



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

February 15, 2008

A-212285 F0145
A-230073 F0012
U-2008-2020122
U-2008-2020125

VELMA REDMOND ESQUIRE
PENNSYLVANIA AMERICAN WATER CO
800 WEST HERSHEY PARK DRIVE
HERSHEY PA 17033

Applications of Pennsylvania-American Water Company (PAWC) for approval of: 1) the transfer by sale of substantially all the Claysville-Donegal Joint Municipal Authority's assets, properties and rights, related to its water and wastewater systems, to PAWC; and (2) the right of PAWC to begin to offer or furnish water service to the public in the Borough of Claysville and in portions of Donegal Township, East Finley Township and Buffalo Township, Washington County and to offer or furnish wastewater service to the public in all of the Borough of Claysville and portions of Donegal Township, Washington County.

To Whom It May Concern:

This is to advise you that the Commission in Public Meeting on February 14, 2008 adopted an Order in the above entitled proceeding.

An Order has been enclosed for your records.

Very truly yours,

James J. McNulty
Secretary

Encls
Cert. Mail
MH

See attached list for additional parties of record.

VELMA REDMOND ESQUIRE
PENNSYLVANIA AMERICAN WATER CO
800 WEST HERSHEY PARK DRIVE
HERSHEY PA 17033

SUSAN P MOSER ESQUIRE
150 MAIN STREET
PO BOX 371
CLAYSVILLE PA 15323

MICHAEL D KLEIN ESQUIRE
LEBOEUF LAMB GREENE & MACRAE LLP
200 NORTH THIRD ST SUITE 200
PO BOX 12105
HARRISBURG PA 17108-2105

OFFICE OF TRIAL STAFF
BOX 3265
KEYSTONE BUILDING
2ND FLOOR
HARRISBURG PA 17105-3265

OFFICE OF CONSUMER ADVOCATE
555 WALNUT STREET
5TH FLOOR
FORUM PLACE
HARRISBURG PA 17101-1923

OFFICE OF SMALL BUSINESS ADVOCATE
SUITE 1102 COMMERCE BUILDING
300 NORTH SECOND ST
HARRISBURG PA 17101

DEPARTMENT OF ENVIRONMENTAL PROTECTION
SOUTHWEST REGIONAL COUNSEL
400 WATERFRONT DRIVE
PITTSBURGH PA 15222-4745

DEPARTMENT OF ENVIRONMENTAL PROTECTION
BUREAU OF REGULATORY COUNSEL
9TH FLOOR
RACHEL CARSON STATE OFFICE BUILDING
PO BOX 8464
HARRISBURG PA 17105-8464

**PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265**

Public Meeting held February 14, 2008

Commissioners Present:

Wendell F. Holland, Chairman
James H. Cawley, Vice Chairman
Tyrone J. Christy
Kim Pizzingrilli

Applications of Pennsylvania-American Water Company (PAWC) for approval of: 1) the transfer by sale of substantially all the Claysville-Donegal Joint Municipal Authority's assets, properties and rights, related to its water and wastewater systems, to PAWC; and 2) the right of PAWC to begin to offer or furnish water service to the public in the Borough of Claysville and in portions of Donegal Township, East Finley Township and Buffalo Township, Washington County and to offer or furnish wastewater service to the public in all of the Borough of Claysville and portions of Donegal Township, Washington County.

Docket Nos:
A-212285F0145,
A-230073F0012,
U-2008-2020122 &
U-2008-2020125

ORDER

BY THE COMMISSION:

By the applications filed on May 29, 2007, Pennsylvania-American Water Company, (PAWC or Applicant), 800 West Hersheypark Drive, Hershey, PA 17033, seeks a Certificate of Public Convenience pursuant to Section 507, of the Public Utility Code, 66 Pa. C.S. § 507, evidencing Commission approval of the right of Pennsylvania-

American Water Company to enter into a municipal contract to acquire substantially all of the Claysville-Donnegal Joint Municipal Authority's assets, properties and rights, related to its water (U-2008-2020122) and wastewater systems (U-2008-2020125) and Certificates of Public Convenience pursuant to Section 1102(a)(1) of the Public Utility Code, 66 Pa. C.S. § 1102(a)(1), evidencing Commission approval to offer or furnish water service to the public in the Borough of Claysville and in portions of Donegal Township, East Finley Township and Buffalo Township, Washington County (A-212285F0145), and to offer or furnish wastewater service to the public in all of Claysville Borough and portions of Donegal Township, Washington County (A-230073F0012).

