

**Application of Pennsylvania-American Water Company for Acquisition of Assets of
The Municipal Authority of the City of McKeesport
66 Pa. C.S. §1329
Application Filing Checklist – Water/Wastewater
Docket No. A-2017-_____**

14. Provide direct testimony for the application.

RESPONSE: See enclosed direct testimony of the following:

Direct Testimony of Bernard J. Grundusky, Jr., Director – Business Development, on behalf of Pennsylvania-American Water Company, PAWC Statement No. 1.

Direct Testimony of Beatty W. Morgan, Jr., Senior Director of Operations, Western Pennsylvania, on behalf of Pennsylvania-American Water Company, PAWC Statement No. 2.

Direct Testimony of David R. Kaufman, Vice President – Engineering, on behalf of Pennsylvania-American Water Company, PAWC Statement No. 3.

Direct Testimony of Rod P. Nevirauskas – Sr. Director of Rates and Regulations for the Mid Atlantic Division of the American Water Works Company, on behalf of Pennsylvania-American Water Company, PAWC Statement No. 4.

Direct Testimony of James S. Merante, CPA, Director – Financial Strategy, Planning and Decision Support, on behalf of Pennsylvania-American Water Company, PAWC Statement No. 5.

Direct Testimony of Michael Cherepko, Mayor of the City of McKeesport, on behalf of Pennsylvania-American Water Company, PAWC Statement No. 6.

Direct Testimony of Jerome C. Weinert, P.E., Principal and Director for AUS Consultants, Inc. on behalf of Pennsylvania-American Water Company, PAWC Statement No. 7.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application and related filings of Pennsylvania- :
American Water Company under Sections 507, 1102(a), :
and 1329 of the Pennsylvania Public Utility Code, 66 Pa. :
C.S. §§ 507, 1102(a), 1329, for approval of its :
acquisition of wastewater system assets of The : Docket No. A-2017-_____ *et al.*
Municipal Authority of the City of McKeesport, related :
wastewater service rights, fair market valuation :
ratemaking treatment, accrual and deferral of certain :
post-acquisition improvement costs, and certain :
contracts with municipal corporations :

**DIRECT TESTIMONY OF
BERNARD J. GRUNDUSKY, JR.
ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

Dated: May 24, 2017

PAWC Statement No. 1

**DIRECT TESTIMONY OF
BERNARD J. GRUNDUSKY, JR.**

INTRODUCTION

1

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

3 **A.** My name is Bernard J. Grundusky, Jr. and my business address is 852 Wesley Drive,
4 Mechanicsburg, Pennsylvania 17011.

5

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

7 **A.** I am employed by Pennsylvania-American Water Company ("PAWC") as the Director of
8 Business Development.

9

10 **Q. WHAT ARE YOUR RESPONSIBILITIES AS PAWC'S DIRECTOR OF BUSINESS
11 DEVELOPMENT?**

12 **A.** I develop and maintain necessary contacts to stay abreast of new business opportunities.
13 In addition, I direct the business development team in the preparation of proposals, policies
14 and strategies for acquisitions, and other related business ventures. Finally, I participate in
15 developing PAWC's short- and long-range plans. These responsibilities necessitate that I
16 maintain a working knowledge of regulatory and technical developments, new
17 technologies and current trends as they affect the water and wastewater utility industries,
18 and that I be familiar with legislation, regulation and public policy affecting business
19 opportunities.

20

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

1 A. I received a Bachelor of Science (B.S.) degree in Accounting from Pennsylvania State
2 University in August of 1990 and a Master of Business Administration degree (MBA) from
3 Lebanon Valley College in 1995. My experience in the waterworks industry began in
4 March 1991 when I was employed as a Rate Analyst in the Rates and Revenue Department
5 of the American Water Works Service Company (“Service Company”). As a Rate Analyst,
6 I was responsible for preparing financial analysis and written testimony to support PAWC
7 rate increase requests. On January 1, 1993, I was transferred from the Service Company
8 to PAWC. On July 1, 1995, I was promoted to Senior Rate Analyst. On October 16, 1996,
9 I was promoted to Financial Analyst in PAWC’s Administration Department. My principal
10 duties in that capacity included the preparation and administration of the revenue, operating
11 and maintenance budgets and assistance in the preparation of the capital budgets; the
12 review of results of operations by budget categories; and, annual review and refinement of
13 budgeting techniques. On July 1, 1997, I was promoted to Intermediate Financial Analyst,
14 and, on July 1, 1998, I was promoted to Senior Financial Analyst. On January 1, 1999, I
15 transferred to PAWC’s Business Development Department. On July 1, 2000, I was
16 promoted to Manager of Business Development. On April 1, 2009, I was promoted to the
17 position of Senior Manager of Business Development for PAWC. On September 30, 2013,
18 I was promoted to the position of Director of Business Development for PAWC. I have
19 been in that position since then and am currently the Director of Business Development.

20
21 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
22 **PUBLIC UTILITY COMMISSION (“COMMISSION”)?**

23 **A.** Yes. I have previously testified before the Commission as a company witness for several
24 rate cases in the early to mid-1990’s, as a witness for the complaint of the Municipal

1 Authority of the Township of Robinson against PAWC at Docket No. C-20030092, and as
2 a company witness for PAWC's 2013 base rate filing. I also recently testified before the
3 Commission as a company witness in the transaction between PAWC and The Borough of
4 New Cumberland ("BNC") at Docket No. A-2016-2544151, as well as PAWC's
5 acquisition of The Sewer Authority of the City of Scranton ("SSA") at Docket No. A-2016-
6 2537209, in which PAWC acquired the wastewater collection and treatment systems of
7 BNC and SSA respectively.

8
9 **Q. HAS PAWC FILED AN APPLICATION WITH THE COMMISSION FOR**
10 **REGULATORY APPROVAL TO ACQUIRE THE WASTEWATER SYSTEM OF**
11 **THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT ("MACM")**
12 **AND RELATED APPROVALS?**

13 **A.** Yes. PAWC filed its Application on May 24, 2017 for approval of PAWC's acquisition of
14 the MACM's wastewater collection and treatment system ("System"). I will refer to the
15 acquisition in my testimony as the "Transaction."

16 The Application was prepared and filed under my direct supervision. As indicated
17 in my Verification attached to the Application, the Application and its numerous
18 appendices are true and correct to the best of my knowledge, information, and belief. We
19 used PAWC records, as well as MACM records made available by MACM, to prepare the
20 Application. For purposes of having a complete evidentiary record in this proceeding upon
21 which the Commission can base its decision, I submit the Application and all of its
22 appendices (Appendices A through M) as **PAWC Exhibit No. BJG-1.**

1 **Q. WHAT IS PAWC SEEKING IN ITS APPLICATION?**

2 **A.** There are four basic requests. First, PAWC is requesting approval of the acquisition under
3 Section 1102, 66 Pa. C.S. § 1102, similar to many requests that come before the
4 Commission. Specifically, PAWC seeks approval to acquire the System and for the right
5 to begin service in the areas currently served by MACM (“Service Area”). The Application
6 contains a *pro forma* tariff supplement under which MACM’s current rates would be
7 initially adopted.

8 Second, pursuant to Act 12 of 2016, 66 Pa. C.S. § 1329 (“Section 1329”), PAWC
9 is seeking to utilize fair market value for the ratemaking rate base of MACM. As explained
10 more-fully below, fair market value under Section 1329 is the lesser of the stated purchase
11 price in the Asset Purchase Agreement, dated September 9, 2016, as amended by the First
12 Amendment to the Asset Purchase Agreement, dated May 15, 2017 (“APA”) or the average
13 of the appraisal of MACM’s Utility Valuation Expert (“UVE”) and the appraisal of
14 PAWC’s UVE.

15 Third, PAWC is also seeking confirmation of its right under Section 1329 to collect
16 a distribution system improvement charge (“DISC”) for the new service area and seeking
17 the accrual and deferral of certain post-acquisition improvement costs. Specifically,
18 PAWC is seeking the accrual of Allowance for Funds Used During Construction
19 (“AFUDC”) for post-acquisition improvements not recovered through its DSIC for book
20 and ratemaking purposes and the deferral of depreciation related to post-acquisition
21 improvements not recovered through the DSIC for book and ratemaking purposes.

1 Fourth, PAWC is seeking Certificates of Filing or approvals under Code Section
2 507 for the APA and municipal agreements to be assumed by PAWC as a result of the
3 Transaction.

4
5 **Q. WHAT DOES SECTION 1329 REQUIRE TO BE INCLUDED IN THE**
6 **APPLICATION?**

7 **A.** Section 1329 requires that the Application include (1) copies of the two UVE appraisals,
8 (2) the purchase price, (3) ratemaking rate base, (4) transaction and closing costs, and (5)
9 the proposed tariff. However, as will be explained later in my testimony, the Commission
10 has expanded the filing requirements beyond those specifically required by the statute.

11
12 **Q. WHAT DOES THE COMMISSION REQUIRE FOR THE APPROVAL OF THE**
13 **FAIR MARKET VALUE RATEMAKING TREATMENT PERMITTED UNDER**
14 **SECTION 1329?**

15 **A.** In its Final Implementation Order entered October 27, 2016, at Docket No. M-2016-
16 2543193 (*“Final Implementation Order”*), the Commission referenced the checklist in the
17 Tentative Implementation Order entered July 21, 2016, at the same docket for items to
18 include with an application for it to be processed in a six-month time frame. The
19 Commission’s Bureau of Technical Utility Services has prepared an extensive list of
20 specific Section 1329 “Filing Requirements.” The most-recent version of the Filing
21 Requirements, as of the date of Application filing, was dated March 17, 2017. PAWC’s
22 Application is structured around those Filing Requirements. Appendix A to the
23 Application and its sub-appendices directly address each of the Filing Requirements.

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Q. IS PAWC PROPOSING THAT ITS APPLICATION BE EVALUATED USING THE FAIR MARKET VALUE PROVISION OF CODE SECTION 1329?

A. Yes. PAWC’s Application has been prepared in accordance with the fair market value provision of Code Section 1329. Specifically, PAWC is requesting that the ratemaking rate base related to the System be based on the lesser of the average of the UVE fair market value appraisals included in the Application or the APA purchase price. I note however that PAWC reserves its right to make alternative ratemaking proposals in future proceedings as may be permitted under the Code.

Q. ASIDE FROM AUTHENTICATING THE APPLICATION FOR ITS ADMISSION INTO THE EVIDENTIARY RECORD AND IDENTIFYING ITS REQUESTS FOR RELIEF, WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. My direct testimony describes the Transaction. I will explain why the Transaction is in the public interest and provide affirmative public benefits of a substantial nature, and should be promptly approved by the Commission. I will also discuss why PAWC is legally, financially, and technically fit to acquire and operate the System.

Q. PLEASE IDENTIFY THE OTHER PAWC WITNESSES WHO WILL BE PROVIDING WRITTEN DIRECT TESTIMONY AND THEIR SUBJECT MATTER AREAS.

1 **A.** In addition to my direct testimony, PAWC will submit the written direct testimony of: Mr.
2 Beatty W. Morgan, PAWC Senior Director of Operations, Western Pennsylvania; Mr.
3 David R. Kaufman, PAWC Vice President - Engineering; Mr. Rod P. Neviraskas,
4 American Water Works Service Company Senior Director of Rates and Regulation, for
5 Mid-Atlantic Division; and, Mr. James S. Merante, American Water Works Service
6 Company Director – Financial Strategy, Planning and Decision Support for PAWC.
7 Additionally, the Honorable Michael Cherepko, Mayor of the City of McKeesport, will
8 submit written direct testimony. PAWC is also sponsoring direct testimony by its selected
9 UVE, Mr. Jerome C. Weinert, Principal & Director of AUS Consultants. PAWC will not
10 be sponsoring direct testimony by MACM’s selected UVE.

11 Mr. Morgan will address the anticipated day-to-day operation of the System once
12 it is acquired by PAWC, including staffing and the customer service enhancements that
13 PAWC intends to implement for the benefit of MACM’s customers. Mr. Kaufman will
14 describe engineering and environmental issues associated with the System, support
15 PAWC’s technical fitness to operate the System, and explain certain commitments made
16 by PAWC in the APA. Mr. Neviraskas will address the initial rates, rules, and regulations
17 for the MACM customers as well as the impact of the Transaction on PAWC’s existing
18 customers. Mr. Merante will discuss the financing of the Transaction and the overall
19 financial fitness of PAWC. Mayor Cherepko will explain the current financial challenges
20 of the City of McKeesport and the affordability of wastewater service for City residents.
21 Mr. Weinert will provide supporting testimony for his fair market valuation report.

22

23

DESCRIPTION OF THE TRANSACTION

1 **Q. PLEASE PROVIDE A DESCRIPTION OF THE TRANSACTION NEGOTIATION**
2 **PROCESS.**

3 **A.** On February 26, 2016, MACM issued a Request for Bids for either an Asset Purchase of
4 the MACM Wastewater Treatment Facilities or Concession Lease Agreement with MACM
5 with bids due July 29, 2016. On July 29, 2016, PAWC submitted an Asset Purchase bid
6 to acquire the MACM Wastewater Treatment Facilities Assets. On August 5, 2016, the
7 MACM notified PAWC that it was selected as the successful bidder for the Asset Purchase
8 of MACM Wastewater Treatment Facilities. After subsequent arms-length negotiations,
9 on or about September 7, 2016, MACM and The City of McKeesport Boards approved the
10 Wastewater Treatment Facilities Asset Sale to PAWC. On September 9, 2016, the MACM
11 and PAWC entered into the APA for the sale of substantially all of the assets, properties,
12 and rights of the MACM's System at an agreed-upon price. For reasons explained below,
13 PAWC, MACM, and the City of McKeesport, on May 15, 2017, entered into the First
14 Amendment to the APA -- which revised the negotiated purchase price.

15
16 **Q. CAN YOU PLEASE PROVIDE AN OVERVIEW OF THE APA?**

17 **A.** Yes. The APA, including the First Amendment, is attached as **Appendix A-24** to the
18 Application (**PAWC Exhibit BJK-1**). The APA sets forth the terms and conditions
19 pursuant to which the MACM will sell, and PAWC will purchase, the System, as well as
20 substantially all assets, properties and rights that MACM owns and uses in connection with
21 the System. The APA sets forth the entire understanding of the parties with respect to the
22 Transaction. Under the APA, the closing of the Transaction will occur after the receipt of

1 all applicable governmental approvals, including approvals from this Commission, and
2 after all applicable conditions have been met (or waived) by the parties.

3 Upon closing of the Transaction, PAWC will take ownership of the System and
4 begin rendering wastewater services to MACM's current customers and MACM will
5 permanently discontinue providing or furnishing wastewater service to the public within
6 the City of McKeesport, the City of Duquesne, Port Vue Borough, the Borough of
7 Dravosburg, and a portion of West Mifflin Borough, Allegheny County, Pennsylvania.
8 Additionally, MACM will assign its bulk service agreements with surrounding
9 communities, and related corrective action agreements, to PAWC upon closing of the
10 Transaction and cease providing bulk service.

11
12 **Q. CAN YOU PLEASE PROVIDE A SUMMARY OF THE APA'S PROVISIONS**
13 **GOVERNING THE TRANSFER OF ASSETS?**

14 **A.** The specific properties, assets and rights to be transferred to PAWC are defined and
15 described in the APA's Section 2.01, while the excluded assets are defined in Section 2.02
16 of the APA. Generally, the APA states that every asset, property and right owned by the
17 MACM and used in the provision of sanitary wastewater service, whether real, personal,
18 mixed, tangible or intangible, and including all the physical plant, property, equipment and
19 facilities comprising the System owned by the MACM shall be conveyed to PAWC. The
20 APA's Schedules 4.09 and 4.10 contains a non-exclusive list of Real Property and
21 Equipment and Machinery used in connection with the System to be conveyed to PAWC.
22 All interests in real estate, including leases, easements and access to public rights-of-way,

1 owned by MACM and relating to the System, as well as all assigned contracts, Schedule
2 4.15, also will be conveyed to PAWC.

3 Excluded assets, as set forth in the APA's Section 2.02, specifically exclude
4 stormwater system assets. Other items that will not be transferred include: all contracts,
5 licenses and leases that are not "Assigned Contracts"; specific personal files and records;
6 MACM insurance policies; all rights to any action, suit or claims being pursued by MACM;
7 all assets, properties and rights used by MACM other than those which primarily relate to
8 the operations of the System; the City of McKeesport's NPDES Permit; the MS4 System
9 Real Property; and, MACM's cash and cash equivalents, including accounts receivable,
10 but excluding customer deposits, for services rendered through the close of business on the
11 closing date.

12
13 **Q. HAS PAWC AGREED TO ASSUME ANY LIABILITIES OF THE MACM'S AS**
14 **PART OF THE TRANSACTION?**

15 A. Yes. PAWC is accepting certain "Assumed Liabilities" as part of this Transaction on the
16 day of and after closing on the Transaction. Per Section 2.04 of the APA, PAWC will
17 assume: (i) liabilities and obligations arising under MACM's NPDES permits on the day
18 of and after Closing; (ii) any liabilities and obligations arising from agreed-upon labor
19 amendments to employees current Collective Bargaining Agreement ("CBA") prior to
20 closing; (iii) and, all items arising out of or relating to the System or the "Acquired Assets"
21 on or after closing, including items referenced in Section 2.04 (a)3(i) through (vi). PAWC
22 will not assume or be liable for any liabilities or obligations relating to "Excluded
23 Liabilities" or other liabilities or obligations that are not "Assumed Liabilities."

