
10 **Q. What are your duties as the Manager of Rates and Planning for Aqua PA?**

11 A. My duties primarily include the preparation of various financial regulatory filings
12 submitted with the Pennsylvania Public Utility Commission ("PUC" or the
13 "Commission"). Those filings include, but are not limited to, the following: Quarterly
14 Earnings Reports, Distribution System Improvement Charge ("DSIC") Surcharge filings,
15 water and wastewater tariff compliance filings, and other regulatory compliance filings
16 upon request of the PUC. My duties also include the preparation of base rate cases and
17 supporting those applications as a primary accounting witness. I report directly to the
18 Vice President and Controller of Aqua PA, who I assist in the oversight and direction of
19 regulatory accounting matters for Aqua PA.

20
21 **Q. Have you previously testified before this Commission?**

22 A. Yes. I have testified before the Commission in Aqua PA and Aqua's last rate case at
23 Docket No. R-2018-3003558 and R-2018-3003561.

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Q. What is the purpose of your testimony?

A. The purpose of my testimony is as follows: (1) to address Aqua’s legal and financial fitness to own and operate the DELCORA wastewater facilities and equipment (“System”), which are proposed to be purchased in accordance with the terms and conditions of the Asset Purchase Agreement (“APA”) dated as of September 17, 2019, as amended, between Aqua and DELCORA (“Proposed Transaction”); (2) to address the rate provision in the APA and Section 1329 rate stabilization; (3) to provide an overview of the Public Utility Code Section 1329 process; (4) to support the fees of the Utility Valuation Experts (“UVE”) fees; and (5) to support transaction and closing costs.

Q. Are you sponsoring any Exhibits with your testimony?

A. No.

Q. Did Aqua file an Application with the Commission for regulatory approval to acquire the System?

A. Yes. The Application was filed on March 3, 2020, pursuant to Sections 1102, 1329 and 507 of the Public Utility Code. I address the Section 1329 process later in this testimony.

II. LEGAL AND FINANCIAL FITNESS

Q. Please describe the Company’s legal fitness to own and operate the system.

A. Aqua is a public utility lawfully operating under Commission granted certificates of public convenience. There are no pending legal proceedings challenging Aqua’s

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1 certificated rights to provide safe and adequate service to customers. The Company is
2 legally fit.

3
4 **Q. Please describe the Company's financial fitness to own and operate the System.**

5 A. Aqua PA, the parent company to Aqua, is a Class A water utility in the Commonwealth
6 of Pennsylvania and the largest water and wastewater subsidiary in the Aqua family, with
7 total utility plant assets of \$4.9 billion and annual revenues of \$472 million in 2019. In
8 2019, Aqua PA had operating income of approximately \$251 million and net income of
9 \$194 million. Aqua PA's cash flows from operations equaled approximately \$268
10 million. Aqua is a Class A wastewater utility in the Commonwealth of Pennsylvania,
11 with total utility plant assets of \$282 million and annual revenues of \$21 million. Aqua
12 PA has an A+ rating from Standard and Poor's Rating Service and has approximately
13 \$1.703 billion in outstanding long-term debt at a weighted average interest rate of
14 approximately 4.3%. Aqua PA also utilizes low-cost long-term debt financing
15 instruments through the Pennsylvania Infrastructure Investment Authority ("Pennvest"),
16 representing about 2% of Aqua PA's total debt portfolio. In addition to Aqua PA's
17 access to long-term debt, Aqua PA has its short-term credit facility of \$100 million and
18 has access to equity capital. Aqua, as a subsidiary of Aqua PA, has access to all of Aqua
19 PA's financing capabilities. By these measures, Aqua is financially fit.

20
21 **Q. Please explain how Aqua plans to fund the Proposed Transaction.**

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1 A. The Proposed Transaction will be funded using existing short-term credit lines. The
2 short-term credit funding will be converted to a mix of long-term debt and equity capital
3 shortly after closing.

4
5 **Q. Do you anticipate the Transaction will negatively affect Aqua PA's corporate credit**
6 **rating?**

7 A. No. Aqua PA does not anticipate that the Transaction will negatively affect its corporate
8 credit rating.

9
10 **III. APA RATE PROVISIONS AND RATE STABILIZATION PLAN**

11 **Q. Please explain the rate provisions in paragraph 7.04 of the APA included as Exhibit**
12 **B to the Application.**

13 A. Paragraph 7.04 of the APA provides that Aqua shall implement DELCORA's sanitary
14 wastewater rates in effect at closing, as presented in APA Schedule 7.04(a) and continue
15 to charge those rates until the conclusion of Aqua's next base rate case following closing.
16 The Company may apply PUC permitted or required surcharges or pass-through costs
17 (e.g., DSIC and/or State Tax Adjustment Surcharge) to the DELCORA Base Rates after
18 Closing.