Proofs of service and publication were submitted by the Applicant; on August 13, 2007, the Borough of Claysville Council (Borough) filed a Petition to Intervene. On September 20, 2007, the applications were reassigned to the Office of Administrative Law Judge (OALJ) due to the issues contained in the Petition and the subsequent responses of the parties. By an order dated December 3, 2007, Administrative Law Judge (ALJ) Corbett granted the Borough's Praecipe to Withdraw and Discontinue and transferred the applications back to the Bureau of Fixed Utility Services for continued review.

PAWC is a regulated public utility corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania and is engaged in the business of providing water and wastewater service to the public. Water and wastewater service is furnished by PAWC in a service territory encompassing more than 373 communities across the Commonwealth with a combined population of over 2,000,000. On December 31, 2006, PAWC furnished water service to 626,107 customers and to 14,406 wastewater customers.

Claysville-Donnegal Joint Municipal Authority (CDJMA or Authority),

P.O. Box 457, 314 Main Street, Claysville, PA 15323, is a municipal authority organized under the Pennsylvania Municipal Authorities Act, on June 23, 1958. The Authority owns and operates a water system in Claysville Borough, and in portions of Donegal Township, East Finley Township and Buffalo Township, Washington County. It also owns and operates a wastewater system in Claysville Borough and portions of Donegal Township. On December 31, 2006, CDJMA furnished water service to 573 customers and to 537 wastewater customers.

On December 6, 2006, PAWC and CDJMA entered into a purchase agreement for the transfer of ownership of substantially all of the property and rights pertaining to the Authority's water and wastewater systems, to PAWC. A summary of the details regarding each utility follows.

Water system

The existing water system provides metered service to 499 residential, 63 commercial, 1 industrial and 10 municipal customers. Water is drawn from two reservoirs, the 10 million gallon School Street Dam/Reservoir and the 50 million gallon Jack Clutter Dam/Reservoir. The water is processed through a treatment plant and pumped to a 250,000 gallon storage tank, from which the treated water enters into the gravity fed distribution system. The distribution system was constructed in the 1920s and consists of a variety of pipe sizes and types from 2" PVC to 8" ductile iron. The transfer of ownership includes all of these items.

PAWC will not use the water sources or the water treatment plant. Historically, the system has had issues with water quality due to the elevated levels of trihalomethanes and haloacetic acid. Instead, PAWC intends to extend a supply main from its existing water system located at the McGuffey High School in neighboring Buffalo Township, westward along Route 40, to Claysville. 14,500 feet of 12" ductile

iron cement lined pipe and a pressure reducing station will be needed to make the connection between the systems. PAWC listed the cost of the main extension and the necessary improvements to the water system as follows: the installation of a pressure reducing station, 14,500 feet of main and the installation of remote read meters - \$1,249,738; installation of Supervisory Control and Data Acquisition (SCADA) equipment at the existing storage tank and booster station - \$27,500; installation of a booster station and 500 feet of main to eliminate individual booster pumps - \$108,350; and the installation of chlorination facilities at PAWC's Franklin Farms Booster Station (in order to improve the chlorine residual) - \$41,250, for a total cost of \$1,426,838.

After completion of the interconnection, PAWC will be responsible for the removal of the existing water treatment plant, which will no longer be needed. Also, while the transfer initially includes ownership of the two dams/reservoirs, PAWC is obligated to breach the 10 million gallon School Street Dam/Reservoir. This dam is to be breached due to its proximity and risk to an elementary school. A dam inspection report indicated that the spillway is inadequate and that it will not pass a threshold of 50% of the Probable Maximum Flood. PAWC indicated the projected cost to breach the dam is \$125,000 and will be booked as an acquisition cost.