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Q. CAN YOU PLEASE SUMMARIZE THE APA’S PROVISIONS GOVERNING THE NEGOTIATED PURCHASE PRICE OF THE TRANSACTION?

A. The consideration for the purchase of the System is set forth in Section A. of the First Amendment to the APA. The negotiated purchase price is \$162,000,000.

Q. WHY WAS THE NEGOTIATED PURCHASE PRICE CHANGED VIA THE FIRST AMENDMENT TO THE APA?

A. Under Sections 3.01 and 3.02 of the APA, PAWC originally agreed to pay MACM the higher of the otherwise-stated purchase price in the APA (\$156,000,000) and the average of the UVEs’ appraisals. Thus, but for the First Amendment, the higher of \$156,000,000 or the average of the UVEs’ appraisals would have been both the purchase price and the fair market value for ratemaking purposes under Section 1329. As originally negotiated, the APA’s stated purchase price of \$156,000,000 was solely intended to ensure that MACM received a guaranteed minimum amount for its System in the event that the average of the UVE appraisals was unacceptably low to MACM.

Shortly before PAWC originally intended to file its application in April 2017, PAWC was advised by MACM of its UVE’s appraised fair market value (\$207,010,000). The UVE’s appraisal would have driven the purchase price (*i.e.*, the average of the seller and buyer UVEs’ appraisals because it exceeded \$156,000,000) to an unacceptably high amount for PAWC. Likewise, in the collective judgment of PAWC, MACM and the City of McKeesport, a purchase price based on the average of the UVEs’ appraisals would have potentially jeopardized Commission approval of the Transaction.

1 Accordingly, PAWC, MACM, and the City of McKeesport negotiated the First
2 Amendment and set the negotiated purchase price at \$162,000,000 -- a reasonable amount
3 that is well-below the average of the UVEs' appraisals (\$184,176,500). Negotiation of the
4 First Amendment was not only to the benefit of PAWC's shareholders but also to the
5 benefit of its ratepayers. The lower negotiated purchase price will result in a lower fair
6 market value for ratemaking purposes under Section 1329 than would have otherwise been
7 set under the APA as originally negotiated.

8 Finally, I note that both the seller UVE and buyer UVE were apprised of the new
9 negotiated purchase price and given an opportunity to adjust their appraisals as appropriate
10 in their independent discretion. The appraisal reports included with the application include
11 supplements from the UVEs acknowledging the new negotiated purchase price.

12
13 **Q. PLEASE EXPLAIN THE RATES THAT WILL APPLY TO THE MACM'S**
14 **CUSTOMERS FOLLOWING THE CLOSING OF THE TRANSACTION.**

15 **A.** As set forth in Section 7.05 of the APA and as will be explained more-fully in the Direct
16 Testimony of Mr. Nevirauskas, PAWC Statement No. 4, PAWC will initially adopt
17 MACM's rates (base rates) existing at the time of closing of the Transaction. These base
18 rates will not increase until after the first anniversary of the Closing Date; provided,
19 however, that PAWC may seek a rate change during that one-year period. Moreover, the
20 parties recognize that ratemaking authority is vested with the Commission. Other charges
21 such as PAWC's DSIC and State Tax Adjustment Surcharges may be subject to increases
22 -- even during the initial one-year period. Currently, MACM bills monthly wastewater
23 service for McKeesport, Dravosburg, Duquesne and West Mifflin, and quarterly for Port

1 Vue. These rates are shown in **Appendix A-18-a** to the Application (**PAWC Exhibit.**
2 **BJG-1**).

3
4 **Q. HAS PAWC MADE ANY COMMITMENTS IN THE APA THAT WILL BE**
5 **IMPLEMENTED AFTER THE CLOSING OF THE TRANSACTION?**

6 **A.** Yes, PAWC has made certain commitments to improve the System. My colleague, David
7 R. Kaufman, will discuss these commitments in greater detail in his written direct
8 testimony, PAWC Statement No. 3. In addition, PAWC has committed to offer
9 employment to eligible MACM employees following the closing of the Transaction (*see*
10 Section 7.03 of the APA). My colleague, Beatty W. Morgan, will discuss anticipated day-
11 to-day operation of the System once it is acquired by PAWC, including staffing, in his
12 written direct testimony, PAWC Statement No. 2.

13
14 **TRANSACTION IS IN THE PUBLIC INTEREST**

15 **Q. PLEASE PROVIDE AN OVERVIEW OF PAWC.**

16 **A.** PAWC, a subsidiary of American Water Works Company Inc., (“American Water”), is the
17 largest regulated public utility corporation duly organized and existing under the laws of
18 the Commonwealth of Pennsylvania, engaged in the business of collecting, treating,
19 storing, supplying, distributing, and selling water to the public, and collecting, treating,
20 transporting and disposing of wastewater for the public. Water and wastewater service is
21 furnished by PAWC to the public in a service territory encompassing more than 400
22 communities in 36 counties, including Allegheny County and neighboring counties of
23 Washington, Butler, Beaver and Lawrence. Overall, PAWC serves a combined population

1 of over 2,300,000 across the Commonwealth and is American Water's largest subsidiary
2 with nearly 21 percent of American Water's regulated customer base.

3 PAWC currently employs approximately 1,000 professionals with expertise in all
4 areas of water and wastewater utility operations, including engineering, regulatory
5 compliance, water and wastewater treatment plant operation and maintenance, distribution
6 and collection system operation and maintenance, materials management, risk
7 management, human resources, legal, accounting and, most importantly, customer service.
8 PAWC has the expertise, the record of environmental compliance, the commitment to
9 invest in necessary capital improvements and resources, and experienced managerial and
10 operating personnel necessary to provide safe and reliable sewer services to the residents of
11 the MACM and surrounding areas.

12
13 **Q. PLEASE DESCRIBE PAWC'S HISTORICAL RELATIONSHIP WITH THE MACM.**

14 A. PAWC has strong foothold in the Mon Valley area -- servicing for many years the water
15 needs of the citizens in communities such as Dravosburg, Glassport, Elizabeth Township,
16 West Mifflin, Clairton, Homestead and Munhall. We take pride in being a good corporate
17 citizen by participating in local events, providing environmental and firefighting grants,
18 offering the "H2O Assistance Program," and supporting economic growth through
19 infrastructure improvements in the communities we serve. In fact, American Water began
20 in the City of McKeesport in 1886, when the American Water Works & Guarantee
21 Company was established. The City of McKeesport is in a position to welcome back one
22 of its earliest businesses. PAWC is eager to partner with the City of McKeesport in
23 providing a sustainable long-term future for the City's wastewater assets, while helping the

1 City meet its current challenges. The City and its residents will benefit from a stable
2 company with a robust model and reliable service that the community has come to expect
3 and deserve.

4
5 **Q. HOW MANY CUSTOMERS DOES THE MACM SYSTEM CURRENTLY SERVE**
6 **AND HOW MANY CUSTOMERS DOES PAWC CURRENTLY SERVE?**

7 **A.** As of December 31, 2016, MACM furnishes wastewater services to 12,780 customers.
8 This number does not include consumers served by surrounding municipalities with whom
9 MACM has bulk service agreements.

10 As of December 31, 2016, PAWC furnishes wastewater services to 54,691
11 customers in Pennsylvania, inclusive of 50,404 residential customers, 4,114 commercial
12 customers, 132 municipal customers, 37 industrial customers, and 4 bulk customers.
13 PAWC furnishes water services to 654,770 customers, inclusive of 602,856 residential
14 customers, 44,812 commercial customers, 522 industrial customers, 2,259 municipal,
15 4,299 fire protection customers, and 22 sales for resale customers.

16
17 **Q. CAN YOU PLEASE EXPLAIN WHY THE PROPOSED TRANSACTION IS IN**
18 **THE PUBLIC INTEREST?**

19 **A.** Yes. The Transaction will result in affirmative public benefits of a substantial nature. First,
20 PAWC, as a large and long-established public utility, has the managerial, technical, and
21 financial fitness to operate the System in a safe and efficient manner in compliance with
22 the Pennsylvania Public Utility Code, the Pennsylvania Clean Streams Law, and all other
23 applicable statutory and regulatory requirements. PAWC has extensive experience in the

1 operation of wastewater collection and treatment systems. The acquisition fosters the
2 Commission's stated goal of regionalizing wastewater systems to provide greater
3 environmental and economic benefits to customers.

4 Second, MACM's current customers will benefit in several ways from becoming
5 PAWC customers. PAWC is a large, financially-sound company that has the capacity to
6 finance necessary capital additions and improvements that will benefit its customers. In
7 addition, given its size, its access to capital, and its recognized strengths in system
8 planning, capital budgeting, and construction management, PAWC is well-positioned to
9 ensure that high quality wastewater service meeting all applicable state and federal
10 regulatory requirements is provided to the MACM's customers.

11 Third, MACM's current customers will benefit from enhanced and proven
12 customer service that PAWC provides. My colleague, Beatty Wynn Morgan, discusses
13 these customer service enhancements in more detail in PAWC Statement No. 2; however,
14 I would like to note that they include -- but are not limited to -- additional bill payment
15 options, extended customer service and call center hours, enhanced customer information
16 and education programs, and access to PAWC's customer assistance program.

17 Finally, the Transaction will benefit PAWC's existing customers and MACM's
18 current customers in the long-term by expanding PAWC's customer base. There will be
19 no immediate rate impact on PAWC's existing customers, and we expect that the
20 Transaction will help PAWC maintain reasonable rates for all its customers going forward.
21 Moreover, by adding additional connections to the entire PAWC system, there are more
22 customers to share future infrastructure investment cost which promotes stable rates across
23 the entire PAWC system. Customers who benefit from near-term improvements will one

1 day help pay for improvements on behalf of other customers on other parts of the PAWC
2 system. Being able to spread the costs of investing in and maintaining public wastewater
3 systems over a growing customer base, particularly in a time of increased environmental
4 requirements, is essential to the continued success of wastewater systems and maintaining
5 reasonable rates for customers. Indeed, the Pennsylvania Legislature recognized, as a
6 matter of public policy, the importance of consolidation and cost sharing in the passage of
7 Act 11 of 2012. There is also a clear legislative intent associated with Section 1329 and
8 its allowance of fair market valuation for ratemaking purposes. The General Assembly
9 intended to facilitate the acquisition of municipal water and wastewater systems by
10 investor-owned utilities for the benefit of municipal corporations and their customers.

11
12 **PAWC'S LEGAL, FINANCIAL AND TECHNICAL FITNESS**

13 **Q. CAN YOU PLEASE TELL US WHY PAWC IS LEGALLY FIT TO ACQUIRE AND**
14 **OPERATE THE SYSTEM?**

15 **A.** Yes. PAWC is a Commission-regulated public utility with a good compliance history.
16 There are no pending legal proceedings that would suggest that PAWC is not legally fit to
17 provide service to customers on MACM's System.

18
19 **Q. CAN YOU EXPLAIN WHY PAWC IS FINANCIALLY FIT TO ACQUIRE AND**
20 **OPERATE THE SYSTEM?**

21 **A.** Yes. PAWC is the largest water and wastewater provider in Pennsylvania. It has a long-
22 demonstrated history with the Commission of financial stability.

1 As part of the Application, PAWC provided the audited internal balance sheet, as
2 of December 31, 2016, for PAWC (**Appendix E to PAWC Exhibit BJG-1**), as well as the
3 audited income statement, as of December 31, 2016, for PAWC (**Appendix G to PAWC**
4 **Exhibit BJG-1**). Those documents show that PAWC had total assets of approximately
5 \$4.35 billion as of December 31, 2016. Further, they show that PAWC had net income of
6 approximately \$153 million for the 12 months ending December 31, 2016. These figures
7 are further demonstration that PAWC has the financial stability and wherewithal to acquire
8 the System and operate it in the public interest. My colleague, James S. Merante, will
9 provide additional details in PAWC Statement No. 5 on the financial health of PAWC and
10 its ability to access capital.

11
12 **Q. PLEASE EXPLAIN WHY PAWC IS TECHNICALLY FIT TO OPERATE THE**
13 **SYSTEM?**

14 **A.** As I discussed earlier, PAWC is engaged in the business of collecting, treating, transporting
15 and disposing of wastewater for the public. We are the largest investor-owned water utility
16 in the Commonwealth of Pennsylvania and we already have significant wastewater
17 operations -- including a large combined sanitary and wastewater system in Scranton,
18 Pennsylvania. PAWC is experienced in undertaking and completing water and wastewater
19 system acquisitions with public and private sector owners and successfully integrating
20 those assets into our business operations. My colleagues, Beatty Wynn Morgan and David
21 R. Kaufman will explain in greater detail in PAWC Statement Nos. 2 and 3, respectively,
22 specifically how PAWC intends to operate the System once acquired.

1 **SERVICE TERRITORY**

2 **Q. PLEASE EXPLAIN THE SERVICE TERRITORY SOUGHT BY PAWC IN THE**
3 **APPLICATION.**

4 A. As part of its Application, PAWC is seeking the right to provide service to the customers
5 currently served by MACM in the service area served by MACM as shown in the maps
6 and descriptions attached as **Appendix A-16-h to PAWC Exhibit BJK-1**. No municipal
7 authority, corporation, partnership or individual other than MACM is now furnishing or
8 has corporate or franchise rights to furnish service similar to that to be rendered by PAWC
9 in the Service Area covered by the Application, and no competitive condition will be
10 created. As discussed above, upon closing of the Transaction, MACM will permanently
11 discontinue all wastewater service to the public.

12 MACM also accepts and treats bulk sewage from eight communities via direct or
13 adjoining municipal sewer systems; they include the Boroughs of East McKeesport,
14 Liberty, Glassport, Lincoln, Versailles and White Oak and the Townships of Elizabeth and
15 North Versailles. I note that three of the bulk service interconnections are located slightly
16 outside the otherwise applied-for service territory and PAWC has requested Commission
17 approval to continue bulk service at those points of interconnections. Other than the
18 municipal bulk service customers, no customers are connected to those pipes outside of the
19 otherwise applied-for service territory.

20
21 **APPROVAL OF CONTRACTS WITH MUNICIPAL CORPORATIONS**

22 **Q. HAS PAWC REQUESTED CODE SECTION 507 CERTIFICATES OF FILING OR**
23 **APPROVALS AS PART OF ITS APPLICATION?**

1 **A.** Yes. In addition to the approvals sought under Code Sections 1102(a) and 1329, 66 Pa.
2 C.S. §§ 1102(a), 1329, the APA, as amended (including the related Notes and Intercept
3 Agreement) and any contract with a municipal corporation that will be assumed by PAWC
4 must, according to PAWC's counsel, be filed with the Commission pursuant to Code
5 Section 507. Aside from the APA, PAWC has identified 18 contracts requiring Certificates
6 of Filing or approvals under Section 507 (*see Appendices B-1 through B-18 to PAWC*
7 **Exhibit No. BJG-1**).

8
9 **Q. PLEASE DESCRIBE THE MUNICIPAL CONTRACTS TO BE ASSUMED BY**
10 **PAWC.**

11 **A.** As noted, PAWC is assuming the contracts listed on Schedule 4.15 of the APA and, per
12 the APA's Section 12.07 and provisions of Section 14.01(c)(ii), will enter into an
13 Assignment of Contracts Agreement with MACM to take assignment of such contracts.
14 The list of contracts on the APA's Schedule 4.15 includes nine Municipal Service
15 Agreements and nine related Corrective Action Agreements, specifically with Lincoln
16 Borough and Municipal Authority, Elizabeth Township Sanitary Authority, Liberty
17 Borough, Municipal Authority of West Moreland County, North Versailles Township and
18 North Versailles Township Sanitary Authority, East McKeesport Borough, the Borough of
19 Versailles, the Borough of Glassport, and Port Vue Borough.

20 Commission approval of the continuation of these contracts is necessary in order
21 for PAWC, after closing on the Transaction, to provide bulk service to surrounding
22 communities -- as MACM has previously done. Approval is reasonable and serves an

1 important public purpose because the bulk services provided under the contracts are
2 essential to the provision of wastewater service in neighboring communities.

3

4

CONCLUSION

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

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

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application and related filings of Pennsylvania- :
American Water Company under Sections 507, 1102(a), and :
1329 of the Pennsylvania Public Utility Code, 66 Pa. C.S. §§ :
507, 1102(a), 1329, for approval of its acquisition of :
wastewater system assets of The Municipal Authority of the : Docket No. A-2017-_____ *et*
City of McKeesport, related wastewater service rights, fair : *al.*
market valuation ratemaking treatment, accrual and deferral :
of certain post-acquisition improvement costs, and certain :
contracts with municipal corporations :

**DIRECT TESTIMONY OF
BEATTY W. MORGAN, JR. ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

**DIRECT TESTIMONY
OF BEATTY W. MORGAN, JR.**

INTRODUCTION AND PURPOSE

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

A. Beatty W. Morgan, Jr., 300 Galley Road, McMurray, PA 15317

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

A. I am employed by Pennsylvania-American Water Company (“PAWC” or the “Company”) as the Senior Director of Operations, Western Pennsylvania.

Q. WHAT ARE YOUR RESPONSIBILITIES AS PAWC’S SENIOR DIRECTOR OF OPERATIONS, WESTERN PENNSYLVANIA?

A. I am responsible for all water and wastewater operations across the Western half of the Commonwealth, managing a team of approximately 400 professionals in 16 districts, serving 800,000 Pennsylvanians.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EDUCATION AND EXPERIENCE.

