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3. Pursuant to Sections 1102 and 1329 of the Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 1102 and 1329, Applicant hereby requests that the Commission: (1) approve Aqua's acquisition of the wastewater system assets ("Assets") of New Garden; (2) approve the right of Aqua to begin providing wastewater service in the requested territory, as shown as the areas outlined in red on the maps attached hereto as **Exhibit A1** (South End), **Exhibit A2** (East End) and **Exhibit A3** (Avondale) (together, the "Requested Territory"); and (3) include, in its Order approving the acquisition, the ratemaking rate base of the Assets as determined under Section 1329(c)(2) of the Public Utility Code.

4. The maps of the Requested Territory include a north arrow depicting map orientation, a graphic scale, the municipal boundaries of New Garden Township and identification and depiction of all private and public roads relative to the Requested Territory. Bearing and angle descriptions of the Requested Territory are attached hereto as **Exhibit B1**, **Exhibit B2** and **Exhibit B3**. The South End, East End and Avondale service areas are 654.7 +/- acres, 1,532 +/- acres and 1,091.5 +/- acres, respectively.

5. Aqua and New Garden have reached an agreement regarding the acquisition of the New Garden Assets, as evidenced by the *Asset Purchase Agreement*, the *Amendment to Asset Purchase Agreement*, and the *Second Amendment to Asset Purchase Agreement* attached hereto as **Exhibit C1**, **Exhibit C2** and **Exhibit C3** (together, the "Agreement").¹ Applicant respectfully requests that the Commission issue an *Order* and *Certificates of Public Convenience* approving and addressing the items requested in this Application.

¹ The purpose of the Amendment to Asset Purchase Agreement was to extend deadlines under Section 4(d) of the Asset Purchase Agreement. The purpose of the Second Amendment to Asset Purchase Agreement was to extend the deadline for Buyer to submit the application to the Commission under Section 3.5(b) of the Asset Purchase Agreement and to substitute revised maps and service area descriptions in lieu of the maps attached as Schedule 4(c)(1) to the Asset Purchase Agreement.

6. An **Application Filing Checklist** identifying topics addressed and the section, paragraph and page number where they can be found is included with this Application.

II. AFFECTED ENTITIES

7. Aqua is a regulated public utility company, duly organized and existing under the laws of the Commonwealth of Pennsylvania. Aqua is engaged in the wastewater service business and furnishes wastewater service to approximately 20,000 customer accounts, as reflected in documents already on file with the Commission. Aqua's existing service territories cover various Counties throughout Pennsylvania including parts of Chester County.

8. Township is a duly organized and validly existing Pennsylvania township of the Second Class. Authority is a duly organized and validly existing Pennsylvania municipal authority. Township and Authority each own portions of a community wastewater system that provides sewage collection and treatment services to 2,106 residential/commercial customers within portions of New Garden Township, Chester County. New Garden has no industrial customers.

9. Applicant incorporates into this Application other information on file with the Commission that establishes the fact that Aqua is qualified to provide adequate public wastewater service. Aqua will supplement this Application with all additional information the Commission may require. Financial Statements of Aqua for 2015 are attached hereto as **Exhibit D**.

III. PLANT-IN-SERVICE

10. Aqua will acquire New Garden's wastewater treatment and collection system assets as defined in the Agreement. All assets are located in New Garden Township except for a portion of one 4" discharge main which is in Kennett Township.

