

INTRODUCTION

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

A. John R. Cox, 800 West Hersheypark Drive, Hershey, PA 17033.

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

A. I am employed by American Water Works Service Company (the “Service Company”) as
Manager of Rates and Regulations – Pennsylvania

**Q. WHAT ARE YOUR RESPONSIBILITIES AS PAWC’S MANAGER OF RATES
AND REGULATION?**

A. My responsibilities include, principally preparing and presenting rate applications for
PAWC. In addition, I am responsible for certain aspects of the financial, budgeting and
regulatory functions of the Company.

**Q. PLEASE DESCRIBE YOUR PROFESSIONAL EDUCATION AND
EXPERIENCE.**

A. I am a 1985 graduate of Shippensburg University of Pennsylvania with a Bachelor of
Science degree in Business Administration, with a major in accounting. In 1999, I
received my Master’s Degree in Business Management from Lebanon Valley College. I
have also completed the continuing education program sponsored by the National
Association of Regulatory Utility Commissioners (NARUC) and the University of Utah.

1 I have been employed by PAWC or the Service Company since June 1986. From
2 1986 through June 1988, I served as a staff accountant in the Accounting Department. In
3 July 1988, I was transferred to the Rate Department, and, in July 1989, I was promoted to
4 Senior Rate Analyst. In 1991, I was promoted to accounting supervisor and held that
5 position until December 2000 when I was promoted to Fleet and Materials Management
6 Superintendent. In July 2004, I was promoted to the position of Senior Financial Analyst
7 assigned to the Finance Department. In 2007, I was promoted to my current position of
8 Manager of Rates and Regulations.

9 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
10 **PUBLIC UTILITY COMMISSION (“COMMISSION”)?**

11 **A.** Yes. I previously presented testimony on accounting and rate matters before this
12 Commission. I have also prepared water rate applications that were presented to the
13 Maryland Public Service Commission and the Virginia State Corporation Commission by
14 subsidiaries of the American Water Works Company that operate in those states.

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

16 **A.** My testimony provides an overview of the rate provisions contained in the Asset
17 Purchase Agreement (“APA”) for PAWC’s acquisition of the wastewater collection and
18 treatment system (“System”) currently owned and operated by the Borough of New
19 Cumberland (“BNC”) (the “Transaction”). I will describe the commitments of PAWC
20 which are intended to gradually align the rates of System customers with the rates of
21 PAWC’s other customers. Finally, I will explain that, because of the size of PAWC’s
22 water and wastewater rate base and the existence of Act 11 of 2012, the impact of the

1 acquisition upon PAWC's other customers is anticipated to be minimal and that, in the
2 long-term, the acquisition will benefit all of PAWC's customers.

3 **DESCRIPTION OF THE TRANSACTION'S RATES PROVISIONS**

4 **Q. PLEASE PROVIDE AN OVERVIEW OF WHERE RATES ARE ADDRESSED IN**
5 **THE COMPANY'S APPLICATION IN THIS DOCKET.**

6 **A.** The initial rates to be applied to the System customers following the closing of the
7 Transaction are set forth in Revised Exhibit I to the Application and in the *pro forma*
8 tariff supplement attached as Revised Exhibit J to the Application. The original Exhibits
9 I & J are included as part of the Application in this matter, which is attached to the direct
10 testimony of Bernard J. Grundusky, PAWC Statement No. 1, as **PAWC Exhibit BJG-1**.
11 Revised Exhibits I and J were filed with the Commission on May 16, 2016, and are
12 attached to the direct testimony of Bernard J. Grundusky, as **PAWC Exhibit BJG-2**.
13 Revised Exhibits I and J of the Application included revisions to "round" the amount of
14 usage associated with each rate blocks to 100 gallon increments because PAWC's billing
15 system does not allow for block rates less than 100 gallons. This clarification will not
16 have an adverse impact upon the BNC System customers. The rates set forth in Revised
17 Exhibits I and J reflect PAWC's agreement set forth in Section 6.7 of the APA (Exhibit D
18 of Application found in **PAWC Exhibit BJG-1**).