A. I attended Auburn University in Auburn Alabama, earning a Bachelor of Chemical Engineering degree. I am also a professional member of the American Water Works Association.

I have more than 18 years of operational, engineering and business experience in the regulated water and wastewater industry. In addition, I have eight years’ experience in the regulated pharmaceutical and biotech industry. I joined PAWC in December of 2014. Before that, I was Senior Manager of Operations for Missouri American Water. In that

1 role, I led a team of professionals dedicated to the provision of drinking water, wastewater
2 and other related services to our operations in Northwest Missouri. I was responsible for
3 the ongoing operational, business, and compliance demands. My initial assignment with
4 Missouri American Water was as a Senior Project Manager in Engineering responsible for
5 new and renovated water and wastewater systems. Prior to joining American Water in
6 2009, I held positions in Missouri with Pharmaceutical and Biotech companies leading
7 project teams through the rigors of drug development and approval by the Food and Drug
8 Administration. My career in the water industry started as a process engineer, optimizing
9 pulp and paper mill operations and then leading production teams for Kimberly Clark
10 Corporation. I served as an Officer and project engineer in the United States Air Force.
11 Career progression included process engineering, project management, technical
12 leadership, business development and business leadership. I have worked in the water
13 industry in Alabama, Missouri, and Pennsylvania.

14
15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
16 **PUBLIC UTILITY COMMISSION?**

17 **A.** No.

18
19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

20 **A.** My direct testimony describes the anticipated day-to-day operations of the wastewater
21 collection and treatment system (“System”) currently owned and operated by the Municipal
22 Authority of the City of McKeesport (“MACM”). I will describe several customer service
23 enhancements PAWC intends to implement for the benefit of MACM’s customers that

1 include -- but are not limited to -- bill payment options, extended customer service call
2 center hours, enhanced customer information and education programs, and PAWC's
3 customer assistance program. I will also describe how PAWC intends to operate the
4 System once acquired.

6 SCOPE OF OPERATIONS

7 **Q. PLEASE PROVIDE AN OVERVIEW OF PAWC'S SCOPE OF OPERATIONS.**

8 **A.** PAWC is a subsidiary of American Water Works Company, Inc. ("American Water"), the
9 largest publicly traded water and wastewater service company in the U. S. with a history
10 extending 130 years. Through its various subsidiaries, American Water provides
11 approximately 15 million people with regulated and market-based drinking water,
12 wastewater, and other water-related services in 47 states and parts of Canada. PAWC is
13 the largest regulated water and wastewater provider in the Commonwealth providing
14 service to approximately 2.3 million people in 36 counties in over 400 communities. As a
15 public utility operating in Pennsylvania, PAWC operates under the rules and regulations
16 of the Pennsylvania Public Utility Commission ("Commission") which, in addition to
17 regulating specific aspects of service, approves the rates charged for water and wastewater
18 service. PAWC must also meet standards established by the Pennsylvania Department of
19 Environmental Protection ("DEP") and the Federal Environmental Protection Agency
20 ("EPA"). In Allegheny County where the System is located, PAWC must also comply
21 with the requirements of the Allegheny County Health Department -- which has concurrent
22 jurisdiction with DEP on environmental matters.

1 Marcel Lakes, Lehman Pike, Pocono, Fairview Township (North Plant), Clarion, and
2 Franklin Township wastewater treatment plants. These varieties of applications and
3 treatment processes have provided our team with extensive experience in operating and
4 maintaining wastewater treatment systems.

5
6 **Q. WHAT OTHER RESOURCES ARE AVAILABLE TO PAWC IN CARRYING OUT**
7 **ITS WASTEWATER OPERATIONS?**

8 A. As a subsidiary of American Water, PAWC has available to it the resources of American
9 Water Works Service Company, Inc. (the "Service Company"). The Service Company
10 provides access to highly-trained professionals with expertise in various specialized areas
11 who work exclusively for American's operating subsidiaries. As mentioned previously,
12 American Water currently owns or operates approximately 200 wastewater operations
13 through its subsidiaries in a number of states. Additionally, a 50-person team of Service
14 Company engineers has handled a wide variety of system evaluations, selecting treatment
15 processes and establishing critical design criteria for water and wastewater treatment
16 systems in order to improve operations and prioritize capital improvements. When
17 operational issues arise at individual facilities owned by PAWC, the Company will
18 mobilize engineering talent from its central engineering team, drawing on -- as necessary
19 -- resources from the Service Company team, to evaluate conditions, identify potential
20 problems, recommend options, and develop action plans for either operational and/or
21 facility improvements.

OPERATIONS IN MCKEESPORT AREA

Q. PLEASE PROVIDE AN OVERVIEW OF PAWC'S EXISTING WATER OPERATIONS FACILITIES IN THE MCKEESPORT AREA.

A. PAWC owns, operates, and maintains one water treatment plant, and one wastewater treatment plant in our Southwest Area, as well as pumping stations, valves, more than 6,300 fire hydrants, and approximately 1,700 miles of pipe to provide reliable water service to our Southwest Area customers. Our Southwest Area operation services customers in all or portions of the City of Uniontown; Dunbar, Menallen, North Union and South Union Townships; the cities of Clairton and Monongahela; the Boroughs of Dravosburg, Elizabeth, Glassport, Jefferson, Liberty, Lincoln, New Eagle and West Elizabeth; the Townships of Carroll, Elizabeth, and Forward; the City of Washington; the Boroughs of Burgettstown, Canonsburg, East Washington, Frankfort Springs, Houston, McDonald, Midway and West Middletown; the Townships of Amwell, Buffalo, Canton, Chartiers, Claysville, Cross Creek, Donegal, East Finley, Hopewell, Independence, Jefferson, Mount Pleasant, North Franklin, North Strabane and South Strabane; the Townships of Cecil, North Fayette, Nottingham, Fallowfield, Hanover (Washington County), Hanover (Beaver County), Peters, Robinson, Smith Somerset, South Fayette, and South Franklin; the City of Connellsville; South Connellsville Borough; Connellsville Township; Bullskin Township, Claysville (Fayette and Washington Counties); Boroughs of Brownsville, West Brownsville, California, Coal Center; and the Townships of Brownsville, Luzerne, Redstone, and West Pike Run. The estimated population served is 225,000.

In the adjacent Pittsburgh Area, PAWC owns, operates, and maintains two water treatment plant, as well as pumping stations, valves, more than 6,500 fire hydrants, and

1 approximately 1,500 miles of pipe to provide reliable water service to our Pittsburgh
2 customers. The Pittsburgh operations services customers in the 29th, 30th, 31st and 32nd
3 wards and portions of 16th, 18th, 19th, 20th and 28th wards of the City of Pittsburgh; the
4 Boroughs of Baldwin, Bethel Park, Brentwood, Bridgeville, Carnegie, Castle Shannon,
5 Crafton, Dormont, Dravosburg, Finleyville, Green Tree, Heidelberg, Homestead, Ingram,
6 Jefferson, Munhall, Mount Oliver, Oakdale, Pleasant Hills, Rosslyn Farms, Thornburg,
7 West Homestead, West Mifflin, Whitaker and Whitehall; the Townships of Baldwin,
8 Collier, Scott, South Fayette, South Park, Union and Upper St. Clair; the Municipality of
9 Mt. Lebanon; and portions of Peters and Robinson.

10
11 **Q. PLEASE DESCRIBE THE AUTHORITY'S CURRENT WASTEWATER**
12 **OPERATIONS FACILITIES IN THE MCKEESPORT AREA.**

13 **A.** The MACM System is located adjacent to our MonValley / Elizabeth and
14 Pittsburgh operations. In fact, PAWC provides water service to MACM's Dravosburg
15 Borough sewer customers. MACM's wastewater collection and treatment system serves
16 the City of McKeesport, City of Duquesne, Port Vue Borough, Dravosburg Borough, and
17 a small portion of West Mifflin Borough. The System also provides wastewater service
18 through bulk service connections to White Oak Borough, Liberty Borough, East
19 McKeesport Borough, Glassport Borough, Versailles Borough, Elizabeth Township,
20 Lincoln Borough, and North Versailles Township. In total, MACM provides wastewater
21 service to approximately 22,000 customers. Since the System is not located near any
22 existing PAWC wastewater system, it will be operated as the same standalone system.

1 The System has been classified by DEP as a combined sewer overflow (“CSO”)
2 system. The wastewater system consists of over 144 miles of collection sewers and large
3 interceptors, 36 CSOs (Duquesne - 4, Dravosburg - 1, Port Vue - 4, and McKeesport - 27),
4 10 pumping stations, and three wastewater treatment plants (“WWTP”).
5

6 **Q. WILL THERE BE ANY UNNECESSARY DUPLICATION OF OPERATIONS**
7 **FACILITIES FOLLOWING THE ACQUISITION?**

8 **A.** No. As discussed in greater detail below, the System will initially be operated as a stand-
9 alone system. It will however have the support of PAWC’s surrounding water and
10 wastewater system operations as well as PAWC’s operations throughout the
11 Commonwealth and American Water’s nationwide resources.
12

13 **Q. PLEASE DESCRIBE HOW PAWC WILL MANAGE THE DAY-TO-DAY**
14 **OPERATIONS OF THE SYSTEM ONCE IT IS ACQUIRED.**

15 **A.** The System will be managed as a separate wastewater department within PAWC’s
16 Southwest Area operations. The Southwest Area is currently managed by a senior manager
17 with overall responsibility for the water department and a range of shared support services
18 -- including purchasing, environmental compliance, health, and safety. When the
19 acquisition is complete, the senior manager’s role will expand to include responsibility for
20 the new wastewater department. The water and wastewater departments will both be
21 supported by common shared support services.
22

1 **Q. ARE OTHER PAWC EMPLOYEES AVAILABLE TO ASSIST WITH**
2 **WASTEWATER OPERATIONS, AS NEEDED?**

3 **A.** Yes. PAWC operations are divided into seven geographical areas. MACM is located
4 within PAWC's Southwest operational area. Current PAWC employees in this area and
5 MACM employees will be under the same area management divided into separate water
6 and wastewater departments supported by a shared support team supporting common
7 functions such as payroll, purchasing, environmental compliance, health, and safety.
8 Employees in both the water and wastewater departments will support each other when
9 appropriate and necessary, particularly in emergency situations. As mentioned above, all
10 operations and employees within PAWC and within the broader American Water footprint
11 have access to each other when circumstances require and/or when a very specialized skill
12 or experience is required to support all local issues.

13
14 **Q. PLEASE DESCRIBE PAWC'S PLAN FOR THE INTEGRATION OF**
15 **AUTHORITY'S OPERATIONS.**

16 **A.** PAWC has assembled a transition team to manage the transition of existing staff and
17 operations from MACM. The transition team has two tiers; a senior management group
18 and the functional team. The senior tier is comprised of leaders from each of the support
19 functions, including Operations, Engineering, Customer Experience, Information
20 Technology Services, External Affairs, Legal, Human Resources, Health & Safety,
21 Maintenance Services, Water Quality, and Environmental Compliance. Each support
22 function has its own weekly team meeting. Meetings may occur more frequently

1 depending on group activities. The transition team will ensure that all environmental,
2 employees, operations, and business requirements are addressed.

3 The members of the senior transition team have worked through multiple
4 transitions, and we therefore recognize the value and importance of existing staff and their
5 institutional knowledge. We also understand the anxiety and nervousness a change of this
6 magnitude can cause to the staff. To address these issues, we commenced a communication
7 plan in November 2016 that included regular meetings with existing MACM leadership
8 and implemented a communication plan in February 2017 which includes regular meetings
9 with the existing MACM employees and their union leaders.

10
11 **Q. WHAT ARE YOUR PLANS FOR COMMUNICATING WITH THE**
12 **AUTHORITY'S CUSTOMER REGARDING THE ACQUISITION?**

13 **A.** Approximately 4 – 5 weeks prior to closing of the transaction, we will send a direct mailer
14 to all customers with information regarding the transition to PAWC ownership, customer
15 service and billing information, as well as numbers and a link for our web and media access.
16 At closing, we will mail each customer a “Welcome Letter” from PAWC President Jeff
17 McIntyre along with a new customer brochure.

18
19 **COMBINED SYSTEM**

20 **Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF THE COMBINED NATURE**
21 **OF THE AUTHORITY'S SYSTEM.**

22 **A.** The combined wastewater system conveys domestic sewage and other wastewaters and
23 stormwater in the same system of pipes to the WWTP or to a series of CSO outfalls. The

1 operator of the wastewater system and holder of the NPDES permit for the WWTP is
2 responsible for management of all flows within and discharges from the system. I have
3 been informed by counsel that the Commission has determined that combined system are
4 subject to Commission jurisdiction.

5
6 **Q. WHAT IS THE COMPANY'S EXPERIENCE IN OPERATING COMBINED**
7 **SEWER SYSTEMS?**

8 **A.** PAWC currently owns and operates the combined wastewater collection and treatment
9 system in the Scranton area. The Commission approved PAWC's acquisition of the
10 Scranton system in October of 2016 at Docket No. A-2016-2537209. The system serves
11 approximately 31,000 customers and is similar to the MACM System with respect to
12 combined sewer overflows.

13 Moreover, within Pennsylvania, PAWC has had significant experience with
14 systems which, although not classified as combined wastewater systems, have substantial
15 wet weather challenges due to high rates of infiltration and inflow, such as the Clarion
16 Wastewater system. In addition, PAWC's sister company, West Virginia American Water
17 Company, has owned and operated a combined sewer system in the area of Fayetteville,
18 West Virginia since its acquisition in September 2008. Other American Water affiliated
19 companies also operate on a contract basis combined sewer systems for municipalities
20 across the country. As explained above, PAWC has available to it highly trained
21 professionals in the American Water Service Company team who have expertise in various
22 specialized areas, including stormwater management, and will be able to utilize such

1 resources when circumstances require and when a very specialized skill or experience is
2 required to support a local issue.

3
4 **Q. IS THERE ANY WAY OPERATIONALLY TO SEGREGATE THE**
5 **WASTEWATER OPERATIONS FROM THE STORMWATER OPERATIONS IN**
6 **THE SYSTEM?**

7 **A.** No. The System is a combined system. Unless there was an actual physical separation of
8 wastewater and stormwater facilities, there is no reasonable way to segregate operations.

9
10 **Q. PLEASE DESCRIBE THE KEY ELEMENTS OF PAWC'S PROPOSED PUBLIC**
11 **OUTREACH AND INVOLVEMENT PROGRAM IN RELATION TO COMBINED**
12 **SEWER OUTFALL.**

13 **A.** Educating the public about CSOs and their harmful impact on receiving waters can
14 significantly reduce the amount of pollutants and floatables able to enter waterways. When
15 people are informed about the issues pollutants and floatables can cause, they are
16 empowered to make small behavior changes to assist in prevention efforts. Public
17 education programs can reduce the amount of litter and contaminants on the streets, and
18 thereby reducing the amount of floatables and pollutants in the receiving waters. PAWC
19 has developed proactive approaches to implementing public information and education
20 programs about watershed protection and reducing potential sources of runoff
21 contaminants. PAWC will establish public outreach programs to educate the community
22 on stormwater management, consisting of educational materials and public outreach
23 events.

1 PAWC has developed relationships with numerous community organizations to
2 educate residents on household best practices regarding stormwater, including rain barrel
3 workshops and developing rain gardens. The Company will continue to partner with the
4 City of McKeesport, Allegheny County Conservation District, and other local
5 environmental agencies to support and promote these endeavors.

6
7 **Q. WHAT ADDITIONAL PUBLIC NOTIFICATION MEASURES WILL PAWC**
8 **PROVIDE REGARDING COMBINED SEWER OUTFALLS?**

9 **A.** PAWC regularly provides educational materials in bill mailings and through its website
10 and social media channels. PAWC will continue to provide educational materials to
11 residents and local stakeholders. PAWC will also ensure that signs are appropriately place
12 at CSO locations to warn of the dangers of water-related activities during discharges or
13 heavy rains.

14 PAWC's website will provide information to residents about the System and proper
15 operation of the System. Also, the website includes appropriate precautions, risks,
16 potential health hazards, locations and occurrences of CSO discharges and incidents of dry
17 weather discharge.

18 Social media has become a very useful tool to address pollution prevention, and
19 helping to spread information about these programs. PAWC utilizes multiple social media
20 pages, such as Facebook (www.facebook.com/pennsylvaniaamwater), Twitter
21 (@paamwater), Instagram (@paamwater), and YouTube (@paamwater). Social media
22 sites are used to educate and inform customers about a variety of topics and issues, as well
23 as emergency notification.

1 PAWC will participate in community activities and events to discuss planned
2 projects with various neighborhood and civic organizations. These events enable the
3 PAWC to gain community input on work that the public would like to see. Community
4 meetings will also give PAWC a chance to answer questions and disseminate information
5 on how PAWC is addressing key issues, such as CSO and other pollution prevention
6 initiatives.

7 PAWC supports numerous watershed groups and stream restoration efforts through
8 its Environmental Grant Program and other types of partnerships. PAWC has strong
9 working relationships with state and local environmental groups, including the
10 Pennsylvania Environmental Council, which can help the PAWC develop and implement
11 a Public Education and Outreach Program. PAWC regularly conducts educational
12 programs at schools and in the community and supports volunteer opportunities for public
13 involvement.

14 **EMPLOYEE HIRING**

15
16 **Q. HOW MANY EMPLOYEES DOES PAWC CURRENTLY HAVE IN THE**
17 **MCKEESPORT AREA?**

18 **A.** PAWC currently has 110 employees in the Southwest Area with an additional 170
19 employees in the adjacent Pittsburgh Area.