11. There are two wastewater treatment plants: the East End Wastewater Treatment Plant (“EEWWTP”) and the South End Wastewater Treatment Plant (“SEWWTP”), rated for 0.324 MGD and 0.104 MGD, respectively. Flow from the Avondale service area is directed to the Avondale WWTP, owned by Avondale Borough. New Garden Township has an allocation of 218,250 GPD of capacity in this WWTP. The collection system is sized to adequately convey the raw wastewater to the treatment plants and includes the following:

Summary of Collection System Gravity Pipe		
Diameter	Pipe Material	Total Lineal Feet
6" and 8"	PVC	104,176
10" and 12"	PVC	21,453
6" and 8"	AC	11,244
10" and 12"	AC	13,157

12. There are nine (9) collection system pump stations in the East End service area, one (1) pump station in the South End service area and one (1) pump station in the Avondale service area. The force mains from these stations include the following:

Summary of Collection System Force Main Pipe		
Diameter	Pipe Material	Total Lineal Feet
4" and less	PVC	33,899
6" and 8"	PVC	20,508
10" and 12"	PVC	1,750
4" and less	AC	1,378
6" and 8"	AC	16,956

13. The elevation of the EEWWTP generally varies from about EL 271 to EL 302. The elevation of the SEWWTP generally varies from about EL 253 to EL 264.

14. Copies of the Commonwealth of Pennsylvania Department of Environmental Protection (“DEP”) Chapter 94 Reports for 2015 are attached hereto as **Exhibit E1** for the East End Waste Water Treatment Facility and as **Exhibit E2** for the South End Waste Water Treatment Facility. A Notice of Violation (“NOV”) dated July 7, 2015 was issued by DEP for not maintaining the spray irrigation disposal Zones 3 and 4 in compliance with the Water Quality Management (“WQM”) Permit and the Crop Management Plan for the South End WWTP. The attached Chapter 94 Report for the South End WWTP notes that immediate corrective action was taken by the Township. An NOV dated November 9, 2015 was also issued by DEP due to the fact that the method of disposal of treated effluent from the South End WWTP was not a permitted activity. The attached Chapter 94 Report for the South End WWTP notes that the land application approach used ceased. There is a spray irrigation effluent disposal capacity shortfall at the South End WWTP. Aqua and the Township have been working with DEP to resolve this condition.

15. The existing wastewater facilities were constructed over time, starting in approximately 1960 through 2012. Water service is provided by both Chester Water Authority and private wells. Replacement of a 6” diameter AC Force Main in the Avondale service area is planned for 2018. Addition of a mechanical treatment system with stream discharge is planned for the South End service area in 2018 and early 2019 to make up a shortfall in spray disposal capacity at the SEWWTP.

16. The original cost, by year and major plant category, of the New Garden used and useful plant in service is \$27,267,123 with a related calculation depreciation reserve of \$8,677.034.

17. Tentative journal entries to record the transaction are presented in Section IV.

IV. ASSET PURCHASE AGREEMENT

18. The Asset Purchase Agreement is dated August 19, 2016. The Amendment to Asset

Purchase Agreement is dated October 17, 2016. The Second Amendment to Asset Purchase Agreement is dated November 16, 2016. The purchase price is Twenty-Nine Million Five Hundred Thousand Dollars (\$29,500,000.00). In addition to the purchase price, Aqua will contribute Twenty Thousand Dollars (\$20,000.00) to New Garden's closing costs. The purchase price and Agreement are based on arm's length negotiations.² Aqua and New Garden are not affiliated with each other. Aqua will use existing short term credit lines for the purchase of the assets.

19. The wastewater system assets to be transferred are defined in Section 2.2 of the Agreement. The Assets include the specific assets, properties, powers and rights set forth in Schedule 2.2 of the Agreement: real estate, collection system, treatment facilities and miscellaneous assets. The real estate to be transferred includes fee title to the parcels associated with the treatment facilities and collection system and various easements.

20. Excluded assets, as presented in Section 2.4 and Schedule 2.4 of the Agreement, include a cellular communications site, New Garden's cash and accounts receivable up to the date of Closing, customer sewer laterals, any and all piping and fixtures internal to each individual customer's residences or structures and certain identified vehicles and equipment.