19 **Q. PLEASE DESCRIBE THE RATE PROVISIONS CONTAINED IN SECTION 6.7**
20 **OF THE APA.**

1 **A.** Per Section 6.7 of the APA, PAWC has committed to adopt, upon closing, BNC’s current
2 customer charge and consumption charge; provided, however, that the customer and
3 consumption charges will be divided and billed monthly instead of quarterly as BNC
4 currently bills. After PAWC closes on the Transaction and acquires the System, System
5 customers will be subject to PAWC’s prevailing wastewater tariff on file with the
6 Commission with respect to all rates other than the customer charge and consumption
7 charge, including capacity reservation fees, tapping fees and the like, as well as non-rate
8 related terms and conditions of service. The application of the proposed rates, rules and
9 regulations, as described above, will apply to all BNC System customers, including the
10 three residential customers located on Poplar Avenue in Lower Allen Township,
11 Cumberland County, which PAWC is seeking the authority to serve in its Application.

12 In addition, PAWC has committed not to implement a rate increase for System
13 customers prior to January 1, 2018. Thereafter, to the extent PAWC seeks a base rate
14 increase, PAWC agreed to propose a rate increase no greater than two and a half percent
15 (2.5%) in the year 2018 and a subsequent maximum rate increase of two and a half
16 percent (2.5%) in the year 2019. As explained below, rate increase limitations are subject
17 to the Commission’s approval.

18 **Q.** **ARE THERE ANY CLARIFICATIONS THAT YOU WOULD LIKE TO MAKE**
19 **TO THE *PRO FORMA* TARIFF SUPPLEMENT ATTACHED AS REVISED**
20 **EXHIBIT J TO THE APPLICATION?**

21 **A.** Yes. The BNC current rates, as shown in the BNC billing ordinance, include a quarterly
22 minimum bill of \$76.64. BNC billing practices currently allocate 6,200 gallons per

1 quarter to this minimum bill. As a result of allocating an allowance to the quarterly
2 minimum bill, BNC slightly adjusted the block rates utilized in its billing system from
3 what is shown in the ordinance. When these billing system rate tables are applied to a
4 residential quarterly consumption of 9,600 the quarterly bill is \$116.40. PAWC is
5 proposing to adopt the actual billing rates utilized by BNC, which are slightly lower than
6 the rates authorized in the BNC billing ordinance.

7 **TRANSACTION IS IN THE PUBLIC INTEREST**

8 **Q. WHAT IS THE BENEFIT TO CUSTOMERS OF THE COMMITMENTS MADE**
9 **BY PAWC ON RATES INCREASES?**

10 A. The APA was carefully negotiated at arms-length by PAWC and BNC and was intended
11 to provide a mechanism by which the rates of System customers could gradually come in
12 line with PAWC's Rate Zone 1 of PAWC's wastewater tariff. Rate Zone 1 is the primary
13 rate zone of the tariff. PAWC is attempting to adopt system-wide wastewater rates over
14 time and move customers to Rate Zone 1.

15 PAWC believes that these commitments are to the benefit of both System
16 customers and PAWC's other customers. System customers benefit by gradually being
17 integrated into a larger customer base; while PAWC's other customers benefit through
18 the addition of approximately 3,158 other customers with whom costs can be shared over
19 the coming decades. Moreover, the rate transition plan is consistent with the ratemaking
20 principles of gradualism and avoidance of rate shock – which have been long-recognized
21 by the Commission.

1 **Q. IS THE COMMISSION OR ANY INTERESTED PARTY BOUND BY THE RATE**
2 **INCREASE COMMITMENTS MADE BY PAWC IN THE APA?**

3 A. No, the Commission maintains the ultimate ratemaking authority. The proposals were
4 made with regard to reasonable rate gradualism for BNC System customers, but the
5 language of the APA makes clear that such proposals are subject to the Commission's
6 approval, which means that the Commission will decide whether the proposed increases
7 should be implemented as a result of the first base rate case following closing of the
8 Transaction. Nothing contained in the APA, if approved by the Commission, would bind
9 the Commission or other interested parties in future ratemaking proceedings.