20
21 **Q. HOW MANY EMPLOYEES DOES THE MACM CURRENTLY HAVE?**

22 **A.** MACM currently has 45 active employees.
23

1 **Q. WILL ALL OF THE CURRENT AUTHORITY EMPLOYEES BE RETAINED BY**
2 **PAWC?**

3 **A.** PAWC will offer employment effective on the closing date of the acquisition to all active
4 union and non-union personnel employed by the MACM as of the closing date, subject to
5 PAWC's background checks and drug screening.

6
7 **Q. WILL ANY CURRENT SOUTHWEST AREA EMPLOYEES OF PAWC BE**
8 **RELEASED AS A RESULT OF THE ACQUISITION?**

9 **A.** No.

10
11 **Q. WILL THERE BE ANY UNNECESSARY DUPLICATION OF SERVICES AS A**
12 **RESULT OF RETAINING ALL PAWC AND MACM EMPLOYEES?**

13 **A.** No. PAWC's commitment to employ MACM's active employees will assure continued
14 quality service to customers and effective operations of the System post-closing.

15
16 **Q. PLEASE DESCRIBE THE LABOR AGREEMENTS CURRENTLY IN PLACE**
17 **FOR MACM EMPLOYEES.**

18 **A.** MACM's employees are currently covered by one collective bargaining agreement with
19 the Utility Workers Union of America (UWUA) Local 229. The contract expired
20 December 31, 2015 and is in its second one-year extension that ends December 31, 2017.
21 MACM has been negotiating with UWUA Local 229 and expects to ratify the contract in
22 the second quarter of 2017.

23

1 **Q. DO YOU ANTICIPATE ANY ISSUES IN LABOR NEGOTIATIONS AFTER**
2 **PAWC ACQUIRES THE SYSTEM?**

3 **A.** No. PAWC has a good track record in working with its employees and their unions to
4 achieve mutually-acceptable collective bargaining agreements.

5
6 **Q. PLEASE DESCRIBE PAWC'S SCREENING PROCESS FOR NEW EMPLOYEES.**

7 **A.** For the purposes of the acquisition, the hire screening will include background checks,
8 including criminal and drug screening of all personnel.

9
10 **SECURITY, SAFETY AND EMERGENCY PREPAREDNESS**

11 **Q. DOES PAWC MAINTAIN CYBER SECURITY, PHYSICAL SECURITY,**
12 **BUSINESS CONTINUITY, AND EMERGENCY PLANS?**

13 **A.** Yes. Cyber and physical security plans are maintained and monitored by American Water
14 for each of its subsidiaries. PAWC maintains emergency response plans and Operations
15 and Maintenance ("O&M") Manuals, both of which have operational business continuity
16 included within the plans, and are updated each year. These plans are tested each year
17 through emergency response tabletop exercises. Each of the plans are overseen and
18 managed by various groups and individuals to provide overarching support to PAWC.
19 These groups are responsible for testing, reviewing, and updating their respective plan(s).
20 The departments assigned to Physical Security, Emergency Response, Business
21 Continuity, and Cyber Security plans are as follows:

- 22 • Physical Security Plan – Operational Risk Management Security (AWWSC)
- 23 • Cyber Security Plan – Operational Risk Management Security (AWWSC)

- 1 • Emergency Response Plan – Operations (PAWC)
- 2 • Business Continuity Plan – Operational Risk Management (PAWC) and Operations
- 3 (PAWC)

4 To constantly protect physical and cyber resources, the designated groups have developed
5 procedures to ensure that PAWC operates in a safe, secure, and reliable environment. A
6 major commitment in assuring plans are kept current is performing various testing on an
7 annual basis. Types of testing performed by AWWSC and PAWC include vulnerability
8 assessments, system operational testing, full scale exercises, media backups, and real-life
9 events.

10

11 **Q. PLEASE DESCRIBE PAWC’S RELATIONSHIPS WITH COMMISSION**
12 **EMERGENCY RESPONSE STAFF, PENNSYLVANIA EMERGENCY**
13 **MANAGEMENT AGENCY STAFF, AND LOCAL FIRST RESPONDERS.**

14 **A.** PAWC has a strong working relationship with the Commission’s Emergency Response
15 Staff. PAWC provides the Commission with emergency response numbers for all PAWC
16 operating areas each year. The Commission provides emergency numbers for its staff,
17 which PAWC distributes to all of PAWC’s operating areas for inclusion in the PAWC
18 Emergency Response Plans. For those emergencies that warrant communication to the
19 Commission’s Emergency Preparedness Liaison Officer (“EPLO”), PAWC has contacted
20 Commission staff numerous times in the past to advise of situations and actions taken by
21 PAWC. Each year PAWC conducts emergency response tabletop exercises to test response
22 to emergency situations, including weather emergencies, contamination of supply, damage
23 to facilities, cyber-attack, and other perils. The Commission’s emergency response staff

1 has participated in those exercises each year since 2006. We also invite local first
2 responders to participate, such as fire departments, police departments, hazmat responders,
3 local prison personnel, as well as DEP, and Pennsylvania Department of Homeland
4 Security (“DHS”) personnel. PAWC has participated, through the Pennsylvania
5 Water/Wastewater Agency Response Network (“PaWARN”) organization, in
6 Pennsylvania Emergency Management Agency (“PEMA”) sponsored exercises over the
7 years. Our current relationship with PEMA is through the Commission EPLO and the
8 PaWARN organization.

9
10 **Q. PLEASE DESCRIBE PAWC’S PARTICIPATION IN PENNSYLVANIA’S “ONE**
11 **CALL” SYSTEM AND THE RESOURCES THAT PAWC DEDICATES TO THE**
12 **PROGRAM.**

13 **A.** All of PAWC's 36 districts are members of Pennsylvania One Call System Inc. and
14 complete excavator requested mark outs on a daily basis. Each district has at a minimum
15 of one personnel dedicated to completing dig notifications utilizing a third party internet-
16 based One Call ticket management system known as Korweb that is accessible via vehicle
17 mounted computers for real time response to any One Call dig notification.

18
19 **Q. DOES PAWC HAVE AN EMPLOYEE SAFETY PROGRAM?**

20 **A.** Yes. American Water and PAWC has made safety a value and not just a goal. It is very
21 important to us that every employee and contractor return home safely every day. We
22 make safety a value instead of a goal because goals change, but values don’t change. Safety
23 performance is fundamental to our Company’s culture and key to its success. Employees

1 are expected to conduct themselves in a safe manner, in accordance with our Health &
2 Safety policy and with the Health and Safety Procedures and Practices Manual. PAWC
3 establishes, implements, promotes and manages safety programs, activities and training
4 that enable continued safety improvement, injury reduction and compliance with
5 applicable Federal, State and local requirements. Safety programs are developed and
6 implemented in accordance with Company policy and applicable practices and include:

- 7 • Supporting practices that are developed, reviewed and updated to provide guidance
8 on safe performance of activities in the workplace and are reflective of changes in
9 organizational, operational and regulatory needs;
- 10 • Strategy and priority development and implementation of safety improvements
11 based on risk analysis of work places, work tasks and related potential injuries and
12 incidents;
- 13 • Development of, and measurement against, specific Company and external safety
14 performance targets and safety accountabilities for all employees;
- 15 • Ongoing assessment and review of safety processes, activities and supporting
16 programs (including those related to other Company policies, such as the
17 Workplace Conduct and Behavior Policy) to gauge effectiveness, identify program
18 gaps and pinpoint opportunities for continued improvement;
- 19 • Consistency of implementation and compliance with Company and regulatory
20 requirements across the enterprise; and,
- 21 • Defined and monitored contractor qualifications and requirements for safety
22 performance in accordance with approved contract documents, applicable laws and
23 regulations.

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CUSTOMER EDUCATION AND CUSTOMER SERVICE

Q. WHAT EFFORTS, IF ANY, WILL PAWC UNDERTAKE TO EDUCATE CUSTOMERS REGARDING PAWC OWNERSHIP OF THE SYSTEM?

A. PAWC is planning to conduct a variety of public outreach efforts across the System, including small group briefings, such as the Chamber of Commerce, community groups and local legislators, which are intended to discuss the PAWC and the System as well as address customer questions. In addition, when the Acquisition is nearing closing, PAWC plans to produce bill inserts and/or letters to customers to explain the transition, billing, payment options and other items associated with the change in ownership. The PAWC website will also add content to help educate customers and to address frequently asked questions.

Q. WHAT, IF ANY, CUSTOMER ENHANCEMENTS CAN THE AUTHORITY CUSTOMERS EXPECT AS A RESULT OF THE ACQUISITION?

A. PAWC prides itself on providing superior customer service. As part of its commitment to customer service, PAWC offers its customers a number of enhanced services, including extended call center hours, additional bill payment options, enhanced customer information and education programs, and access to PAWC’s customer assistance program.

Q. CAN YOU PLEASE PROVIDE ADDITIONAL DETAIL ON EACH OF THESE CUSTOMER SERVICE ENHANCEMENTS?

1 A. Yes. **Customer Service.** Our call center is available from 7:00 a.m. to 7:00 p.m., Monday
2 through Friday. Customers can also reach a customer service representative via email at
3 infopa@amwater.com. In addition, our customers have the ability to manage their account
4 via PAWC's "My H2O" online portal. Finally, PAWC offers emergency support 24 hours
5 a day, seven days a week. All of this means that we are very responsive to our customers
6 and any issues they may have, and will provide the same responsive approach to the
7 Authority's customers once PAWC acquires the System.

8 **Bill Payment Options.** PAWC offers a number of bill payment options. Customers
9 have the option to receive paper bills through the mail or go paperless and receive their
10 bills electronically via the "My H2O" on-line portal. Either way, customers can pay their
11 bill by mail, online, or over the phone with a debit or credit card. They can also pay by e-
12 check or an electronic funds transfer (which can be set up at the "My H2O" online portal)
13 or pay in person at multiple authorized payment locations across the state.

14 **Customer Information and Education Programs.** PAWC provides extensive
15 customer information and education programs that will be available to the Authority's
16 current customers through brochures, bill inserts, and educational videos posted on
17 PAWC's website. Our customers always have full access to a wide range of topics,
18 including information on preventing sewer overflows, how to prevent frozen pipes,
19 beneficially re-using residuals from water treatment plants for community gardens,
20 detecting and fixing silent toilet leaks, how to properly dispose of unused pharmaceuticals
21 to keep them out of the wastewater system, water conservation techniques, expansion takes,
22 fire department grants, and protecting customers from utility imposters.

1 *Customer Assistance Programs.* Finally, as new PAWC customers, the
2 Authority's customers will have access to PAWC's customer assistance program called the
3 "H2O Help to Others Program." For wastewater customers, this program offers two main
4 services: (1) grants of up to \$500 per year and (2) a 15% discount on total wastewater
5 charges. Additionally, customers who qualify for the program may also qualify to receive
6 a water saving kit which includes, among other things, a low-flow shower head and low-
7 flow faucet aerators.

8
9 **Q. DOES PAWC HAVE A PROGRAM TO PROTECT ITS CUSTOMERS AGAINST**
10 **UTILITY EMPLOYEE IMPOSTERS?**

11 **A.** Yes, PAWC has developed communications tools and programs to regularly educate
12 customers about the tactics used by utility employee imposters and what homeowners need
13 to know to protect themselves. The communications vehicles include bill inserts, news
14 releases, social media posts and website information about imposter-related crimes and
15 precautions that customers can take. In addition, PAWC helped form the Keystone
16 Alliance to Stop Utility Imposters, a coalition of water, gas and electric utilities, along with
17 the Commission, Pennsylvania District Attorneys Association and Pennsylvania Chiefs of
18 Police Association, to launch a public awareness campaign using public service
19 announcements, print materials, posters and community presentations.

20
21 **Q. PLEASE DESCRIBE PAWC'S CUSTOMER DISPUTE RESOLUTION**
22 **PROCEDURE?**

1 A. PAWC is governed by Chapter 14 of the Public Utility Code, Responsible Utility Customer
2 Protection Act, 66 Pa. C.S. § 1401 *et seq.*, and the Commission’s regulations commonly
3 known as Chapter 56, 52 Pa. Code § 56 *et seq.* This law and Commission regulations
4 provide the process and procedures for customer billing, collections, payment
5 arrangements, medical certifications, Protection from Abuse Orders, termination of
6 service, reconnection of service, and customer dispute resolution procedures. PAWC has
7 a customer compliance team located in the Hershey office responsible for ensuring that
8 customer disputes and complaints are resolved in compliance with the Commission’s
9 regulations. Additionally, the Company has a customer advocacy team located in the
10 Hershey office responsible for addressing any customer disputes and escalated concerns.

11
12 **Q. TO THE BEST OF YOUR KNOWLEDGE, DO THE AUTHORITY’S**
13 **CUSTOMERS CURRENTLY HAVE A PUBLIC OMBUDSMAN TO REPRESENT**
14 **THEIR INTERESTS?**

15 A. No.

16
17 **Q. DO PAWC’S CUSTOMERS HAVE A PUBLIC OMBUDSMAN TO REPRESENT**
18 **THEIR INTERESTS?**

19 A. Yes. The Office of Consumer Advocate (“OCA”) represents residential customers of
20 public utilities; the Office of Small Business Advocate (“OSBA”) represents small
21 commercial customers of public utilities; and, the Commission’s Bureau of Investigation
22 & Enforcement (“I&E”) represents the general public interest. Moreover, the Commission,
23 an independent regulatory agency, has regulatory oversight of matters involving public

1 utilities. The Commission and all of the public advocates are funded by regulatory
2 assessments against the public utilities.

3
4
5 **CONCLUSION**

6 **Q. DO YOU BELIEVE PAWC HAS THE ABILITY TO PROVIDE SAFE,**
7 **ADEQUATE, AND RELIABLE WASTEWATER SERVICE TO THE**
8 **AUTHORITY'S CUSTOMERS?**

9 **A.** Yes.

10
11 **Q. DO YOU BELIEVE THAT THE PROPOSED TRANSACTION WOULD RESULT**
12 **IN AN AFFIRMATIVE PUBLIC BENEFIT OF A SUBSTANTIAL NATURE?**

13 **A.** Yes. PAWC, as the largest investor-owned water and wastewater company in the
14 Commonwealth, will be able to provide an enhanced level of operational expertise and
15 customer service. Moreover, the acquisition will result in further regionalization of
16 wastewater services in southwest Pennsylvania.

17
18 **Q. DOES THIS CONCLUDE YOUR DIRECT 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. Thank you.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application and related filings of Pennsylvania-American :
Water Company under Sections 507, 1102(a), and 1329 of the :
Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 507, 1102(a), :
1329, for approval of its acquisition of wastewater system assets : Docket No. A-2017-_____ *et al.*
of The Municipal Authority of the City of McKeesport, related :
wastewater service rights, fair market valuation ratemaking :
treatment, deferral of the post-acquisition improvement costs, and :
certain contracts with municipal corporations :

**DIRECT TESTIMONY OF
DAVID R. KAUFMAN ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

Date: May 24, 2017

PAWC Statement No. 3

**DIRECT TESTIMONY OF
DAVID R. KAUFMAN**

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

2 A. David R. Kaufman, 800 West Hersheypark Drive, Hershey, PA 17033.

3

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

5 A. I am employed by Pennsylvania-American Water Company (“PAWC” or the “Company”)
6 as Vice President - Engineering.

7

8 **Q. WHAT ARE YOUR RESPONSIBILITIES AS PAWC’S VICE PRESIDENT -
9 ENGINEERING?**

10 A. As Vice President - Engineering for PAWC, I am responsible for the administration of
11 engineering services, including the planning, design and construction of water and
12 wastewater capital investment projects, for all of PAWC’s systems and facilities.

13

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

15 A. In 1975, following graduation from Pennsylvania State University with a Bachelor of
16 Science degree in civil engineering, I accepted an engineering position with Pennsylvania
17 Gas and Water Company (“PG&W”) in Wilkes-Barre, Pennsylvania. I remained in that
18 position until 1989, when I was promoted to Manager of Water Engineering for PG&W.
19 In August 1991, I was promoted to Vice President of Water Resources for PG&W. In that
20 position, I was responsible for PG&W’s water operations relating to water supply, water
21 quality and treatment, water engineering and planning. When the water assets of PG&W

1 were acquired by PAWC in February 1996, I accepted an Operations Manager position
2 with the Company in its Northeast Region and had responsibilities for both water and
3 wastewater operations in the Scranton /Wilkes Barre and the Pocono/Lehman Pike regions.
4 I remained in that position until February 2001, when I was promoted to Manager of
5 Northeast Operations. In 2004, I accepted the position of Director of Engineering -
6 Southeast Region with American Water Works Service Company and remained in that
7 position until I accepted the position of Vice President - Engineering for PAWC. I am a
8 registered Professional Engineer in Pennsylvania and a hold a Class A1 water treatment
9 plant operator's license.

10
11 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
12 **PUBLIC UTILITY COMMISSION?**

13 A. Yes. I have testified before the Pennsylvania Public Utility Commission ("Commission")
14 on several occasions, including both water and wastewater proceedings.