The 50 million gallon Jack Clutter Dam/Reservoir and property is also included in the purchase agreement. A provision of the purchase agreement indicates that, while this tract is also included in the purchase agreement, PAWC is obligated to make arrangements for the sale of this property to a third party prior to closing, with PAWC receiving the proceeds. PAWC indicated it is completing a plot plan of the property (approximately 28 acres in size) and is in the process of appraising the dam and property.

The assigned purchase price for the entire water system is \$1,250,000. PAWC indicated it is undertaking an original cost study and will establish the depreciated original cost based on the results. In the meantime, the tentative journal entries to record the transfer of the water system are the following:

Utility Plant	\$5,794,000
Accumulated depreciation	\$1,890,000
Short Term Debt	\$1,250,000
Acquisition Adjustment	\$2,654,000

The Jack Clutter Dam/Reservoir is included in the Utility Plant value of \$5,794,000. While the current value of this asset is still to be determined, PAWC stated that it intends to include this asset on its books, at closing, as a Utility Plant Acquisition Adjustment based on its fair market value less the cost of the eventual sale.

Wastewater system

The existing wastewater system provides service to 463 residential, 62 commercial, 2 industrial and 10 municipal customers in the Borough and Donegal Township. The wastewater system consists of a biologically based treatment plant, conventional gravity collection system, one pump station and associated force main. The pump station and force main are used solely to serve a Pennsylvania Department of Transportation – Welcome Center located near the Claysville Exit of Interstate 70. The treatment plant utilizes primary sedimentation, rotating biological contactors and a secondary sedimentation treatment process. The plant is permitted for a hydraulic capacity of 160,000 gallons per day.

PAWC indicated that the system experiences a higher than normal level of inflow/infiltration (I & I). The Authority currently operates the system with a metered by-pass that allows excess wastewater to by-pass the treatment plant and go directly into the receiving stream during wet weather events. PAWC indicated that it believes the by-pass is in violation of current regulatory standards and law. The system has a substantial history of non-compliance; a report for the years 2002 through 2006 listed many ammonia nitrogen effluent violations as well as plant overflows. PAWC provided a list of the needed repairs/upgrades as follows: an I & I study - \$83,000, sanitary sewer repair and replacement - \$173,875, manhole and service replacement - \$62,100, comminutor replacement - \$30,000, office/lab renovations - \$50,000, installation of raw water VFD's - \$40,000, process control and monitoring upgrades - \$80,000, replacement of grating - \$10,000, RBC media replacement - \$60,000, flow equalization controls - \$35,000, and repair of secondary sludge pumps - \$20,000, for a total cost of \$643,975.

The National Pollution Discharge Elimination System (NPDES) Permit, which authorizes the Authority to operate the wastewater system, expired on November 22, 2007. The Authority applied to the Pennsylvania Department of Environmental Protection (DEP) for a renewal of the Permit and DEP issued a renewal on December 11, 2007; the Permit will be transferred to PAWC after the transfer of ownership. DEP is aware of the pending transfer of ownership and is currently negotiating a Consent Order & Agreement (CO & A) with PAWC regarding the future operation of the treatment system. In particular, PAWC will be required to undertake a Corrective Action Plan to attain and maintain compliance with NPDES Permit and Clean Streams Law regarding the unauthorized discharge of untreated sewage from the treatment system and the limiting of effluent discharges, among other things, total suspended solids, carbonaceous biochemical oxygen demand and ammonium nitrogen.