21. Aqua will satisfy and comply with all conditions and requirements of the permits specified in Schedule 2.6(a) of the Agreement upon transfer of the permits to Aqua. Aqua, also, is accepting assignment of the contracts listed on Schedule 2.6(b), section I, and will arrange for the termination or amendment of the contract listed on Schedule 2.6(b), section II, and the execution of a new agreement or, in the case of an amendment, an assignment that is agreeable to Aqua, as presented in Section 2.6 of the Agreement. Copies of the contracts that Aqua is accepting by assignment are attached

² New Garden issued a Request for Proposal for the sale and acquisition of the Assets. It reviewed all offers and determined that Aqua was the most responsible bidder and its purchase proposal represented the best reasonable offer to continue services to customers and current and future operation.

hereto as **Exhibit F**. All other liabilities and obligations shall remain the sole responsibility of New Garden.

22. The tentative journal entries to record the transfer in Aqua's accounts are:

	Debit	Credit
Utility Plant Purchased	\$29,500,000	
Cash/Short Term Debt		\$29,500,000

V. **CUSTOMERS**

23. New Garden provides wastewater service to 2,106 residential/commercial customers as follows:

Service Area	Resid.	Comer.1	Comer. 2	Indust.	Total
East End	1,018	109	15	0	1,142
South End	605	2	0	0	607
Avondale	293	60	4	0	357
Total	1,916	171	19	0	2,106

Number of gallons treated by customer class is as follows for the period November 13, 2015 to August 12, 2016:

Service Area	Resid.	Comer.1	Comer. 2	Indust.	Total
East End	38,967,000	6,545,000	2,214,000	0	47,726,000
South End	21,773,000	116,000	0	0	21,889,000
Avondale	11,185,000	8,884,000	603,000	0	20,672,000
Total	71,925,000	15,545,000	2,817,000	0	90,287,000

24. The average annual flow for 2015 from the East End system was 0.174 MGD. The average flow per Equivalent Dwelling Unit ("EDU") in the East End system was 200 GPD for residential units and 181 GPD for commercial units. Assuming the Township's projected growth as outlined in the 2015 Chapter 94 Report, the East End wastewater system will serve approximately 2,169 EDUs in ten years based on Township projections. The EEWTP's 3-month maximum average flow for 2015 was 0.2060 MGD. The maximum monthly organic loading on the plant was 852 lbs of BOD₅ per day for

2015. The permitted organic capacity of the plant is 1,081 lbs of BOD₅ per day. The East End system has adequate capacity to meet present and future customer demands up until approximately 2023 when a treatment system expansion may be necessary. Chapter 94 information is updated annually and only projects five (5) years into the future. The Township has, however, attempted to project flow out to 2025 in the Chapter 94 Report using best available information for the service territory.

25. The average annual flow for 2015 from the South End system was 0.0819 MGD. The average flow per EDU in the South End system was 200 GPD for residential units. Assuming the Township's projected growth as outlined in the 2015 Chapter 94 Report, the wastewater system will serve approximately 473 EDUs in ten years based on Township projections. The SEWWTP's 3-month maximum average flow for 2015 was 0.0903 MGD. The maximum monthly organic loading on the plant was 434 lbs of BOD₅ per day for 2015. The average annual organic loading for 2015 was 226 lbs of BOD₅ per day. The permitted organic capacity of the plant is 250 lbs of BOD₅ per day. Chapter 94 information is updated annually and only projects five (5) years into the future. The Township has, however, attempted to project flow out to 2025 in the Chapter 94 Report using best available information for the service territory.

VI. RATES

26. After Closing, Aqua will charge the New Garden rate schedules for all customers in the Requested Territory for no less than seven hundred thirty (730) days from the Closing Date. The Agreement further provides that, for the ten year period beginning on the Closing Date, the compounded annual growth rate inclusive of Rates and Distribution System Improvement Charge shall not exceed four percent (4%). A schedule of rates tariff page implementing rates for New Garden customers post-closing is attached hereto as **Exhibit G**.

