



**INTRODUCTION**

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

**A.** James S. Merante, CPA, and my business address is 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 (“Service Company”) as Director of Financial Strategy, Planning, and Decision Support for the Mid Atlantic Division, which includes Pennsylvania-American Water Company (“PAWC”).

**Q. WHAT ARE YOUR RESPONSIBILITIES AS THE SERVICE COMPANY’S DIRECTOR OF FINANCIAL STRATEGY, PLANNING, AND DECISION SUPPORT?**

**A.** My responsibilities as Director of Financial Strategy, Planning and Decision Support for the Mid-Atlantic Division primarily include overseeing the monthly, quarterly, annual closing process, operating P&L variance analysis (budget versus actual, year-over-year), monthly forecasting, annual budgeting process, analysis and decision support for state presidents and business leaders to facilitate continuous improvement efforts and to facilitate sound business decisions, evaluation and decision support related to financing activities, and review and analysis in support of evaluating business development activities.

1 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS**  
2 **EXPERIENCE.**

3 **A.** I received a Bachelor’s Degree in Accounting from Susquehanna University. I am a  
4 Certified Public Accountant in the Commonwealth of Pennsylvania. I began my career in  
5 public accounting and worked in the audit practice for KPMG for five years and have  
6 approximately 20 years of experience in finance and operational roles, primarily in the  
7 media industry. I have been in senior management/executive roles for approximately 15  
8 years of my career. I have served as the Director of Financial Strategy, Planning, and  
9 Decision Support for the Mid Atlantic Division, which includes PAWC, since July 2014.

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

12 **A.** Yes. I recently testified before the Commission on behalf of PAWC in the proposed  
13 transaction between PAWC and The Sewer Authority of the City of Scranton (“SSA”), at  
14 Docket No. A-2016-2537209, in which PAWC will acquire the wastewater collection and  
15 treatment system of SSA.

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

17 **A.** I will address the financial fitness of PAWC to acquire and operate the wastewater  
18 collection and treatment system (“System”) currently owned and operated by the  
19 Borough of New Cumberland (“BNC”), which PAWC has agreed to purchase  
20 (“Transaction”).

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1 **TRANSACTION IS IN THE PUBLIC INTEREST**

2 **Q. WHAT, IF ANY, BENEFIT DO YOU SEE TO BNC'S CUSTOMERS AS A**  
3 **RESULT OF THE TRANSACTION?**

4 **A.** The transferred System customers will be served by a large, financially sound company  
5 that has the capability to finance necessary capital additions. Given its size, access to  
6 capital and its recognized strengths in system planning, capital budgeting and  
7 construction management, PAWC is well-positioned from a financial perspective to  
8 ensure that high quality wastewater service meeting all federal and state requirements is  
9 provided to BNC's customers and maintained for Pennsylvania-American's existing  
10 customers.

11 **Q. DO YOU ANTICIPATE THE TRANSACTION HARMING PAWC'S FINANCIAL**  
12 **STATUS IN ANY MANNER?**

13 **A.** No, not at all. PAWC does not anticipate that the acquisition of the BNC system will  
14 have a negative impact on PAWC's cash flows, credit ratings or access to capital and,  
15 therefore, will not deteriorate in any manner PAWC's ability to continue to provide safe,  
16 adequate, and reasonable service to its existing customers at just and reasonable rates..

17 **PAWC'S FINANCIAL FITNESS**

18 **Q. PLEASE DISCUSS PAWC'S FINANCIAL FITNESS.**

19 **A.** PAWC is the Commonwealth's largest water and wastewater provider, with total assets  
20 of \$3.9 billion and annual revenues of \$613 million for 2015. For 2015, PAWC had

1 operating income of approximately \$307 million and net income of approximately \$143  
2 million. These operating results produced cash flows from operations of approximately  
3 \$308 million.

4 In addition to generating positive operating cash flows, PAWC may also obtain  
5 financing as follows:

### 6 **Line of Credit**

7 PAWC presently has liquidity through a \$220 million line of credit through  
8 American Water Capital Corp. (“AWCC”), a wholly owned subsidiary of American  
9 Water Works Company, Inc. (“American Water”). PAWC’s strong credit ratings allow  
10 PAWC to obtain additional capacity on this line of credit.

### 11 **Long Term Debt Financing**

12 PAWC carries a corporate credit rating of “A3” from Moody’s Investors Services  
13 and an “A” rating from Standard and Poor’s Rating Services. PAWC obtains long-term  
14 debt financing through AWWCC at favorable interest rates and payment terms. When  
15 applicable, PAWC also uses low-cost financing through the Pennsylvania Infrastructure  
16 Investment Borough (“PENNVEST”) and the Pennsylvania Economic Development  
17 Financing Borough (“PEDFA”).

### 18 **Equity Investments**

19 PAWC may obtain additional equity investments through American Water based  
20 on its strong operating performance.

1 **Q. DOES PAWC HAVE THE OVERALL FINANCIAL FITNESS AND ACCESS TO**  
2 **CAPITAL TO ACQUIRE BNC'S ASSETS?**

3 **A.** Yes. PAWC has strong operating cash flows and net income and, therefore, a strong  
4 balance sheet. PAWC's strong operating and financial performance allows it to obtain  
5 competitive interest rates for long-term debt financing and access to equity investments  
6 from its parent company. In my opinion, PAWC is a financially-sound business that can  
7 financially support the acquisition of the BNC's assets as well as the ongoing operating  
8 and investment commitments that will be required to operate, maintain and improve those  
9 assets in serving the public.

10 **Q. PLEASE EXPLAIN HOW PAWC INTENDS TO FUND THE ACQUISITION.**

11 **A.** PAWC will initially fund the transaction with short-term debt and will later replace it  
12 with a combination of long-term debt and equity capital.

13 **Q. WHAT IMPACT, IF ANY, DO YOU ANTICIPATE THAT THE ACQUISITION**  
14 **OF THE ASSETS WILL HAVE ON PAWC'S CORPORATE CREDIT RATINGS?**

15 **A.** As stated above, PAWC does not anticipate that the acquisition of the BNC system will  
16 have a significant impact on its credit ratings.

17 **CONCLUSION**

18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

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