

PAW STATEMENT NO. 1

**DIRECT TESTIMONY
OF
DON KESSLER**

**WITH REGARD TO
PENNSYLVANIA AMERICAN WATER
NORTHEAST WASTEWATER OPERATIONS
SCOPE OF OPERATIONS**

DOCKET NO. R-2010-2166214

DATE: April 23, 2010

1 5. Q. Do you belong to any professional or industry associations?

2 A. Yes. I am a member of American Water Works Association.

3 **II. PURPOSE OF TESTIMONY**

4 6. Q. What is the purpose of your testimony?

5 A. The purpose of my testimony is two-fold. First, I will describe the Northeast
6 Wastewater Operations (“NEWW”), including PAW’s acquisition each of the
7 wastewater systems that comprise NEWW. Secondly, I will introduce the other
8 witnesses who will appear on behalf of NEWW in support of this rate increase
9 request.

10 **III. DESCRIPTION OF PAW AND ITS SCOPE OF OPERATIONS**

11 7. Q. Please begin by describing the PAW and NEWW organizational alignment.

12 A. NEWW, which consists of the Blue Mountain Lakes and the Lehman Pike/Winona
13 Lakes Districts, is an operating division of PAW. As of March 31, 2010, PAW
14 provided service to approximately 636,281 water and 17,553 wastewater customers.
15 These services are provided in approximately 390 communities located in 36 counties
16 spread throughout Pennsylvania. As a Pennsylvania public utility, PAW operates
17 under the rules and regulations of the Pennsylvania Public Utility Commission
18 (“Commission”) which, in addition to regulating specific aspects of service, approves
19 the rates charged for water and wastewater service. The Company also must comply
20 with standards established by the Pennsylvania Department of Environmental
21 Protection (“DEP”) and the federal Environmental Protection Agency (“EPA”).

1 **8. Q. Please provide a description of NEWW's operations as it's relates to the**
2 **collection system.**

3 A. A detailed description of NEWW's operations is set forth in the Scope of Operations,
4 which is being submitted with this rate filing in Volume 1. Briefly, the NEWW
5 collection system serves parts of Lehman Township, Middle Smithfield Township,
6 Smithfield Township and Stroud Township. The collection system serving the
7 Lehman Pike/Winona Lakes District, located in parts of Lehman Township and
8 Middle Smithfield Township, terminates at the Saw Creek Wastewater Treatment
9 Plant ("Saw Creek Treatment Plant") in Lehman Township. The collection system
10 that serves the Blue Mountain District, located in parts of Stroud and Smithfield
11 Townships, terminates at the Blue Mountain Lake Wastewater Treatment Plant
12 ("Blue Mountain Treatment Plant") in Stroud Township.

13 **9. Q. When did PAW acquire the Blue Mountain Lakes wastewater system?**

14 A. PAW acquired the Blue Mountain Lakes wastewater system in October 2005 from
15 Blue Mountain Lakes Associates L.P. The acquisition was approved by the
16 Commission in its Order entered on September 14, 2005 at Docket No. A-
17 230073F0010.

18 **10. Q. Would you please provide a brief, historical overview of the Blue Mountain**
19 **Lakes wastewater system before it was acquired by PAW?**

20 A. Blue Mountain Lakes Associates L.P. had been operating the wastewater system
21 without a certificate of public convenience since 1993. During that time, it had not
22 filed a tariff with the Commission, had not filed annual reports or otherwise complied

1 with the Commission's requirements for a public utility. The Commission noted
2 these violations in its Order approving the acquisition, but stated that "no public
3 benefit will inure from prosecuting BMLA at this time" for its violations of the Public
4 Utility Code.

5 When PAW began operating the wastewater system, it became apparent that there
6 were many problems with the wastewater plant. The plant was not operating
7 efficiently. Please see the testimony of David R. Kaufman who provides more
8 specific details as to the problems PAW encountered and the solutions that it has
9 implemented.

10 **11. Q. When did PAW acquire the Winona Lakes wastewater system?**

11 A. PAW acquired the Winona Lakes wastewater system in January 2006 from Winona
12 Lakes Utilities, Inc. The acquisition was approved by the Commission in its Order
13 entered on June 28, 2002 at Docket Nos. A-230073F0005 and A-230536F200.