The assigned purchase price for the entire wastewater system is \$750,000. PAWC indicated it is updating the original cost study for the purpose of establishing the depreciated original cost of the system. The tentative journal entries to record the transfer of the wastewater system are the following:

Utility Plant	\$4,808,000
Accumulated depreciation	\$2,049,000
Short term debt	\$ 750,000
Acquisition Adjustment	\$2,009,000

CDJMA's Statement of Net Assets at December 31, 2005, was submitted as Exhibit B to the applications. The Statement lists the original cost values for the two utilities as approximately \$10,602,000 with a net of depreciation value of approximately \$6,663,000. It was indicated that CDJMA charged tap-in/connection fees, however the fees were treated as operating income and were not applied as offsets to the original cost values. CDJMA's plant values coincide with PAWC's tentative journal entries as follows:

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Utility Plant	\$5,794,000	\$4,808,000	\$10,602,000
Accum. Depc.	-1,890,000	-2,049,000	-3,939,000
Short Term Debt	<u>-1,250,000</u>	<u>- 750,000</u>	<u>-2,000,000</u>
Acq. Adjust.	2,654,000	2,009,000	4,663,000

PAWC is paying \$2,000,000 for the two utilities while tentatively realizing a \$4,663,000 acquisition adjustment. PAWC indicated that there may be adjustments to the original cost and accrued depreciation values following completion of the original cost studies.

In regard to its final journal entries PAWC stated, “To the extent that the purchase price is less than the depreciated original cost that can be included in the Company’s ratebase, the Company’s treatment of such difference for regulatory accounting purposes will follow its treatment for ratemaking purposes, as required by Statement of Financial Accounting Standards No. 71. Section 1327(e) of the Public Utility Code provides that, when the purchase price for acquired water or wastewater utility property is less than the property’s depreciated original cost “that difference, absent matters of a substantial public interest, [shall] be amortized as an addition to income over a reasonable period of time or be passed through to the ratepayers by such other methodology as the Commission may direct.”

PAWC went on to state that it believes; “because the Authority’s assets constitute troubled and non-viable water and wastewater systems, which will require substantial capital investment for improvements to improve or maintain adequate service to customers, “matters of a substantial public interest” are present and fully justify not amortizing “above-the-line” the difference between the purchase price and a higher depreciated original cost or otherwise passing such difference through to customers. *Pa. P.U.C. v. York Water Company*, Docket Nos. R-922168; R-922168C001 (November 18, 1992) (The poor condition of the acquired assets and need for improvements constitute “matters of a substantial public interest” under Section 1327(e) for not amortizing a negative acquisition adjustment above-the-line for ratemaking.)”

PAWC also stated; “Unless the Commission determines otherwise in a subsequent base rate case in which the Company claims the acquired assets in its rate base, the Company intends to amortize “below-the-line” the negative, if any, acquisition adjustment (difference, between its purchase price and a higher depreciated original cost for the Authority’s water and wastewater assets).”

Approval of the subject applications does not constitute Commission approval of the Applicant’s accounting procedure. Rather, PAWC will be required to prove the justness and reasonableness of its journal entries in its subsequent base rate case.

As indicated earlier, on August 13, 2007, the Borough filed a Petition to Intervene in both of these applications, indicating that it had not received notice of the period within which to object to the acquisition and also raised several issues for examination. On August 29, 2007, PAWC filed preliminary objections to the Borough’s Petition, along with an answer with new matter. The Borough responded to PAWC’s preliminary objections on September 11, 2007 and replied to the new matter on September 18, 2007. On September 20, 2007, the applications were reassigned to the OALJ and on November 29, 2007, the Borough filed a Praeceptum to Withdraw and Discontinue. By an Order dated December 3, 2007, ALJ Corbett determined that since PAWC did not object to the Borough’s withdrawal request, it was appropriate to grant leave to the Borough to withdraw its Petition to Intervene.

The Borough’s Praeceptum to Withdraw and Discontinue was submitted as a result of a meeting between PAWC, the Borough and Donegal Township in a public session on September 28, 2007. The issues that were raised in the Borough’s Petition to Intervene were discussed and a Memorandum of Understanding was created to document the issues and their resolution. The twelve numbered paragraphs, in the Memorandum,

concern a variety of issues ranging from; the possible termination of the purchase agreement, the conditions which must be satisfied prior to closing, extension of the closing date, the completion of repairs/improvements, sale of the Jack Clutter property, the transfer of ownership of the Authority office to the Borough, the sharing and accuracy of information and the distribution of liquid assets following closing. Since the Borough submitted the only petition/protest and has withdrawn it, the subject applications are free for Commission review and evaluation.