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

17 A. My testimony will describe the wastewater collection and treatment system ("System")
18 currently owned and operated by the Municipal Authority of the City of McKeesport
19 ("MACM") that PAWC has agreed to acquire. I will also testify about several other topics
20 that relate to the System, including: three (3) long term control plans ("LTCs") that deal
21 with certain environmental and regulatory requirements that PAWC will assume once it
22 acquires the System; an Industrial Pretreatment Program ("IPP") that PAWC will adopt
23 that is substantially similar to the IPPs currently in place in other PAWC wastewater

1 operations and the MACM system; and, PAWC's overall technical fitness to acquire and
2 operate the System.

3
4 **Q. CAN YOU PLEASE DESCRIBE THE MACM SYSTEM?**

5 A. Based on information that PAWC received from MACM and evaluated as well as my
6 personal knowledge of the System, MACM owns and operates an integrated wastewater
7 system comprised of a combined wastewater collection system and three wastewater
8 treatment plants which collect and treat wastewater from the Cities of McKeesport and
9 Duquesne and the Boroughs of Dravosburg and Port Vue as well as providing bulk
10 wastewater service via inter-municipal service agreements with the surrounding
11 municipalities of the Boroughs of East McKeesport, Liberty, Glassport, Lincoln,
12 Versailles, and White Oak and the Townships of Elizabeth and North Versailles. These
13 eight surrounding municipalities own and operate their own collection systems which
14 connect to the McKeesport interceptor system directly or indirectly via an adjoining
15 municipality's wastewater system. Wastewater from these eight surrounding
16 municipalities and the City of McKeesport and Port Vue Borough ("McKeesport Service
17 Area") is treated at the McKeesport wastewater treatment plant (WWTP), located at the
18 confluence of the Youghiogheny and Monongahela Rivers. The collection systems in
19 Duquesne and Dravosburg transport sewage from their respective communities to their
20 WWTPs located by the Monongahela River and are not interconnected to the other
21 systems.

1 **Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF THE COMBINED NATURE**
2 **OF THE SYSTEM?**

3 A. A combined wastewater system, such as the MACM system, will collect, transport, and
4 treat wastewater consisting of any used water and water-carried solids collected or
5 conveyed by a sewer, including:

6 (1) Sewage, as defined in section 2 of the act of January 24, 1966 (1965
7 P.L.1535, No.537), known as the Pennsylvania Sewage Facilities Act.

8 (2) Industrial waste originating from an establishment. For the purposes of this
9 paragraph, the terms "industrial waste" and "establishment" shall be as
10 defined in section 1 of the act of June 22, 1937 (P.L.1987, No.394), known
11 as The Clean Streams Law.

12 (3) Infiltration or inflow into sewers.

13 (4) Other water containing solids or pollutants.

14 (5) Storm water which is or will become mixed with waters described under
15 paragraph (1), (2), (3) or (4) within a combined wastewater system.

16 It does not include storm water collected in a municipal separate storm sewer system
17 (“MS4”) as those storm water discharges do not flow into a combined sewer system.

18 This definition of a combined wastewater system is consistent with the 2016
19 amendments to the Pennsylvania Public Utility Code, regarding the definitions of
20 “wastewater” and “public utility” at 66 Pa. C.S. § 102. It is also consistent with the
21 Commission’s final order in PAWC’s acquisition of The Sewer Authority of the City of
22 Scranton entered on October 19, 2016 at Docket No. A-2016-2537209.

1 Piping in a combined system will convey wastewater, including stormwater, for
2 discharge to receiving streams at NPDES permitted outfall locations. All such wastewater
3 is regulated under the provisions of the Pennsylvania Clean Streams Law, the Sewage
4 Facilities Act, and the Pennsylvania Department of Environmental Protection (“PaDEP”)
5 regulations relating to sewage.

6
7 **Q. WHAT IS AN “MS4” SYSTEM?**

8 A. An MS4 is a “municipal separate storm sewer system.”
9

10 **Q. IS PAWC ACQUIRING AN MS4 SYSTEM?**

11 A. No. PAWC will not be acquiring an MS4 system. MS4 systems are owned and operated
12 by the municipalities in which they reside. In the future, if and when combined sewers are
13 separated into sanitary only and stormwater only lines, the MS4 stormwater only lines will
14 be transferred to the municipality in which they reside as applicable for ongoing
15 management as part of their municipal MS4 stormwater systems.
16

17 **Q. PLEASE DESCRIBE THE COMPONENTS OF THE MACM SYSTEM.**

18 A. The combined wastewater collection facilities for the McKeesport service area consist of
19 approximately 139 miles of gravity collection and interceptor sewers; catch basins;
20 combined sewer overflow (CSO) outfall structures and related storm water diversion (CSO
21 regulator) chambers; approximately five miles of force main; and nine collection system
22 lift stations. Sewer pipes range in size from 4” through 84” and consist primarily of
23 vitrified clay pipe and reinforced concrete pipe, with cast iron pipe comprising under 1%

1 of the total amount of collection system piping. The collection systems within the City of
2 McKeesport and Port Vue include both separate sanitary sewers designed to carry sanitary
3 wastewater only and combined sewers which were intended to carry both sanitary sewage
4 and stormwater runoff to the interceptor. The stormwater diversion chambers (CSO
5 regulators) divert dry weather wastewater flow from the combined sewers into the
6 interceptor sewers. Wastewater flow is diverted to the interceptor until the flow rate
7 reaches a set value based on an allowable flow rate to the wastewater treatment plant. As
8 this flow rate is exceeded, the combined wastewater begins to discharge through the CSO
9 outfalls to the river. The nine lift stations excluding the main lift station at the treatment
10 plant, are the RIDC No. 1, RIDC No. 2, Long Run Pump Station, 28th Avenue Pump
11 Station, Cliff Street Pump Station, Perry Street, Ripple Road, West Shore, and Glenn
12 Avenue Pump Stations.

13 The McKeesport WWTP was originally constructed in 1958 and was subsequently
14 expanded in 1972 to provide secondary treatment. Over the years, many capital projects
15 have been implemented to update, repair or replace equipment and facilities as warranted.
16 As it exists today, the WWTP provides primary and secondary treatment as well as
17 disinfection prior to the treated effluent discharge to the Monongahela River. PaDEP
18 authorizes the discharge of treated wastewater at the WWTP outfall on the Monongahela
19 River, along with the combined sewer overflows at the 27 NPDES permitted locations
20 along the Monongahela and Youghiogheny Rivers, Crooked Run, and Long Run under
21 NPDES permit number PA0026913, which expires on February 28, 2021. The permit
22 requires the elimination or capture for treatment, or storage and subsequent treatment, no
23 less than 85% by volume of combined wastewater collected in the combined system during

1 precipitation events on a system-wide annual average basis. It prohibits dry weather
2 overflows, but allows CSO discharges when flows in the combined wastewater system
3 exceed the design capacity of the conveyance and treatment facilities of the system. The
4 permit also requires the continued implementation of the Nine Minimum Control Plan
5 (“NMCP”), the Long Term Control Plan (“LTCP”), and the operation and implementation
6 of a pretreatment program.

7 The original WWTP facility had an average day design hydraulic capacity of 11.5
8 million gallons per day (MGD) and a peak hydraulic capacity of approximately 20 MGD.
9 Utilizing the conventional activated sludge process for the secondary treatment process,
10 the WWTP is designed to remove 85% of the Biochemical Oxygen Demand (BOD), 90%
11 of suspended solids, and 99% of settable solids.

12 McKeesport performed two recent updates to their Act 537 Plan. The Act 537 Plan
13 Update dated November 2006 evaluated several options for handling wet weather-related
14 peak flows. Of the options evaluated, it was determined that the installation of parallel
15 treatment trains to handle peak flows was the most viable option. The Plan recommended
16 that the existing activated sludge process with its maximum wet weather capacity of +/- 20
17 MGD remain intact and be complimented by a new sequencing batch reactor (SBR) plant
18 with a maximum wet weather capacity of +/- 23 MGD. This arrangement of processes
19 permits all flows to be split in various proportions commensurate with the influent
20 hydraulic load to maintain the biological process in both facilities during low flow to ensure
21 the proper biota is available when peak treatment is required. The Act 537 Plan Update
22 dated July 2009 incorporated the Elizabeth Township Act 537 Plan Update – 2008 that was
23 adopted by the City of McKeesport, Elizabeth Township, and Versailles Borough into the

1 previously completed and approved MACM Act 537 Plan. This update called for the
2 Elizabeth Township Sanitary Authority (ETSA) to construct a new interceptor sewer or
3 force main from the Buena Vista WWTP to the MACM system and upgrade various
4 facilities to accommodate the increased flows from the Buena Vista watershed to the
5 MACM McKeesport WWTP. The MACM McKeesport plant's peak hydraulic capacity
6 was increased from 42.5 MGD to 56 MGD. The final project included two new force mains,
7 two new pump stations, rehabilitation and expansion of three existing pump stations, and
8 expansion of the treatment capacity of the McKeesport WWTP. Construction of the
9 upgrades were completed in May 2016. The next phase of the McKeesport LTCP is to
10 verify that the LTCP improvements meet the 85% percent capture requirements.

11 The Port Vue system was acquired by MACM in 2016. The system consists of 21
12 miles of both combined and separate sanitary sewers and four CSO outfalls which are
13 permitted by PaDEP to discharge into the Youghiogheny River during wet weather events
14 under NPDES permit number PA 00254690. Sewer pipes range in size from 8" through
15 27" and consist primarily of vitrified clay pipe. The Port Vue system also has one lift
16 station located on Glenn Avenue and approximately 200 lineal feet of 6" force main. All
17 sewage from this system is treated by MACM's McKeesport wastewater treatment plant.

18 In 2006, Port Vue passed a resolution to adopt the MACM 2006 Act 537 Plan. At
19 that time, a draft Act 537 Ten Year Plan was prepared for Port Vue Borough. Currently,
20 there is no update to Port Vue's Act 537 Plan, however, the MACM 2006 Act 537 Plan
21 includes treating all of Port Vue's wastewater. Port Vue has not prepared a LTCP.

1 The Duquesne collection system has approx. 35 miles of combined sewers. Sewer
2 pipes range in size from 8” through 48” and consist primarily of vitrified clay pipe. The
3 collection system includes four CSO outfalls in addition to the treated water discharge at
4 the Duquesne WWTP outfall. The Duquesne system does not have any lift stations. The
5 PaDEP authorizes the discharge of treated wastewater at the Duquesne WWTP outfall into
6 Thompson Run, which is a tributary to the Monongahela River, along with the combined
7 sewer overflows at the four designated locations along the Monongahela River and
8 Thompson Run under NPDES permit number PA0026981.

9 The Duquesne WWTP has four aeration basins with a permitted hydraulic capacity
10 of 5 MGD. Two serve as contact tanks and two are utilized as stabilization basins.
11 Aeration basin effluent flows by gravity to two square final settling tanks. Final settling
12 tank effluent flows by gravity into one chlorine contact tank. Return activated sludge is
13 removed from the bottom of the final clarifiers and is transferred to the stabilization tanks
14 by an airlift line. Waste activated sludge is then removed from the stabilization tanks and
15 pumped to the aerobic digesters. Adjacent to the contact stabilization tanks, the Duquesne
16 WWTP contains four aerobic digesters in series and two sludge thickening tanks.

17 The Duquesne Act 537 Plan Update – 2014 was combined with the Dravosburg Act
18 537 Plan Update and submitted to PaDEP in August 2014. The LTCP was also submitted
19 to PaDEP in August 2014. Both plans recommended retaining the existing MACM
20 Duquesne WWTP, along with the construction of a pump station, the addition of CSO
21 bypass treatment, efficiency upgrades to the final clarifiers, and the addition of two gravity
22 relief sewers. Both the 2014 Plan Update and the LTCP have been reviewed by PaDEP

1 and their comments have not been fully responded to. Pending final approval by the
2 PaDEP, the City of Duquesne will adopt this Plan update.

3 The Dravosburg collection system has approximately 10 miles of both combined
4 and separate sanitary sewers. Sewer pipes range in size from 8” through 60” and consist
5 primarily of vitrified clay and PVC pipes. The collection system includes one CSO outfall,
6 in addition to the treated wastewater discharge at the Dravosburg WWTP outfall. The
7 Dravosburg system has two lift stations, the Bettis Road Pump Station, and the lift station
8 at the treatment plant.

9 The existing Dravosburg WWTP provides screening, grit removal, conventional
10 aeration, secondary treatment and disinfection prior to discharging treated effluent to the
11 Monongahela River. The WWTP design flow is 0.48 mgd. Preliminary treatment consists
12 of a comminutor with a static bypass bar screen. Wastewater is pumped from the raw
13 sewage pump station to an open channel flowing to the grit basin. The grit basin effluent
14 flows by gravity to two aeration basins where biological treatment takes place. Aeration
15 basin effluent flows by gravity to two rectangular final settling tanks. Final settling tank
16 effluent flows by gravity into two chlorine contact tanks. The PaDEP authorizes the
17 discharge of treated wastewater at the WWTP outfall into the Monongahela River, along
18 with the combined sewer overflow at the one designated location along the Monongahela
19 River under NPDES permit number PA0028401.

20 The Dravosburg Act 537 Plan Update – 2014 was combined with the Duquesne Act
21 537 Plan Update and submitted to PaDEP in August 2014. The LTCP was also submitted
22 to PaDEP in August 2014. Both plans recommended abandoning the existing MACM

1 Dravosburg wastewater treatment plant, as well as constructing a new raw sewage pump
2 station and force main, and modifying the existing aeration basins at the MACM
3 Dravosburg WWTP to serve as peak flow storage basins for conveyance of raw sewage to
4 the MACM McKeesport WWTP. Once these modifications are completed and placed in
5 service, the MACM Dravosburg WWTP will be retired. The 2014 Plan Update was
6 reviewed by PaDEP and their comments have not been fully responded to. Pending final
7 approval by the PaDEP, the Borough of Dravosburg will adopt this Plan update.

8 As previously mentioned above, the MACM system is an integrated combined
9 wastewater system. The System conveys domestic wastewater and other wastewaters,
10 including stormwater either to the WWTP or to CSO outfalls through the same system of
11 pipes. The operator of the System and holder of the NPDES Permits is responsible for
12 management of all flows within and discharges from the combined wastewater system.
13 The combined wastewater system serves and inures to the benefit of all customers within
14 the service territory. Under the proposed transaction, PAWC will acquire and operate the
15 System and assume responsibilities for operation and maintenance as the holder of the
16 NPDES Permits.

17
18 **Q. PLEASE SUMMARIZE PAWC'S ANTICIPATED OBLIGATIONS UNDER THE**
19 **REVISED NMCP.**

20 A. PAWC would be obligated to implement the NMCP, which outlines measures to reduce
21 the impacts of combined sewer overflows on receiving waters. The elements of that NMCP
22 include: (1) a proper operation and regular maintenance program; (2) maximum use of the
23 collection system for storage; (3) implementation of an industrial pretreatment program

1 (“IPP”); (4) maximization of flow to the wastewater treatment plant for treatment; (5)
2 elimination of CSO discharges during dry weather; (6) control of the discharge of solids
3 and floatables to combined sewers; (7) pollution prevention programs; (8) public
4 notifications and public participation programs; and, (9) monitoring to characterize CSO
5 impacts and the efficacy of CSO controls. The NMCP will be revised by PAWC to reflect
6 the change in operation from MACM to PAWC.

7
8 **Q. WHAT WILL BE PAWC’S OBLIGATIONS PURSUANT TO THE DUQUESNE**
9 **AND DRAVOSBURG LTCPs?**

10 A. PAWC will be required to implement the LTCPs providing for the phased design,
11 construction and operation of projects involving improvements to the combined
12 wastewater systems in Dravosburg and Duquesne, to meet the objective of the LTCPs
13 which is to result in a wastewater capture rate of 85% or greater.

14 The recommended alternative in the Duquesne LTCP consists of the following:

- 15 1. Construction of a new headworks facility with mechanical screening and a
16 raw sewage pump station.
- 17 2. Construction of CSO bypass treatment facilities to provide screening,
18 primary treatment, and disinfection to peak wet weather flows above the
19 current WWTP capacity of 2.5 MGD.
- 20 3. Installation of new final clarifier equipment to maximize efficiency.

21 The recommended alternative in the Dravosburg LTCP consists of the following:

- 1 1. Construction of a new raw sewage pump station, including normal flow and
2 peak flow pump capacity to pump the flow to the McKeesport treatment
3 plant.
- 4 2. Construction of new force main.
- 5 3. Modification of existing aeration basins to serve as peak flow storage
6 basins.

7

8 **Q. ARE THERE OTHER DEFICIENCIES PADEP HAS IDENTIFIED IN DUQUESNE**
9 **AND DRAVOSBURG?**

10 A. Yes. The following deficiencies will need to be addressed with future capital improvement
11 projects.

- 12 1. Several residential areas in the Borough of Dravosburg do not have sanitary
13 sewage service, and sanitary-only flows from these homes are discharged
14 untreated into mine holes. Post-close, PAWC will evaluate how to
15 economically extend public sewage to these areas, and will implement the
16 system extensions and upgrades required to eliminate the sanitary
17 discharges to the mines.
- 18 2. Manhole surcharging has been identified at the Duquesne WWTP on the
19 inlet line to the WWTP. PAWC will to perform engineering analysis and
20 system improvements to eliminate the surcharging, if these activities have
21 not been completed prior to closing.

1 **Q. WHAT ARE THE ANTICIPATED IMPROVEMENTS NEEDED TO THE PORT**
2 **VUE SYSTEM?**

3 A. PAWC plans to implement collection system improvements consisting of various main
4 rehabilitation and replacement projects to correct grade 4 and 5 defects, as well as replacing
5 the Glenn Avenue lift station. PAWC will also conduct a System Hydraulic
6 Characterization Study, including flow monitoring; prepare a LTCP; and implement any
7 improvements outlined in the LTCP as a result of the System Hydraulic Characterization
8 Report.