19
20 **Q. What is a rate stabilization plan as defined in Section 1329(g) of the Public Utility**
21 **Code?**

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1 A. A rate stabilization plan is a plan that will hold rates constant or phase rates in over a
2 period of time after the next base rate case. This Application neither includes a request or
3 proposal for a rate stabilization plan nor is one included in the proposed tariff.

4
5 **Q. Is Aqua requesting the implementation of a DSIC for DELCORA customers at this**
6 **time?**

7 A. No. Aqua intends to amend its Long-Term Infrastructure Improvement Plan ("LTIIIP")
8 after closing to include the DELCORA system in the LTIIIP and file the amended LTIIIP
9 with the PUC. If the PUC approves the amended LTIIIP, Aqua will begin charging a
10 DSIC to DELCORA customers.

11
12 **IV. SECTION 1329 FAIR MARKET VALUE CONSIDERATIONS**

13 **Q. Is Aqua proposing that its Application be evaluated utilizing the Fair Market Value**
14 **provisions of Section 1329 of the Public Utility Code?**

15 A. Yes. Specifically, the Company is requesting that the ratemaking rate base of the System
16 be based on the lesser of the average of the Fair Market Value Appraisals included in the
17 Application, or the purchase price, pursuant to Section 1329 of the Public Utility Code.

18
19 **Q. Has Aqua prepared the Application in compliance with the Commission's Final**
20 **Implementation Order and Final Supplemental Implementation Order addressing**
21 **the implementation of Section 1329?**

22 A. Yes. Aqua has complied with all required documentation according to the PUC's
23 application checklist including, but not limited to, the Engineering Assessment of Assets,

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1 responses to Standard Data Requests, testimony supporting the Application, and two
2 independent Fair Market Value appraisals.

3
4 **Q. Please provide an overview of the valuation process.**

5 A. Following the execution of the APA, the Company and DELCORA agreed to engage
6 Pennoni Associates Inc., with support from Weston Solutions, Inc., to complete the
7 Engineer's Assessment. Application Exhibit D. Both parties engaged their respective
8 UVEs to perform a Fair Market Value analysis of the System in accordance with the
9 Uniform Standards of Professional Appraisal Practice ("USPAP"), utilizing the cost,
10 market, and income approaches. Aqua engaged the services of Gannett Fleming
11 Valuation and Rate Consultants, LLC ("Gannett") and has attached to the Application
12 their Fair Market Value Appraisal as Exhibit Q. DELCORA engaged the services of
13 ScottMadden, Inc. ("ScottMadden") and their Fair Market Value Appraisal is attached to
14 the Application as Exhibit R. Both firms have been pre-certified as authorized UVEs by
15 the PUC and are on the list of qualified appraisers maintained by the PUC.

16
17 **Q. Please describe the conclusions of the two appraisals used to determine the fair**
18 **market value of the System.**

19 A. The two appraisals used the USPAP employing the cost, market, and income approaches
20 to arrive at the fair market value of the System. The DELCORA-sponsored appraisal
21 performed by ScottMadden arrived at a System value of \$308,194,006. The Company-
22 sponsored appraisal performed by Gannett arrived at a System value of \$408,883,000.

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Therefore, the fair market value as defined in Section 1329 of the Public Utility Code is the average of these two appraisals, which is \$358,538,503.

Q. Pursuant to Section 1329 of the Public Utility Code, what is the resulting rate base determination for the System?

A. According to Section 1329, the ratemaking rate base is the lesser of either the purchase price in the APA, which is \$276,500,000, or the fair market value which is \$358,538,503. In this instance, since the purchase price is lower than the fair market value, the ratemaking rate base for the System is \$276,500,000.

V. UVE FEES

Q. Please state the total of the UVEs' fees incurred by the Company.

A. The UVEs' fees for the Company's appraisal received as of the date of the Application totaled \$31,250. The Company's UVE fees will be included in the transaction and closing costs of this Proposed Transaction.

Q. Are the UVEs' fees are reasonable?

A. Yes. Based on the scope of work, the methods used as accepted industry practice, and that the UVEs' fees were less than 5% of the fair market value benchmark noted in the Commission's Final Implementation Order and Final Supplemental Implementation Order, I believe the fees are reasonable; however, the Commission will review and determine these fees as part of the transaction and closing costs in Aqua's next base rate case.. Per the Commission's Section 1329 Final Implementation Order, Final

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1 Supplemental Implementation Order and checklist, the contract engaging Gannett, along
2 with Gannett's invoices are included as Application Exhibit S1. The contract engaging
3 DELCORA's UVE, ScottMadden, along with ScottMadden's invoices are included as
4 Application Exhibit S2.

5
6 **VI. TRANSACTION AND CLOSING COSTS**

7 **Q. Please comment on the transaction and closing costs?**

8 A. The Company anticipates that the transaction and closing costs for the Proposed
9 Transaction will be approximately \$750,000 including the Company's UVE fees. The
10 exact closing costs will be determined at closing.

11
12 **VII. CONCLUSION**

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

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