A map and description of the requested water service territory were submitted as Exhibits L and M of the water system application (A-212285F0145) while a map and description of the requested wastewater service territory were provided as Exhibits M and N of the wastewater system application (A-230073F0012).

Stipulations in the purchase agreement require that CDJMA adjust its water service rates, prior to closing, in order to match PAWC's current Rate Zone 1 rates. CDJMA's current rates were placed into effect on February 1, 2006. The Authority's metered rate structure includes; a \$28.00 minimum monthly charge for the first 1,000 gallons, \$5.25 for each additional 1,000 gallons – up to 11,000 gallons and \$4.00 per 1,000 gallons thereafter. PAWC's Rate Zone 1 rates, which became effective on November 30, 2007, include a monthly service charge of \$12.00 and a usage charge of \$6.809 per 1,000 gallons. Under the Authority's current rates, a customer using 5,000 gallons per month would be billed \$49.00; at PAWC's rates, the charge would be \$46.05.

The purchase agreement also stipulates that PAWC adopt CDJMA's wastewater rates, in effect at closing. The Authority's metered rate structure includes; a \$25.50 minimum monthly charge for the first 1,000 gallons and \$5.75 for each additional 1,000 gallons thereafter. PAWC submitted, as Exhibit K, a proposed tariff sheet containing this same rate structure. A complete tariff containing the proposed rates, rules

and regulations for this service territory and labeled as, "Tariff Wastewater – PA P.U.C. No. 6, was included as Exhibit L to the wastewater application (A-230073F0012). A customer using 5,000 gallons per month would be billed \$48.50.

An additional requirement of the agreement is that PAWC offer continued employment to two of CDJMA's certified plant operators. PAWC identified the two individuals who will be hired to be responsible for the operation of the acquired water and wastewater systems.

On November 16, 2006, an addendum was added to the purchase agreement stating that the consummation of the purchase agreement is dependent upon the Authority being completely debt free after receipt of the \$2,000,000 purchase price and the use of the available funds held by the Authority. If the Authority does not have sufficient funds to cover any and all of its debts and obligations, it retains the sole right to cancel the purchase agreement. The Memorandum of Understanding implies there will be sufficient funds with cash reserves remaining after the payment of the debts and obligations.

In recognition of the circumstances identified in the subject applications, the record provides substantial evidence of affirmative public benefit sufficient to warrant approval of the proposed transaction under *City of York v. Pennsylvania Public Utility Commission*, 295 A.2d 825 (Pa. 1972).

And, based upon the fact that Pennsylvania-American Water Company will expand its service territory to customers in compliance with Commission regulations, that the economies of scale of an expanded customer base have a beneficial effect on existing customers and that PAWC will be meeting the needs of new customers without any detriment to its existing customers, the Commission finds that the granting of PAWC's applications for approval of the acquisition of the Claysville-Donnegal Joint Municipal

Authority's water and wastewater systems and for the extensions of the service territories is necessary or proper for the service, accommodation, convenience or safety of the public; **THEREFORE**,

IT IS ORDERED:

1. That the applications of Pennsylvania-American Water Company, at Docket Nos. A-212285F0145, A-230073F0012, U-2008-2020122 and U-2008-2020125 are hereby approved.

2. That a Certificate of Public Convenience be issued pursuant to Section 507, of the Public Utility Code, 66 Pa. C.S. § 507, evidencing Commission approval of the right of Pennsylvania-American Water Company to enter into a municipal contract to acquire substantially all of the Claysville-Donegal Joint Municipal Authority's assets, properties and rights, related to its water system (U-2008-2020122).

3. That a Certificate of Public Convenience be issued pursuant to Section 507, of the Public Utility Code, 66 Pa. C.S. § 507, evidencing Commission approval of the right of Pennsylvania-American Water Company to enter into a municipal contract to acquire substantially all of the Claysville-Donegal Joint Municipal Authority's assets, properties and rights, related to its wastewater system (U-2008-2020125).