9
10 **Q. WHAT ARE THE ESTIMATED CAPITAL COSTS FOR THE MCKEESPORT,**
11 **DUQUESNE, DRAVOSBURG, AND PORT VIEW SYSTEMS?**

12 A. The 10-year capital plan for the MACM System, currently estimated at \$62,730,000, as
13 shown on **PAWC Exhibit DRK-1** includes the planned projects for Duquesne and
14 Dravosburg as well as anticipated improvement projects in Port Vue, and on-going capital
15 needs for the McKeesport System. The estimated capital costs for implementing the LTCP
16 projects in Dravosburg and Duquesne are based on estimates provided by MACM from
17 their draft LTCPs, and the other capital needs are based on PAWC's evaluation of the
18 systems.

19
20 **Q. DOES PAWC ANTICIPATE ANY DIFFICULTIES IN COMPLYING WITH THE**
21 **TWO LTCPs AND REVISED NMCP?**

22 A. No. Although the draft LTCPs for Duquesne and Dravosburg and the revised System's
23 NMCP will impose a number of obligations, PAWC believes that it has the authority,

1 resources, and skills requisite to comply with those obligations in a timely and effective
2 manner.

3

4 **Q. ARE YOU FAMILIAR WITH THE COMPREHENSIVE PLANS OF ALLEGHENY**
5 **COUNTY AND THE AFFECTED MUNICIPALITIES (INCLUDING THE CITY**
6 **OF MCKEESPORT, THE CITY OF DUQUESNE, PORT VUE BOROUGH, THE**
7 **BOROUGH OF DRAVOSBURG, WEST MIFFLIN BOROUGH, LIBERTY**
8 **BOROUGH, WHITE OAK BOROUGH, AND NORTH VERSAILLES**
9 **BOROUGH)?**

10 A. Yes. I have reviewed and am familiar with the comprehensive plans enclosed with and
11 referred to in the Application at Appendix A-22-e.

12

13 **Q. IS THE APPLICATION REQUESTING APPROVAL OF THE ACQUISITION OF**
14 **THE MACM SYSTEM CONSISTENT WITH THE COMPREHENSIVE PLANS**
15 **OF ALLEGHENY COUNTY AND THE AFFECTED MUNICIPALITIES?**

16 A. Yes.

17

18 **Q. HOW DO YOU KNOW THAT THE ACQUISITION OF THE MACM SYSTEM IS**
19 **CONSISTENT WITH THE COMPREHENSIVE PLANS OF ALLEGHENY**
20 **COUNTY AND THE AFFECTED MUNICIPALITIES?**

1 A. PAWC is acquiring the MACM System and assuming its current operations. It is PAWC's
2 understanding based on knowledge, information, and belief that MACM is currently in
3 compliance with the comprehensive plans of Allegheny County and the affected
4 municipalities. Consequently, because PAWC is assuming MACM's current operations
5 that are in compliance with the comprehensive plans, PAWC will also be in compliance
6 with those plans.

7
8 **Q. IN YOUR OPINION, IS PAWC BETTER EQUIPPED THAN MACM TO**
9 **ADDRESS THE ENVIRONMENTAL COMPLIANCE ISSUES OF THE SYSTEM?**
10 **IF YES, WHY?**

11 A. Yes. PAWC can draw upon a much broader range of engineering and operational
12 experience, as well as deeper financial resources, to address the environmental compliance
13 challenges of the System, and given PAWC's existing platform in relation to operation of
14 water and wastewater systems in neighboring communities, we believe that PAWC is best
15 positioned to provide those services on a cost-effective basis.

16 PAWC is the Commonwealth's largest investor-owned provider of water and
17 wastewater services. As a leading wastewater provider in Pennsylvania, PAWC brings
18 industry leading expertise and has extensive technical experience in upgrading, operating
19 and maintaining sewer facilities. PAWC is a recognized leader in providing communities
20 in the Commonwealth with well-maintained and reliable water and wastewater service and
21 has extensive local knowledge due to our decades of experience providing water service to
22 neighboring communities. For wastewater treatment and collection alone, PAWC
23 currently operates 16 wastewater treatment plants that serve approximately 50,309

1 residential, 4,077 commercial, 35 industrial, and 138 municipal customers in 33
2 Pennsylvania municipalities. Treatment processes include state-of-the-art biological
3 nutrient removal systems, sequential batch reactors, and oxidation ditches.

4 PAWC currently employs approximately 1,000 professionals with expertise in all
5 areas of water and wastewater utility operations including engineering, regulatory
6 compliance, water and wastewater treatment plant operation and maintenance, distribution
7 and collection system operation and maintenance, material management, risk management,
8 human resources, legal, accounting, and customer service. As a subsidiary of American
9 Water, PAWC has available to it additional resources of highly trained professionals who
10 have expertise in various specialized areas. American Water currently owns or operates
11 approximately 200 wastewater operations through its subsidiaries in a number of states.
12 American Water's experience includes the full breadth of treatment processes, from
13 facultative ponds to membrane biological reactors in every climate zone across the U.S.
14 More-advanced technologies allow a number of American Water's plants to utilize effluent
15 for reuse applications, eliminating discharge to receiving streams. These diverse facilities
16 have provided American Water operators and process experts with deep experience in the
17 operation and maintenance of every possible type of wastewater treatment technology, as
18 well as the experience available to support PAWC's operations staff and facilities. A 50-
19 person team of American Water corporate engineers has handled a wide variety of system
20 evaluations, selecting treatment processes and establishing critical design criteria for water
21 and wastewater treatment systems in order to improve operations and prioritize capital
22 improvements.

1 PAWC has specific experience in the types of treatment technologies employed in
2 the System, involving activated sludge and SBR units including our Blue Mountain, Marcel
3 Lakes, Lehman Pike, Pocono, Fairview Twp. North, Clarion, and Franklin Township
4 wastewater treatment plants. Moreover, PAWC has committed as part of the Asset
5 Purchase Agreement to make offers of employment to MACM's existing professionals
6 who are familiar with the System.

7 PAWC has an established track record of successfully managing large capital
8 investment projects in order to provide reliable service to the communities it serves.
9 PAWC has an ongoing program of capital investment focused on systematically replacing
10 and adding new pipes, treatment and pumping facilities, and other water and wastewater
11 infrastructure; thereby minimizing customer disruption caused by infrastructure failure.
12 PAWC has funded in excess of \$1 billion in capital construction over the past five years
13 with expenditures expected to total \$275 million to \$300 million per year for the next five
14 years. Capital planning is performed by in-house engineering staff and operations to
15 establish capacity needs, regulatory impacts, service adequacy and reliability for PAWC's
16 wastewater systems. Project costs, alternatives and risks are also determined.
17 Comprehensive periodic oversight of water and wastewater assets gives PAWC a clear and
18 objective view of needs and potential capital project solutions. On a number of projects
19 involving capital improvements, PAWC has engaged the same outside engineering firms
20 hired by MACM. PAWC expects to continue to work closely and cooperatively with these
21 selected engineering firms.

1 **Q. WHAT IS THE IPP?**

2 A. As mentioned above, “IPP” stands for “industrial pretreatment program.” It is a federal
3 requirement under the Environmental Protection Agency (EPA) for municipally-operated
4 systems, and is also a mandated element of the NMCP. In this case, as the wastewater
5 treatment plant transitions from being a publicly-owned treatment works to a privately-
6 owned treatment works, the same type of program is required to regulate the nature and
7 loadings from industrial customers in order to ensure that those can be properly treated
8 within the capabilities of the wastewater treatment plant. An IPP requires that industrial
9 and certain commercial customers monitor, test, treat, and control pollutants in their
10 wastewater before it enters wastewater collection and treatment systems. Such programs
11 help to ensure compliance with environmental requirements as well as to allocate treatment
12 costs to the customers responsible for causing the costs. MACM currently has an IPP in
13 place for the System, and PAWC has prepared a substantially-similar IPP for the MACM
14 customers (“IPP-M”) that PAWC will submit to PaDEP for review and consent.

15
16 **Q. DOES THE IPP-M IMPACT THIS PROCEEDING?**

17 A. Yes. The substantive portions of the IPP-M setting rules, discharge standards, local
18 limitations, and permit requirements for industrial discharges to the collection system will
19 be reviewed by PaDEP. PAWC’s wastewater tariff will require compliance with the IPP-
20 M for the System. Fees associated with the IPP-M, including fees for permits, fees for
21 industrial loadings, and fees imposed for non-compliance with IPP-M limits, will also be
22 included in the tariff, as they technically are “rates” as defined by the Pennsylvania Public

1 Utility Code. A copy of the *pro forma* tariff supplement is included as an appendix to the
2 Application in this matter.

3
4 **Q. CAN YOU PLEASE ELABORATE UPON THE REASONS FOR THE IPP-M**
5 **PROVISIONS IN THE *PRO FORMA* TARIFF SUPPLEMENT?**

6 A. Industrial wastewater dischargers to the System are currently regulated under an IPP
7 administered by the MACM, which was established under the requirements of EPA
8 regulations, 40 C.F.R. Part 403, which govern publicly-owned treatment works. That IPP-
9 M is designed to regulate the nature and quantity of pollutants discharged from industrial
10 facilities in order to prohibit the introduction of pollutants that will pass through the
11 treatment works, interfere with the treatment works, or otherwise be incompatible with the
12 treatment works; protect personnel; and promote reuse and recycling of industrial
13 wastewater and sludge from the treatment works.

14 Under the proposed Transaction, the MACM publicly-owned treatment works will
15 become a privately-owned treatment works. However, controls must be maintained on
16 discharges of industrial wastewater into the collection system and wastewater treatment
17 works for the same purposes. Such an IPP is required under both the NMCP and the
18 PaDEP-issued NPDES Permits which govern the System.

19 The additional Section T (“Industrial Pretreatment Program (McKeesport-Area)
20 Compliance”) to PAWC' s tariff would require industrial customers discharging to the
21 MACM system (Rate Zone 13) to comply with the IPP-M to which PaDEP has consented,
22 and would establish the fees that are applicable to various elements of the IPP-M, including
23 fees for industrial wastewater permit applications and transfers, inspections, monitoring,

1 sampling and analyses, accidental discharges and slug control, industrial loadings that
2 exceed the concentrations of normal domestic sewage, excess loading fees and special
3 discharge fees applicable to discharges that exceed either local limits or effluent limitations
4 set in industrial wastewater discharge permits.

5
6 **Q. HOW MANY MACM CUSTOMERS ARE PROJECTED TO FALL UNDER THE**
7 **IPP-M?**

8 A. At present, no customers are regulated by the MACM IPP. The tariff would apply to any
9 new user who in the future qualifies as an industrial user as defined in the IPP-M, including
10 any entity that is subject to an EPA categorical pretreatment standard.

11 Section 2 of the IPP-M in the *pro forma* tariff supplement would impose general
12 restrictions applicable to all users, prohibiting wastewater discharges of pollutants that,
13 among other matters, could cause "pass-through" or "interference"; cause fires, explosions
14 or injury to the collection system or treatment plant; involve solid or viscous substances
15 that may cause obstruction within the collection system; involve high temperatures; could
16 create toxic gasses; or contravene certain other standards. Those restrictions are currently
17 in place within the MACM System under provisions contained in municipal ordinances
18 and MACM regulations.

19
20 **Q. WHAT IS THE EFFECT OF THE PROPOSED TARIFF CHANGE ON**
21 **CUSTOMERS OF THE MACM SYSTEM WHO WOULD BE GOVERNED BY**
22 **THE PROVISIONS OF THE TARIFF SUPPLEMENT?**

1 A. As noted above, there are currently no MACM IPP customers. Nevertheless, the proposed
2 IPP-M in substance tracks the existing rules and standards established by MACM, and
3 includes similar general prohibited discharge standards already in place for the System.
4 The fees set forth in the proposed tariff supplement are calculated based on the relative
5 strength (*i.e.*, concentration) of industrial wastewaters in terms of BOD, total suspended
6 solids, and ammonia-nitrogen, compared to domestic sewage. For situations where
7 industrial users violate IPP standards and discharge wastewaters that exceed applicable
8 limits, those loading fees are increased by 25%. The fee schedule includes some
9 administrative fees, covering the costs of review and issuance of industrial wastewater
10 discharge permit, monitoring and analysis.

11
12 **Q. PLEASE EXPLAIN HOW PAWC'S INITIAL IPP-M FEES WERE**
13 **DETERMINED?**

14 A. Schedule IPP-M-1 Section 1.1, was prepared to reflect the anticipated staff time and
15 expenses allocated to various tasks associated with permit application reviews, inspections,
16 monitoring, sampling and analysis. The industrial loading fees under Section 1.2 for
17 loading rates up to but not exceeding any applicable Local Limit or Industrial Waste
18 Discharge Permit Limit are computed in a manner similar to other PAWC wastewater
19 operations where IPP programs exist. Excess Loading Fees, which are applicable to
20 discharges exceeding the above referenced limits, will be at 125% of the value of the
21 Industrial Loads Fee to compensate for the additional administrative, oversight and
22 management costs associated with managing such excessive loadings.

23

1 **Q. HOW WILL IPP-M FEES BE ADJUSTED PROSPECTIVELY?**

2 A. Adjustments to the fees will have to be approved by the Commission through a tariff filing.

3

4 **Q. WILL PAWC EARN A RETURN ON THE IPP-M FEES?**

5 A. No. The fees are designed to recover actual costs associated with permit review,
6 inspections, monitoring, sampling, and analysis and treatment costs that may result from
7 an industrial customer's failure to pretreat its wastewater.

8

9 **Q. WILL THE IPP-M INITIALLY APPLY TO ALL PAWC WASTEWATER**
10 **CUSTOMERS?**

11 A. No, the initial IPP-M will apply only to the System. PAWC already has a similar program
12 in place for its Scranton and Coatesville-area customers. In fact, the proposed IPP-M tariff
13 provisions are modeled on the IPP-S tariff provisions for Scranton-area customers as
14 approved by Commission final order entered October 19, 2016 at Docket No. A-2016-
15 2537209. At some point in the future, PAWC may propose to put all of its wastewater
16 customers under a uniform IPP program.

17

18 **Q. WHAT IS THE EFFECT OF THE PROPOSED IPP-M TARIFF SUPPLEMENT ON**
19 **PAWC'S REVENUES AND EXPENSES?**

20 A. The proposed IPP-M fees are designed to be revenue neutral, and to recover the costs of
21 administering the IPP-M and the additional costs involved in treatment of industrial
22 wastewater, which involves loadings of certain pollutants in concentrations above those
23 typical of sanitary sewage.

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Q. WHAT IS THE EFFECT OF THE PROPOSED IPP-M TARIFF SUPPLEMENT ON SERVICE RENDERED BY PAWC?

A. The establishment and implementation of the IPP-M is designed to preserve the capability of the collection system and treatment works to provide continued service to MACM customers by assuring appropriate controls on industrial discharges and recovery from industrial users of fees that reflect the costs of managing the additional loadings generated by their higher strength wastewaters.

Q. WHAT FACTORS AND STUDIES DID PAWC CONSIDER IN DRAFTING ITS PROPOSED TARIFF SUPPLEMENT RELATING TO THE IPP-M?

In preparing the IPP-M rules and the related fee schedule, PAWC reviewed the MACM's current program and discussed with MACM staff their experience with the IPP. PAWC considered the following factors in framing the IPP-M tariff supplement: (1) the regulatory requirements for establishing and implementing an effective IPP, including requirements under the NMCP and NPDES permits governing the System; (2) the technical needs for regulating industrial wastewaters and discharges of problematic pollutants in order to protect the collection system and treatment plant and the quality of sludge produced by the treatment plant (including local limits on influent quality required to assure that the treatment plant could receive and properly treat the wastewater, producing effluent that meets all NPDES Permit limits, and generate sludge meeting the current sludge classification value); (3) the costs of implementing the IPP-M, including review and

1 issuance of industrial permits, monitoring and enforcement efforts; and, (4) the costs of
2 treating the higher wastewater strength loadings from industrial users.

3 PAWC considered the following studies and documents in framing the IPP tariff
4 supplement:

- 5 (1) the existing McKeesport wastewater system and industrial pretreatment
6 ordinance provisions and related MACM regulations, policy and guidance;
- 7 (2) the EPA's "EPA Model Pretreatment Ordinance" (2007) and related EPA
8 regulations;
- 9 (3) the MACM's existing schedules of fees and charges; and,
- 10 (4) other municipal IPPs, including the currently - tariffed IPP-S for Scranton-
11 area customers.

12
13 **Q. WHAT PLANS DOES PAWC HAVE FOR IMPLEMENTING THE CHANGES**
14 **REFLECTED IN THE PROPOSED IPP-M TARIFF PROVISIONS?**

15 A. The proposed IPP-M in substance tracks the existing rules and standards that the MACM
16 would apply to industrial users within the MACM System. Section 4.3 of the IPP-M
17 regulations provides that all existing industrial users presently permitted on the effective
18 date of the PAWC IPP regulations will receive written notice from PAWC that the terms
19 and conditions of the permit presently in place will remain in force until the termination
20 date of the permit, subject to any renewal of or change in the permit in accordance with the
21 IPP regulations. Such notice also shall specify that continued discharge to the Company's

1 sewer system for thirty (30) days after receipt of such notice shall constitute acceptance of
2 the continuation of such permit under the administration and enforcement of the PAWC
3 pursuant to the IPP regulations and acknowledgement that renewal of such permit shall be
4 in accordance with the regulations.