27. As presented in Section 7 and Schedule 7 of the Agreement, New Garden's current base residential quarterly charge is \$88.00 for usage between 0 and 5,000 gallons. The current base quarterly charge for commercial 1 and commercial 2 customers is \$121.00 and \$143.00, respectively, for usage between 0 and 5,000 gallons. For industrial customers, the current base quarterly charge is \$423.50 for usage between 0 and 5,000 gallons. A copy of the New Garden currently effective Sewer Ordinance is attached hereto as **Exhibit H**.

28. Upon Commission approval of this Application and completion of the proposed transaction, Aqua will begin to provide wastewater service in its name to the customers in the Requested Territory. It will implement its *Rules and Regulations* to govern the provision of wastewater service in the Requested Territory, as those *Rules and Regulations* are in effect from time to time for Aqua.

29. Aqua will provide a bill insert notification and a welcome kit to the New Garden customers after the transaction closes.

VII. COST OF SERVICE

30. Copies of the Authority's audited Financial Statements for 2014/2015 and 2013/2014, presenting the financial results of the wastewater operation for those years, are attached hereto as **Exhibit I1** and **Exhibit I2**, respectively. Copies of New Garden's Adopted Fiscal Year Annual Budgets for 2014, 2015 and 2016 are attached hereto as **Exhibit J1**, **Exhibit J2** and **Exhibit J3**. A copy of New Garden's 2015 Annual Report filed with the Department of Community and Economic Development is attached hereto as **Exhibit K**.

31. Aqua projects annual revenue of \$2,200,000 from the New Garden customers based on New Garden's current rate schedule, calculated as follows:

1,916 Residential customers		
Base rate of \$88.00 per quarter for 0 to 5,000 gallons x 4 quarters	\$	674,000
Charges per quarter for 5,001 to 15,000 gallons x 4 quarters	\$	205,000
Charges per quarter over 15,000 gallons x 4 quarters	\$	852,000
171 Commercial 1 customers		
Base rate of \$121.00 per quarter for 0 to 5,000 gallons x 4 quarters	\$	83,000
Charges per quarter for 5,001 to 15,000 gallons x 4 quarters	\$	286,000
Charges per quarter over 15,000 gallons x 4 quarters	\$	-
19 Commercial 2 customers		
Base rate of \$143.00 per quarter for 0 to 5,000 gallons x 4 quarters	\$	11,000
Charges per quarter for 5,001 to 15,000 gallons x 4 quarters	\$	43,000
Charges per quarter over 15,000 gallons x 4 quarters	\$	46,000
0 Industrial customers		
Base rate of \$423.50 per quarter for 0 to 5,000 gallons x 4 quarters	\$	-
Charges per quarter for 5,001 to 15,000 gallons x 4 quarters	\$	-
Charges per quarter over 15,000 gallons x 4 quarters	\$	-
Total Annual Projected Revenue	\$	2,200,000

32. Aqua estimates annual operating and maintenance expenses of \$715,000 based on the New Garden operating expenses presented in the 2015 Financial Statements. The O&M estimate is exclusive of depreciation.

33. Note 4 to the Authority's 2015 Audited Financial Statements presents details of its debt and debt service requirements. New Garden's debt obligations will remain with it. Aqua will not be assuming any New Garden debt obligation.

VIII. PROOF OF COMPLIANCE

34. Aqua will operate and manage the New Garden wastewater system as a standalone system from its Southeastern Division office located in Bryn Mawr, Pennsylvania. The EEWTP and the SEWWTP are approximately 29.5 miles from the Division Office at 762 W. Lancaster Avenue, Bryn

Mawr, Pennsylvania. Mr. Thomas A. Cicala and Mr. Michael J. Stewart will be the assigned Certified Wastewater Operators for the system. The currently effective Wastewater Operator's Licenses for Mr. Cicala and for Mr. Stewart are attached hereto as **Exhibit L1** and **Exhibit L2**.