4. That a Certificate of Public Convenience be issued pursuant to Sections 1102(a)(1) of the Public Utility Code, 66 Pa. C.S. § 1102(a)(1) evidencing Commission approval to offer or furnish water service to the public in the Borough of Claysville and in portions of Donegal Township, East Finley Township and Buffalo Township, Washington County, as described and illustrated in Exhibits L and M of the application (A-212285F0145).

5. That a Certificate of Public Convenience be issued pursuant to Sections 1102(a)(1) of the Public Utility Code, 66 Pa. C.S. § 1102(a)(1) evidencing Commission approval to offer or furnish wastewater service to the public in all of Claysville Borough and portions of Donegal Township, Washington County, as described and illustrated in Exhibits M and N of the application (A-230073F0012).

6. That upon finalization or within four months prior to the next general rate increase filing, containing the acquired assets in its rate base and the cost of the repairs/improvements to the system, Pennsylvania-American Water Company shall provide copies of the original cost studies for the utility systems and the final journal entries, specifically detailing the acquisition adjustments related to the water and wastewater systems, the proceeds from the sale of the Jack Clutter property and the breaching cost of the School Street Dam/Reservoir. The value of contributions-in-aid-of-construction (tap-in/connection fees) shall be determined and appropriately applied. Copies shall be provided to the Office of Consumer Advocate, the Bureau of Fixed Utility Services, the Office of Trial Staff and the Office of Small Business Advocate.

7. That approval of the subject applications does not constitute any determinations for ratemaking purposes.

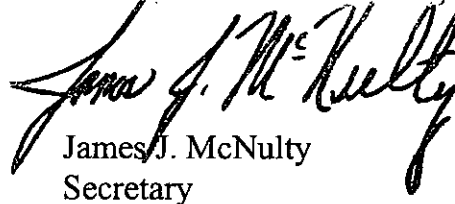
8. That Pennsylvania-American Water Company may place into effect, in this additional service territory, their currently effective Rate Zone 1 water service rates, beginning at the date of closing.

9. That Pennsylvania-American Water Company may place into effect, in this additional service territory, the rates, rules and regulations as contained in Tariff Wastewater-PA P.U.C. No. 6, labeled as Exhibit L to the application, beginning at the date of closing.

10. That a copy of this Order be served upon Pennsylvania-American Water Company, Claysville-Donegal Joint Municipal Authority, the Office of Trial Staff, the Office of Consumer Advocate, the Office of Small Business Advocate and the Department of Environmental Protection-Southwest Regional Office and its Bureau of Regulatory Counsel.

11. That the folders docketed at A-212285F0145, A-230073F0012, U-2008-2020122 and U-2008-2020125 be marked closed by the Commission Secretary's Bureau.

BY THE COMMISSION,


James J. McNulty
Secretary

(SEAL)

ORDER ADOPTED: February 14, 2008

ORDER ENTERED: FEB 15 2008

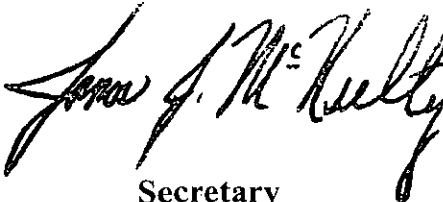
PENNSYLVANIA PUBLIC UTILITY COMMISSION

IN THE MATTER OF THE APPLICATION OF: **A-230073 F0012**

Application of Pennsylvania-American Water Company for the approval of the right to offer, render or furnish wastewater service to the public in all of Claysville Borough and portions of Donegal Township, Washington County.

The Pennsylvania Public Utility Commission hereby certifies that after an investigation and/or hearing, it has, by its report and order made and entered, found and determined that the granting of the application is necessary or proper for the service, accommodation, convenience and safety of the public and hereby issues to the applicant this **CERTIFICATE OF PUBLIC CONVENIENCE** evidencing the Commission's approval.

In Witness Whereof, The PENNSYLVANIA PUBLIC UTILITY COMMISSION has caused these presents to be signed and sealed, and duly attested by its secretary at its office in the city of Harrisburg this 14TH day of February 2008.


Secretary