5
6 **Q. DOES PAWC HAVE EXPERIENCE IN OPERATING COMBINED**
7 **WASTEWATER SYSTEMS?**

8 A. Yes. Currently, there are very few combined sewer systems operated by investor-owned
9 public utilities in Pennsylvania. PAWC acquired the Scranton wastewater system in 2016.
10 It is a combined sewer system with a permitted treatment capacity of 20 MGD and 80
11 permitted CSO outfalls. PAWC is responsible for system operations and implementation
12 of a Consent Decree, LTCP, and an IPP program. Also within Pennsylvania, PAWC has
13 had significant experience with systems which, although not classified as combined sewer
14 systems, have substantial wet weather challenges due to high rates of infiltration and inflow
15 (“I&I”).

16 An example of a system with substantial I&I is the Clarion wastewater system,
17 where efforts have included upgrades to the collection system coupled with treatment
18 system improvements. Peak flows in Clarion were significantly greater during wet weather
19 events, producing a storm peaking factor greater than 20:1 for the 2-year design storm.
20 Extensive hydrologic and hydraulic modeling was performed on the Clarion wastewater
21 system. Mitigation strategies at Clarion included wet weather storage within the collection
22 system and at the wastewater treatment plant. In addition, PAWC’s sister company, West
23 Virginia-American Water Company, has owned and operated a combined wastewater

1 system in the area of Fayetteville, West Virginia since its acquisition in September 2008,
2 and has engaged in substantial improvements to that system under the terms of a Consent
3 Order with the West Virginia Department of Environmental Project that was entered into
4 as part of the acquisition transaction. Under that Consent Order, West Virginia American
5 has managed the entire combined sewer system for the past eight years. Those efforts have
6 included the preparation and implementation of an agency-approved Long Term Control
7 Plan that is similar to that applicable to the System, as well as implementation of a Nine
8 Minimum Controls Plan.

9
10 **Q. PLEASE DESCRIBE PAWC'S TECHNICAL FITNESS TO PROVIDE**
11 **WASTEWATER SERVICE TO MACM CUSTOMERS.**

12 A. As of April 30, 2017, PAWC served approximately 54,559 active wastewater customers
13 across the Commonwealth, with customers in Adams, Beaver, Chester, Clarion,
14 Cumberland, Lackawanna, Monroe, Northumberland, Pike, Washington, and York
15 counties. A map of PAWC's current service territories is attached to my testimony as
16 **PAWC Exhibit DRK-2**. To provide wastewater service to those customers, PAWC
17 currently operates 16 wastewater plants. In operating those wastewater plants, PAWC has
18 had no material issues in complying with the Pennsylvania Public Utility Code, the
19 Pennsylvania Clean Streams Law, or other regulatory requirements. Moreover, PAWC has
20 the skill and expertise to respond to ever-increasing environmental standards for the
21 treatment of wastewater and to manage the long term infrastructure issues inherent in
22 wastewater systems.

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

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

4

5

**PAWC EXHIBIT
DRK-1**

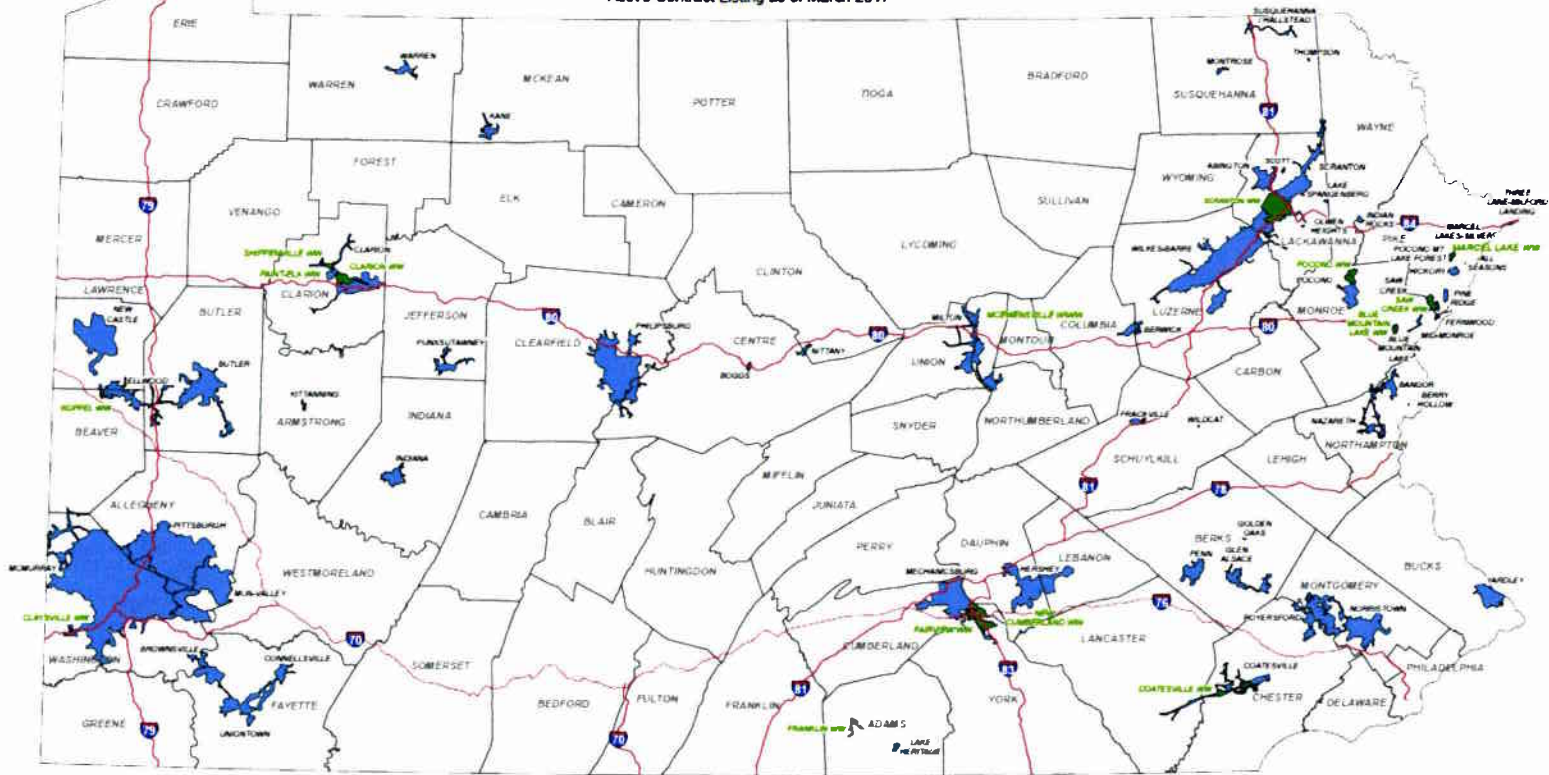
MACM Capital Plan

McKeesport CAPEX Plan					
Year After Closing	1	2	3	4	5
Capital Improvement					
I&I Studies	\$134,200	\$134,200	\$134,200	\$134,200	\$134,200
Collection System Projects Identified in I&I Studies and Dravosburg Collection System Improvements		\$2,415,600	\$2,415,600	\$2,415,600	\$2,415,600
Flow Meter Installation	\$134,200	\$134,200			
Duquesne LTCP Planning and Permitting	\$67,100	\$100,650	\$100,650	\$134,200	\$134,200
Dravosburg LTCP Planning and Permitting	\$67,100	\$100,650	\$100,650	\$134,200	\$134,200
McKeesport Pump Station Improvements	\$134,200	\$536,800			
Dravosburg Miscellaneous Plant Improvements	\$67,100	\$201,300			
Duquesne Miscellaneous Plant Improvements	\$67,100	\$201,300			
McKeesport Miscellaneous Plant Improvements	\$134,200	\$536,800	\$536,800		
Dravosburg Mine Discharge Elimination	\$139,992	\$419,977	\$1,119,939	\$1,119,939	
Port Vue Collection System and Pump Station Improvements	\$748,814	\$2,246,441	\$5,990,510	\$5,990,510	
Total	\$1,694,006	\$7,027,918	\$10,398,349	\$9,928,649	\$2,818,200
Total Years 1-5					\$31,867,122
Year After Closing	6	7	8	9	10
Capital Improvement					
I&I Studies	\$134,200	\$134,200	\$134,200	\$134,200	\$134,200
Collection System Projects Identified in I&I Studies	\$2,415,600	\$2,415,600	\$2,415,600	\$2,415,600	\$2,415,600
Duquesne LTCP Permitting and Construction	\$402,600	\$4,697,000	\$5,368,000		
Dravosburg LTCP Permitting and Construction	\$268,400	\$3,355,000	\$4,026,000		
Sub Total	\$3,220,800	\$10,601,800	\$11,943,800	\$2,549,800	\$2,549,800
Total Years 6-10					\$30,866,000
Grand Total					\$62,733,122

**PAWC EXHIBIT
DRK-2**



Existing Service Territory Pennsylvania American Water Company Active Contract Listing as of March 2017



Legend

- PWAC WATER
- PWAC WASTEWATER

MAP SCALE: 1" = 10 Miles

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application and related filings of Pennsylvania- :
American Water Company under Sections 507, 1102(a), :
and 1329 of the Pennsylvania Public Utility Code, 66 Pa. :
C.S. §§ 507, 1102(a), 1329, for approval of its acquisition :
of wastewater system assets of The Municipal Authority : Docket No. A-2017-_____ *et al.*
of the City of McKeesport, related wastewater service :
rights, fair market valuation ratemaking treatment, accrual :
and deferral of certain post-acquisition improvement :
costs, and certain contracts with municipal corporations :

**DIRECT TESTIMONY OF
ROD P. NEVIRAUŠKAS ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

Date: May 24, 2017

PAWC Statement No. 4

**DIRECT TESTIMONY OF
ROD P. NEVIRASKAS**

INTRODUCTION

1

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

3 A. Rod P. Neviraskas, 800 West Hersheypark Drive, Hershey, PA 17033.

4

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

6 A. I am employed by American Water Works Service Company (“Service Company”) as Sr.
7 Director of Rates and Regulations for the Mid Atlantic Division, which includes
8 Pennsylvania-American Water Company (“PAWC” or the “Company”).

9

10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS
11 EXPERIENCE.**

12 A. I received a Bachelor’s Degree in Economics from the University of Massachusetts. Since
13 beginning my employment with a subsidiary of the American Water Works Company
14 (“AWW” or “American Water”) in 1980, I have held various positions of increasing
15 responsibilities in rates and finance. In October 2004, I was named Director of Rates and
16 Regulations for the American Water Works Shared Services Center (“SSC”), a financial
17 services organization providing national support to AWW’s subsidiary operating
18 companies. In 2005, I was promoted to the position of Director of Financial Services at
19 the SSC. In that capacity, I led the SSC Rates and Regulations group in supporting rate
20 case filings for all of AWW’s regulated operating subsidiaries. On January 1, 2009, I
21 assumed the position of Director of Rates and Regulations for the states of Pennsylvania,
22 Virginia and Maryland. In late 2011, AWW re-organized its divisional structure, and

1 responsibility for rate and regulatory matters in West Virginia, Virginia and Maryland were
2 transferred to the Mid-Atlantic Division of AWW, of which PAWC is a member.

3
4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE REGULATORY AGENCIES?**

5 A. Yes. I have testified on numerous occasions on behalf of utility subsidiaries of AWW in
6 support of rate filings and financings in the States of Connecticut, Rhode Island, New
7 Jersey, New Hampshire, Maryland, New York, Ohio, Virginia, West Virginia and the
8 Commonwealths of Massachusetts and Pennsylvania.

9
10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

11 A. My testimony provides (1) the identification of ratemaking rate base as required in 66 Pa
12 C.S § 1329 for PAWC's acquisition of the wastewater collection and treatment system
13 ("System") currently owned and operated by the Municipal Authority of the City of
14 McKeesport's ("MACM"), (2) an estimate of the range of transaction and closing costs
15 incurred by the Company, (3) an overview of the rate provisions contained in the Asset
16 Purchase Agreement ("APA") for PAWC's acquisition of the System (the "Transaction"),
17 and (4) a statement regarding PAWC's intentions with respect to accrual of certain post-
18 acquisition improvement costs and deferral of related depreciation.

19
20 **FAIR MARKET VALUE RATE BASE**

21 **Q. PLEASE STATE THE RATE BASE REQUESTED IN THE APPLICATION**
22 **PURSUANT TO 66 Pa C.S § 1329.**

1 A. The negotiated purchase price for the acquired assets is \$162,000,000 and the average of
2 the appraisals of the buyer's Utility Valuation Expert ("UVE") and the seller's UVE is
3 \$184,176,500. Accordingly, the negotiated purchase price of \$162,000,000 is the fair
4 market value for ratemaking purposes under Section 1329 (*i.e.* the lower of the negotiated
5 purchase price and the average of the UVEs' appraisals). The fair market value as
6 determined by the Section 1329 process, which in addition to the transaction and closing
7 costs described below, becomes the rate base for ratemaking purposes. Note, however,
8 that PAWC reserves its right in future proceedings to make rate base claims related to the
9 acquisition as may otherwise be permitted under the Pennsylvania Public Utility Code.

10
11 **TRANSACTION AND CLOSING COSTS**

12 **Q. PLEASE DESCRIBE THE ESTIMATED TRANSACTION AND CLOSING COSTS**
13 **FOR THE TRANSACTION.**

14 A. As set forth in the Commission's *Final Implementation Order* at Docket No. M-2016-
15 2543193, transaction and closing costs include the UVE's appraisal fee and the buyer's
16 closing costs, including reasonable attorney fees. In accordance with the *Final*
17 *Implementation Order* and traditional ratemaking principles, reasonable transaction and
18 closing costs are not to be decided in this Application proceeding; instead, the Company
19 must justify the costs by a "preponderance of the evidence" in a future base rate proceeding.

20 As a practical manner, the exact extent of such costs cannot be known at the time
21 of filing the Application and will not be finally known until after closing of the Transaction.
22 The costs depend on a number of variables, including whether this Application is settled
23 or fully-litigated. PAWC will track such costs and incorporate them into rate base in a

1 future base rate proceeding as appropriate. Nevertheless, attached to the Application as
2 **Appendix A-12** is the Company's estimate of the anticipated range of transaction and
3 closing costs. As stated in the appendix, the anticipated transaction and closing costs range
4 from \$1,110,000 to \$1,310,000.

5
6 **APA RATE PROVISIONS**

7 **Q. PLEASE PROVIDE AN OVERVIEW OF THE RATE PROVISIONS OF THE APA.**

8 A. Section 7.05 of the APA contains provisions related to rates. PAWC has committed to
9 adopt, upon closing of the Transaction, MACM's current customer charge and
10 consumption charge then in effect at the time of closing.

11 The initial rates to be applicable to the former MACM wastewater customers are
12 set forth in the *pro forma* tariff supplement attached as **Appendix A-13** to the Application.
13 System customers will be governed by rates for new Rate Zone 13. After PAWC closes
14 the Transaction, System customers will be subject to PAWC's prevailing wastewater tariff
15 on file with the Commission with respect to all rates other than the customer charge and
16 consumption charge, including capacity reservation fees, reconnection fees and the like, as
17 well as non-rate related terms and conditions of service.

18 MACM's customers are currently billed monthly, with the exception of Port Vue
19 Borough customers, and will continue to be billed monthly. With regard to Port Vue
20 Borough-area customers, those customers will continue to be billed quarterly at this time.
21 However, I note that the *pro forma* tariff supplement contains both monthly and quarterly
22 rates for Port Vue Borough-area customers. This was done in order to allow such

1 customers, at their option, to convert from quarterly to monthly billing. The monthly and
2 quarterly rates are equivalent.

3 I also note that MACM has informed PAWC that the rates for Port Vue-area
4 customers may be modified during the course of this acquisition proceeding. If such rates
5 are modified, PAWC intends to adopt the modified rates as the initial rates for Port Vue-
6 area customers.

7 The *pro forma* tariff supplement attached as **Appendix A-13** to the Application
8 also includes the Company's proposed language associated with the Industrial Pretreatment
9 Program for the McKeesport Area ("IPP-M") and is discussed in further detail in the Direct
10 Testimony of PAWC Witness David R. Kaufman, PAWC's Vice President of Engineering,
11 PAWC Statement No. 3. I note that the IPP-M language is modeled on the tariff language
12 for the Scranton-Area Industrial Pretreatment Program ("IPP-S") which was previously
13 approved by the Commission in conjunction with PAWC's acquisition of The Sewer
14 Authority of the City of Scranton at Docket No. A-2016-2537209.

15 The *pro forma* tariff supplement also incorporates MACM's existing rates for
16 acceptance of hauled sludge. Currently, MACM accepts hauled sludge pursuant to
17 agreement with individual haulers. Rates are consistent for all haulers and my
18 understanding is that there are currently only two such agreements -- amounting to
19 approximately \$400,000 of revenue per year. PAWC intends initially to adopt MACM's
20 rates -- which are very similar to PAWC's existing rates. However, because PAWC
21 already has tariffed requirements for the acceptance of sludge in order to protect its
22 treatment systems, such requirements will be applicable to haulers at the System. No
23 separate agreements with haulers will be required because the service will be tariffed. As

1 indicated on revised Page No. 4E of the *pro forma* tariff supplement, Rates Zones 1 through
2 12 will continue to be governed by existing rates but MACM's current rates will be adopted
3 for Rate Zone 13 (McKeesport). These rates will be reexamined in the context of a future
4 PAWC base rate case.