35. Water Quality Management Permits for the EEWTP and for the SEWWTP are attached hereto as **Exhibit M1** and **Exhibit M2**, respectively. There are no NPDES Permits for the system since the mode of disposal is land application rather than stream discharge. Copies of Discharge Monitoring Reports ("DMR") for the EEWTP and for the SEWWTP, from January 2011 through December 2015, are attached hereto as **Exhibit N1** and **Exhibit N2**, respectively, to document compliance with DEP requirements. Copies of the DEP Chapter 94 Reports for 2015 are attached hereto as Exhibits E1 and E2, as previously noted.

36. Aqua is in good standing with DEP. Copies of Aqua DMRs from January 2011 through December 2015 for two similar plants, the Brandywine River Estates Wastewater Treatment Facility, and the New Daleville Wastewater Treatment Facility are attached hereto as **Exhibit O1** and **Exhibit O2**, respectively, to document general compliance with DEP requirements.

37. The three service areas comprising the Requested Territory are consistent with the Township's service area mapped by the Township. Additions and deletions to all three of the areas have been achieved via the Act 537 Sewage Facilities Planning Module Process. The status of the three service areas is updated annually through the Chapter 94 Municipal Wasteload Management reporting process including projections five years into the future. Copies of New Garden's Act 537 Plan documents for the East End system is attached hereto as **Exhibit P1** (Book 1) and **Exhibit P2** (Book 2). A copy of the Act 537 Plan for the Avondale system area is attached hereto as **Exhibit Q1** (Book 1) and **Exhibit Q2** (Book 2). The Township uses the Comprehensive Area-Wide Sewerage Plan for Chester County Pennsylvania, dated June 24, 1968 for the South End system. A copy of this plan for the South End system is attached

hereto as **Exhibit R**. Aqua confirmed this with DEP. A copy of the e-mail communication with DEP dated December 12, 2016 is included as **Exhibit S**. A copy of the New Garden Township Comprehensive Plan is attached hereto as **Exhibit T1**. A copy of the Chester County Comprehensive Plan is attached hereto as **Exhibit T2**.

38. Aqua has an existing operational presence and wastewater professionals in the area. Aqua provides wastewater service in Chester County. Its Southeastern Division office is approximately 29.5 miles from the New Garden treatment plants. The acquisition will easily fold into Aqua's existing wastewater operations. A listing of Aqua's nearby wastewater treatment plants is as follows:

Buyer's Plant	Location	Approximate Distance To New Garden Acquisition, miles
Penn Township WWTP	West Grove, PA	6.8
New Daleville WWTP	Cochranville, PA	7.4
Newlin Greene WWTP	Unionville, PA	8.2
Honeycroft WWTP	Cochranville, PA	8.6
Brandywine River Estates WWTP	Pocopson, PA	13.1

39. Aqua is not anticipating any physical or managerial changes after closing. Minor changes in operational staffing will occur involving shifting of staff responsibilities.

IX. AFFECTED PERSONS

40. No corporation or entity, except New Garden, is now furnishing or has corporate or franchise rights to furnish wastewater service in the Requested Territory, and no competitive condition will be created by approval of this Application. There are no other water or wastewater service providers

abutting or within one mile of the Requested Territory other than the Borough of Avondale which receives flow from the Avondale service area.

X. REASONS SUPPORTING THIS APPLICATION

41. Approval of this Application is necessary or proper for the following reasons:

- a. Aqua has the technical, regulatory, financial and legal fitness to operate the Assets of New Garden, and to maintain the operations and make improvements to meet continuing and future customer needs. The proposed transaction will not have an adverse effect on the service provided to existing customers of Aqua;
- b. New Garden has agreed to sell its Assets. The public interest and need will be served by allowing Aqua, in lieu of New Garden, to provide wastewater service in the Requested Territory and to address the issues of regulatory requirements and capital expenditures. The New Garden system will benefit from the support of wastewater professionals throughout Aqua's organization; and
- c. Expansion of Aqua's service territory, upon completion of the proposed transaction, will further the benefits of regionalization and economies of scale.