14 **12. Q. Would you please provide a brief, historical overview of the Winona Lakes
15 wastewater system before it was acquired by PAW?**

16 A. Winona Lakes was a small, badly troubled, and non-viable system that had a long
17 history of non-compliance with Commission and DEP orders and regulations.
18 Winona Lakes Utilities, Inc. had not filed an annual report with the Commission since
19 1995. In May 1999, the Winona Lakes Pump Station failed causing sewage to
20 overflow into a roadside ditch near a high quality stream. DEP had to expend its own
21 emergency funds in the amount of \$11,157 to remedy the situation because Winona
22 Lakes failed to make the necessary repairs. In addition, on January 25, 2000, the

1 Commission entered an Order at Docket No. F-00466514 directing Winona Lakes to
2 replace a leaking wastewater main. On July 15, 2001, the Commission filed a
3 Complaint in Mandamus in Commonwealth Court at Docket No. 300 M.D. 2001 to
4 get a court order directing Winona Lakes to comply with the Commission's January
5 25, 2000 Order and to pay a fine of \$5,000 to the Commission.

6 **13. Q. Would you please describe what steps PAW has taken to solve the problems at**
7 **Winona Lakes?**

8 A. Since acquiring Winona Lakes, PAW has made significant improvements to correct
9 the many deficiencies in that system. Among other improvements, the Company
10 replaced the lift station responsible for the sewage overflow I previously described.
11 Please see the testimony of David R. Kaufman for a description of the specific
12 improvements the Company has made.

13 **14. Q. When did PAW acquire the Lehman Pike wastewater system?**

14 A. PAW acquired the Lehman Pike wastewater system in April 2002 from the LP Water
15 & Sewer Company. The acquisition was approved by the Commission in its Order
16 entered on February 25, 2002 at Docket Nos. A-230073F0003 and A-230242F2000.

17 **15. Q. Would you briefly describe what steps PAW has taken to improve operations in**
18 **the Lehman Pike system since its acquisition?**

19 A. Since acquiring the system, PAW has provided improved management, customer
20 service and administrative services and has made significant, much-needed
21 improvements. For example, the Company has replaced several lift stations and

1 eliminated several others. Please see the testimony of David R. Kaufman for a
2 description of the specific improvements the Company made.

3 **IV. INTRODUCTION OF OTHER WITNESSES**

4 **16. Q. Please identify the other witnesses who are providing direct testimony on behalf**
5 **of PAW in this proceeding.**

6 A. In addition to myself, the following witnesses will be responsible for presenting
7 PAW's case-in-chief:

8 **David R. Kaufman** is the Vice President of Engineering for PAW. Mr. Kaufman's
9 testimony, which is set forth in PAW Statement No. 2, discusses the Company's
10 claimed plant additions.

11 **Rod Nevirauskas** is Director of Rates and Regulations for PAW. In PAW Statement
12 No. 3, Mr. Nevirauskas describes the Company's need for rate relief and supports its
13 requested capital structure and claim for income taxes and the Company's proposed
14 customer assistance program.

15 **John R. Cox** is Manager of Rates and Regulation for PAW. Mr. Cox's testimony
16 (PAW Statement No. 4) discusses the Company's claimed rate base elements,
17 expense adjustments and taxes other than income.

18 **Jo Anne Lontz** is a Senior Financial Analyst for PAW. Her testimony is set forth in
19 PAW Statement No. 5 and addresses the Company's revenue claim.

20 **Dan P. Hunnell** is a Financial Analyst II for PAW. His testimony is set forth in
21 PAW Statement No. 6 and addresses payroll and payroll related expenses.

22 **Paul R. Herbert** is President of the Valuation and Rate Division of Gannett Fleming,

1 Inc. Mr. Herbert's testimony is set forth in PAW Statement No. 7 and discusses the
2 allocation of the cost of service to customer classifications, the design of tariff rates.
3 **John J. Spanos** is Vice President of the Valuation and Rate Division of Gannett
4 Fleming, Inc. His testimony (PAW Statement No. 8) explains the development of the
5 depreciated original cost of the Company's utility plant in service and its claim for
6 annual depreciation expense.

7 **Paul R. Moul** is the Managing Consultant of P. Moul & Associates, Inc. Mr. Moul's
8 testimony (PAW Statement No. 9) presents his recommendation regarding the rate of
9 return on common equity that the Company should be afforded an opportunity to
10 earn.

11 17. **Q. Does that conclude your testimony?**

12 A. Yes, it does.