10 **Q. ASIDE FROM THE RATE COMMITMENTS CONTAINED IN THE APA,**
11 **WHAT, IF ANY, RATE BENEFITS ARE ANTICIPATED TO BE REALIZED BY**
12 **BNC CUSTOMERS?**

13 A. In the long-term, the acquisition of the System will help PAWC keep rates reasonable for
14 all of its customers – including System customers. Through its expertise in wastewater
15 management and the leveraging of economies of scale, PAWC will – over time – be able
16 to improve efficiencies and lower the cost to operate the System. These efficiencies –
17 while they cannot be precisely quantified at this time – inevitably will be realized because
18 of the size of PAWC's operations. By adding more customers, PAWC will be able to
19 mitigate the level of future net plant investment per customer.

20 **Q. HAS PAWC COMMITTED TO ANY SPECIFIC CAPITAL EXPENDITURES**
21 **WITH REGARD TO THE SYSTEM?**

1 A. Yes. Section 6.8 of the APA provides that PAWC will spend two million dollars
2 (\$2,000,000.00) on capital improvements to the System's infrastructure over the five year
3 period immediately following the closing on the Transaction. The planned improvements
4 are discussed in detail in the testimony of my colleague, Michael J. Guntrum, PAWC
5 Statement No. 2.

6 **Q. HOW, IF AT ALL, WILL ACT 11 OF 2012 FACTOR INTO FUTURE**
7 **RATEMAKING RELATED TO THE REVENUE REQUIREMENT**
8 **ASSOCIATED WITH THE SYSTEM?**

9 A. As I understand it, Act 11 allows a public utility that provides both water and wastewater
10 service to combine their water and wastewater revenue requirements and allows the
11 Commission, when setting base rates, to allocate a portion of the wastewater revenue
12 requirement to the combined water and wastewater customer base if it is in the public
13 interest. The intent of Act 11 was to encourage consolidation by allowing capable public
14 utilities providing water service to acquire wastewater systems in need of capital
15 improvements (which if charged directly to the wastewater ratepayers would produce
16 exorbitant rates) and reasonably spread those costs across the acquiring utility's entire
17 customer base. The same principal is applied here. Given PAWC's size, capital
18 improvements to the System will not produce an unreasonable rate impact on any PAWC
19 customer if PAWC is permitted, as allowed by Act 11, to utilize a combined water and
20 wastewater revenue requirement. Rather, as capital improvements are made to the
21 System, they will be reasonably spread across PAWC's large customer base. In future
22 years, when capital improvements are needed for some other portion of PAWC's system

1 not directly related to the System, those costs will again be spread across all of PAWC's
2 customers including the System customers.

3 **Q. WHAT IMPACT, IF ANY, WILL THERE BE ON THE RATES OF PAWC'S**
4 **CURRENT CUSTOMERS AS A RESULT OF THE ACQUISITION OF THE**
5 **SYSTEM?**

6 **A.** There will be no short-term impact on PAWC's current customers, as PAWC – under the
7 settlement of its last base rate case – may not implement new base rates prior to January
8 1, 2018. In the long-term, the acquisition of the System will help PAWC keep rates
9 reasonable for all of its customers by spreading costs across a much larger customer base.

10 **Q FOR RATEMAKING PURPOSES, IS AN ACQUISITION ADJUSTMENT TO**
11 **THE PURCHASE PRICE APPROPRIATE FOR THIS ACQUISITION?**

12 **A.** It is premature to say. Ratemaking issues, such as whether there should be an acquisition
13 adjustment, are beyond the scope of this application proceeding and properly reserved for
14 a future PAWC base rate proceeding. PAWC will perform a depreciated original cost of
15 plant-in-service study at an appropriate time, which study can then be evaluated in the
16 context of base rate proceeding.

17 **CONCLUSION**

18 **Q. DO YOU HAVE ANY CONCERN ABOUT THE TRANSACTION FROM A**
19 **RATEMAKING PERSPECTIVE?**

1 **A.** No. This transaction is similar to numerous other water and wastewater system
2 acquisitions by PAWC that have been previously approved by the Commission on an
3 unprotected basis. The Transaction makes sense for the BNC customers because they
4 will become part of a much larger customer base.

5 **Q.** **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

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