XI. ADDITIONAL INFORMATION REQUIRED BY SECTION 1329 OF THE PUBLIC UTILITY CODE AND THE PUBLIC UTILITY COMMISSION'S 1329 CHECKLIST

42. Aqua and New Garden have agreed to use the process presented in Section 1329 of the Public Utility Code, 66 Pa. C.S. § 1329, to determine the fair market value of the Assets and the ratemaking rate base.

43. As required by Section 1329(d)(1)(i), copies of the Fair Market Value Appraisals Reports of Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett Fleming"), Utility Valuation Expert,

and AUS Consultants, Inc. ("AUS"), Utility Valuation Expert, are attached hereto as **Exhibit U** and **Exhibit V**, respectively.

44. Applicant states that the purchase price of the Assets of the selling utility as agreed to by Aqua and New Garden is \$29,500,000.

45. The ratemaking rate base determined pursuant to Section 1329(c)(2) of the Public Utility Code is \$29,500,000, being the lesser of the purchase price of \$29,500,000 negotiated by Aqua and New Garden and the average of the fair market value appraisals which is \$32,140,875 – determined by \$30,615,410 presented in the appraisal of AUS and \$33,666,340 presented in the appraisal of Gannett Fleming.

46. Aqua will incur transaction and closing costs of approximately \$55,000, which it will include in its rate base.

47. A schedule of rates tariff page implementing rates equal to the rates of New Garden at the time of acquisition is attached hereto as Exhibit G, as previously stated.

48. Applicant verifies that Gannett Fleming was selected by Aqua, the acquiring public utility, and that AUS was selected by New Garden, the selling utility.

49. The Utility Valuation Experts were paid \$17,165 for the completed Fair Market Value Appraisal Reports. Documentation of the fees paid to each Expert is attached hereto as **Exhibit W1** and **Exhibit W2**, respectively. Fees paid to the Experts did not exceed 5% of the fair market value of the selling utility.

50. Statements of Gannett Fleming and of AUS verifying that they have no affiliation with Aqua or New Garden as specified in Section 1329 and that their Appraisals determined fair market value in compliance with the Uniform Standards of Professional Appraisal Practice, employing the cost, market and income approaches are attached hereto as **Exhibit X1** and **Exhibit X2**, respectively.

51. The testimony of William C. Packer, in support of this Application is attached hereto as **Exhibit Y.**

52. The testimony of Mark J. Bubel, Sr., in support of this Application is attached hereto as **Exhibit Z.**

53. The Engineer's Assessment of tangible assets of New Garden is attached hereto as **Exhibit AA.** The Engineer's Assessment is also included within the Supporting Exhibits and Workpapers to the Fair Market Value Appraisal Report of AUS.

XII. CONCLUSION

WHEREFORE, Aqua requests that the Public Utility Commission approve this Application, filed pursuant to Sections 1102 and 1329 of the Public Utility Code, and:

a. Issue *Certificates of Public Convenience* under §1102 of the Pennsylvania Public Utility Code:

(1) Authorizing Aqua to acquire, by purchase, the wastewater system assets of New Garden; and

(2) Authorizing Aqua to begin to offer, render, furnish and supply wastewater service to the public in the Requested Territory covered by this Application.

b. Authorize Aqua to file tariff revisions, effective upon one day's notice, to:

(1) Include within its territory all the Requested Territory covered by this Application;

(2) Adopt and apply within the Requested Territory New Garden's rates as set forth in this Application as Aqua's Base Rates within the Requested Territory; and

(3) Apply Aqua's *Rules and Regulations* within the Requested Territory.

c. Enter an *Order* approving this Application and Aqua's acquisition of the Assets and, as part of that *Order* include the ratemaking rate base of New Garden as \$29,500,000 pursuant to Section 1329(c)(2) of the Public Utility Code; and

d. Issue such other approvals, certificates, registrations and relief, if any, under the Public Utility Code that may be required with respect to Aqua's acquisition of the Assets pursuant to Section 1102 and 1329 of the Public Utility Code.

Respectfully submitted,

AQUA PENNSYLVANIA WASTEWATER, INC.

By 

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