5
6 **Q. DO THE RATE PROVISIONS OF THE APA INCLUDE A RATE**
7 **STABILIZATION PLAN AS DEFINED BY SECTION 1329?**

8 A. While Section 7.05(b) of the APA refers to "Rate Stabilization," the APA does not set forth
9 or require a "rate stabilization plan" as defined by Section 1329(g). Therefore, PAWC is
10 not required under the *Final Implementation Order* at Docket No. M-2016-2543193 to
11 provide testimony, schedules, and work papers in support of a plan.

12 Section 1329(g) defines a "rate stabilization plan" as "[a] plan that will hold rates
13 constant or phase rates in over a period of time after the next base rate case." As detailed
14 in Section 7.05(b) of the APA, PAWC will be charging MACM's current rates (but not
15 other charges, including those set forth below) as the Company's base rates within the
16 service territory and such base rates will not be increased until after the first anniversary of
17 the closing date of the Transaction. Because these APA commitments will not result in
18 rates being held constant or phased in over a period of time "after the next base rate case"
19 (in which the MACM assets are rate-based), the Company is not proposing a "rate
20 stabilization plan" -- as defined by Section 1329(g). In this regard, I note that PAWC filed
21 a base rate case on April 28, 2017 (Docket No. R-2017-2595853) and the acquisition of
22 the MACM system was not included as part of the filing. In light of PAWC's rate case
23 filing history (approximately every three to four years), it is highly unlikely that rates for

1 McKeesport area customers will be held constant pursuant to the APA for any period after
2 the first base rate case in which the MACM assets are included. The first base rate case in
3 which the MACM system could be included is likely not to occur until 2020 or after. By
4 that time, the one-year rate commitment of the APA will have expired.

5 Base rates for McKeesport area customers will be addressed and adjusted, as
6 appropriate and without any form of contractual restriction, in PAWC's first base rate case
7 in which the MACM system is included. Interested parties will have an opportunity to
8 participate in that rate case and address issues, including cost allocation, as appropriate.

9 Finally, I note that -- even during the one-year period in which MACM rates are to
10 be in place -- PAWC may seek approval from the Commission to increase the rates. PAWC
11 was careful in negotiating the APA to respect the statutory authority of the Commission to
12 set just and reasonable rates.

13
14 **Q. IS PAWC ALLOWED UNDER THE APA TO CHARGE NON-BASE RATES**
15 **DURING THE ONE-YEAR PERIOD FOLLOWING CLOSING OF THE**
16 **TRANSACTION?**

17 A. Yes. Under the APA, rates for other pass-through costs or charges permitted by the
18 Legislature of the Commonwealth of Pennsylvania, including -- but not limited to -- a
19 Distribution System Improvement Charge ("DSIC") or State Tax Adjustment Surcharges,
20 may be subject to increase, and that only the base rates shall remain constant during the
21 one-year period after closing of the Transaction. I also note that Section 1329(d)(4)
22 specifically permits the collection of a DSIC prior to the inclusion of the MACM assets in
23 a base rate case.

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BENEFITS OF TRANSACTION

Q. WHAT, IF ANY, RATE BENEFITS ARE ANTICIPATED TO BE REALIZED BY MACM CUSTOMERS FROM THE TRANSACTION?

A. In the long-term, the Transaction will help PAWC keep rates reasonable for all of its customers -- including System customers. Through its expertise in wastewater management and the leveraging of economies of scale, PAWC will -- over time -- be able to improve efficiencies and lower or slow the increase in the cost of operating the System. These operational efficiencies -- while they cannot be precisely quantified at this time -- will inevitably be realized because of the size of PAWC's water and wastewater operations. By adding more customers, PAWC will be able to mitigate the level of net plant investment per customer.

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

A. There will be no short-term impact on PAWC's current customers. As explained above, PAWC has committed to adopt MACM's current rates as its base rates and agreed not to increase these rates until after the first anniversary of the Transaction closing date. During this period, PAWC, as explained above, does not plan to include MACM's wastewater operations as part of the revenue requirement for a base rate proceeding. Therefore, there is no impact on PAWC's current customers during that time. After that time, MACM's

1 wastewater operations would be included in future base rate filings similar to the other
2 operations of PAWC.

3 In the long-term, the acquisition of the System will help PAWC keep rates
4 reasonable for all of its customers by sharing costs across a much larger customer base. I
5 would like to reiterate that nothing contained in the APA, if approved by the Commission,
6 would bind the Commission or other interested parties in future ratemaking proceedings.

7
8 **POST-ACQUISITION IMPROVEMENTS**

9 **Q. PLEASE STATE YOUR UNDERSTANDING OF SECTION 1329 WITH RESPECT**
10 **TO POST-ACQUISITION IMPROVEMENTS.**

11 **A.** I am advised by counsel that Section 1329(f) allows “an acquiring public utility’s
12 postacquisition improvements that are not included in a distribution improvement charge
13 [to] accrue allowance for funds used during construction [“AFUDC”] after the date the cost
14 was incurred until the asset has been in service for a period of four years or until the asset
15 is included in the acquiring public utility’s next base rate case, whichever is earlier.”
16 Section 1329(f) also provides that “[d]epreciation on an acquiring public utility’s
17 postacquisition improvements that have not been included in the calculation of a
18 distribution system improvement charge shall be deferred for book and ratemaking
19 purposes.”

20
21 **Q. DOES PAWC INTEND TO ACCRUE AFUDC FOR POSTACQUISITION**
22 **IMPROVEMENTS?**

1 A. Yes. As summarized in the Direct Testimony of PAWC Witness David R. Kaufman,
2 PAWC's Vice President of Engineering, PAWC Statement No. 1, PAWC will be making
3 post-acquisition improvements to the System. Some of the improvements will not be
4 DSIC-eligible. As such, PAWC will likely accrue AFUDC consistent with what is
5 permitted under Section 1329. Rate claims related to AFUDC can then be adjudicated in
6 the context of a future PAWC base rate proceeding.

7

8 **Q. DOES PAWC INTEND TO DEFER DEPRECIATION ON NON-DSIC-ELIGIBLE**
9 **POST-ACQUISITION IMPROVEMENTS FOR BOOK AND RATEMAKING**
10 **PURPOSES?**

11 A. Yes. Section 1329(f) permits such deferral of depreciation. The statute appears to allow
12 deferral without specific Commission approval; however, out of an abundance of caution,
13 PAWC is specifically petitioning the Commission, as part of this Application proceeding,
14 for permission to defer the depreciation for book and ratemaking purposes.

15

16

CONCLUSION

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

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

20

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application and related filings of Pennsylvania- :
American Water Company under Sections 507, :
1102(a), and 1329 of the Pennsylvania Public Utility :
Code, 66 Pa. C.S. §§ 507, 1102(a), 1329, for approval :
of its acquisition of wastewater system assets of The : Docket No. A-2017-_____ *et al.*
Municipal Authority of the City of McKeesport, :
related wastewater service rights, fair market valuation :
ratemaking treatment, accrual and deferral of certain :
post-acquisition improvement costs, and certain :
contracts with municipal corporations

**DIRECT TESTIMONY OF
JAMES S. MERANTE ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

Date: May 24, 2017

PAWC Statement No. 5

**DIRECT TESTIMONY OF
JAMES S. MERANTE**

INTRODUCTION

1

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

3 A. James S. Merante, CPA, and my business address is 800 West Hersheypark Drive,
4 Hershey, PA 17033.

5

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

7 A. I am employed by American Water Works Service Company (“Service Company”) as
8 Director of Financial Strategy, Planning, and Decision Support for the Mid Atlantic
9 Division, which includes Pennsylvania-American Water Company (“PAWC”).

10

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

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

22

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

13 A. Yes. I recently testified before the Commission on behalf of PAWC in the proposed
14 transaction between PAWC and The Sewer Authority of the City of Scranton (“SSA”), at
15 Docket No. A-2016-2537209, in which PAWC would acquire the wastewater collection
16 and treatment system. I also recently testified before the Commission on behalf of PAWC
17 in the proposed transaction between PAWC and Borough of New Cumberland, at Docket
18 No. A-2016-2544151, in which PAWC would acquire the wastewater collection and
19 treatment system.

20
21 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

22 A. I will address the financial fitness of PAWC to acquire and operate the wastewater
23 collection and treatment system (“System”) currently owned and operated by the Municipal

1 Authority of the City of McKeesport (“MACM” or “Authority”), which PAWC has agreed
2 to purchase (“Transaction”).
3

4 **TRANSACTION IS IN THE PUBLIC INTEREST**

5 **Q. WHAT, IF ANY, BENEFIT DO YOU SEE TO MACM’S CUSTOMERS AS A**
6 **RESULT OF THE TRANSACTION?**

7 A. The transferred System customers will be served by a large, financially sound company
8 that has the capability to finance necessary capital additions. Given its size, access to
9 capital and its recognized strengths in system planning, capital budgeting and construction
10 management, PAWC is well-positioned from a financial perspective to ensure that high
11 quality wastewater service meeting all federal and state requirements is provided to the
12 Authority’s customers and maintained for PAWC’s existing customers.
13

14 **Q. DO YOU ANTICIPATE THE TRANSACTION HARMING PAWC’S FINANCIAL**
15 **STATUS IN ANY MANNER?**

16 A. No, not at all. PAWC does not anticipate that the acquisition of the Authority’s system
17 will have a negative impact on PAWC’s cash flows, credit ratings or access to capital and,
18 therefore, will not deteriorate in any manner PAWC’s ability to continue to provide safe,
19 adequate, and reasonable service to its existing customers at just and reasonable rates.
20

21 **PAWC’S FINANCIAL FITNESS**

22 **Q. PLEASE DISCUSS PAWC’S FINANCIAL FITNESS.**

1 A. PAWC is the Commonwealth’s largest water and wastewater provider, with total assets of
2 \$3.9 billion and annual revenues of \$613 million for 2015. For 2015, PAWC had operating
3 income of approximately \$307 million and net income of approximately \$143 million.
4 These operating results produced cash flows from operations of approximately \$308
5 million.

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

8 **Line of Credit**

9 PAWC presently has liquidity through a \$400 million line of credit through
10 American Water Capital Corp. (“AWCC”), a wholly owned subsidiary of American Water
11 Works Company, Inc. (“American Water”). PAWC’s strong credit ratings allow PAWC
12 to obtain additional capacity on this line of credit.

13 **Long Term Debt Financing**

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

20 **Equity Investments**

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

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Q. DOES PAWC HAVE THE OVERALL FINANCIAL FITNESS AND ACCESS TO CAPITAL TO ACQUIRE MACM'S ASSETS?

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

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

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

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

A. As stated above, PAWC does not anticipate that the acquisition of the Authority's system will have a significant impact on its credit ratings.

AUTHENTICATION OF APPLICATION APPENDICES

Q. ARE YOU FAMILIAR WITH THE APPLICATION FILED BY PAWC IN THIS PROCEEDING?

1 A. Yes, I helped to prepare several of the appendices in support of the Application and I have
2 reviewed the final version of the Application and the appendices.

3

4 **Q. PLEASE IDENTIFY WHICH APPLICATION APPENDICES YOU PREPARED?**

5 A. I prepared Appendix D (unaudited internal balance sheet of MACM as of December 31,
6 2016, Appendix E (audited balance sheet of PAWC as of December 31, 2016), Appendix
7 F (unaudited income statement of MACM for the 12 months ended December 31, 2016),
8 Appendix G (audited income statement of PAWC for the 12 months ended December 31,
9 2016), Appendix H (*pro forma* balance sheet of PAWC as of December 31, 2016, giving
10 effect to the transfer), Appendix I (*pro forma* consolidated income statement of PAWC and
11 MACM for the 12 months as of December 31, 2016) and Appendix M (estimated annual
12 revenues).

13

14 **Q. HOW DID YOU PREPARE APPENDICES D THROUGH I AND M?**

15 A. I reviewed the financial information of PAWC, to which I have direct access, and I
16 reviewed the financial information of MACM, to which I received access through the
17 Transaction due diligence process.

18

19 **Q. ARE APPENDICES D THROUGH I AND M COMPLETE AND ACCURATE**
20 **COPIES OF YOUR FINAL WORK PRODUCT?**

21 A. Yes.

22

1 **Q. ARE APPENDICES D THROUGH I AND M TRUE AND CORRECT TO THE**
2 **BEST OF YOUR KNOWLEDGE, INFORMATION, AND BELIEF?**

3 A. Yes.

4

5

CONCLUSION

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

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

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application and related filings of Pennsylvania- :
American Water Company under Sections 507, :
1102(a), and 1329 of the Pennsylvania Public Utility :
Code, 66 Pa. C.S. §§ 507, 1102(a), 1329, for approval : Docket No. A-2017-_____ *et al.*
of its acquisition of wastewater system assets of The :
Municipal Authority of the City of McKeesport, related :
wastewater service rights, fair market valuation :
ratemaking treatment, accrual and deferral of certain :
post-acquisition improvement costs, and certain :
contracts with municipal corporations

**DIRECT TESTIMONY OF
MICHAEL E. CHEREPKO, MAYOR
ON BEHALF OF PENNSYLVANIA-AMERICAN
WATER COMPANY**

Date: May 24, 2017

PAWC Statement No. 6

**DIRECT TESTIMONY OF
MICHAEL CHEREPKO, MAYOR**

1 **I. INTRODUCTION AND BACKGROUND**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 **A.** My name is Michael Cherepko and my business address is 500 Fifth Avenue, Second Floor,
4 McKeesport, Pennsylvania 15132.

5

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

7 **A.** I am the Mayor of the City of McKeesport, Pennsylvania (“City” or “McKeesport”), having
8 been elected in November 8, 2011, and taken office on January 2, 2012. The City of
9 McKeesport is governed by a Home Rule Charter, which requires a strong-mayor form of
10 government. My administration is in control of daily operations of the City, including the
11 Police, Fire, Community Development, Finance, Public Works, and Recreation
12 departments. As Mayor, I work cooperatively with City Council, whose sole responsibility
13 is legislative actions such as adopting laws (i.e. ordinances, resolutions) and approving a
14 city budget – both drafted by my administration.

15

16 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
17 EMPLOYMENT EXPERIENCE.**

18 **A.** I am a lifelong resident of the City of McKeesport, and I attended the public schools where
19 I later pursued my first career. I am a 1995 graduate of McKeesport Area High School and
20 a 1999 graduate of Penn State University, where I received a Bachelor’s Degree in
21 Elementary Education. Before being elected as Mayor of the City of McKeesport in 2011,
22 I worked as a fifth-grade teacher in the McKeesport Area School District for 12 years. I

1 also served on McKeesport City Council for eight of those years. Upon accepting my oath
2 of office on January 2, 2012, I left my career as an educator to serve McKeesport's near-
3 20,000 residents as their full-time Mayor. I recently renewed for a second term in 2016. I
4 serve on the Steel Rivers Council of Governments (previously Twin Rivers Council of
5 Governments), Penn State Greater Allegheny Advisory Council, the Blueroof
6 Technologies Board and others.

7
8 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
9 **PUBLIC UTILITY COMMISSION?**

10 **A.** No.

11
12 **Q. IN SUPPORT OF WHOM ARE YOU TESTIFYING IN THIS PROCEEDING?**

13 **A.** My testimony is in support of both The Municipal Authority of the City of McKeesport
14 ("Authority") and Pennsylvania-American Water Company ("PAWC") in this proceeding.
15 As more-fully explained below, the City has a vested interest in seeing the Application
16 promptly approved by the Commission.

17
18 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY AND**
19 **SUMMARIZE THE KEY POINTS.**

20 **A.** I will provide (i) background information on the City; (ii) the City's current financial
21 situation; (iii) an explanation of the role the sale of the Authority is expected to play in
22 assisting the City generally; (iv) an explanation as to why the City supports the sale of the

1 Authority to PAWC (“Transaction”);¹ and, (v) a description of the anticipated public
2 benefits of the Transaction. In particular, I will focus on the benefits of the Transaction
3 that are the most important to the City, including:

- 4 ○ Ensuring that long-term rates for Authority customers, who are largely City residents,
5 are reasonable;
- 6 ○ The provision of safe, adequate, and reliable wastewater service;
- 7 ○ Ensuring job protection for existing Authority employees;
- 8 ○ Long-term investment in necessary capital improvements to the wastewater system;
- 9 ○ Adding property to the City’s property tax rolls;
- 10 ○ Financial proceeds to support much needed City services and to truly balance a budget
11 that has been operating at a deficit for numerous years;
- 12 ○ Improving and simplifying the customer experience for City residents through PAWC
13 service -- including expanded customer service hours, more-convenient methods to pay
14 bills, on-line access to customer account information, and a low-income customer
15 assistance program;
- 16 ○ Workplace safety for employees;
- 17 ○ Proven environmental stewardship for the operation of the wastewater system; and,
- 18 ○ A hometown focus with continued respect, dignity, hope and love of residents and
19 community.

20
21

¹ The “Transaction” refers generally to the sale and purchase of the Authority’s assets to PAWC under and accordance with the Asset Purchase Agreement dated September 9, 2016, as amended by the First Amendment to the Asset Purchase Agreement, dated May 15, 2017, between PAWC, the Authority, and the City.

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II. DESCRIPTION OF CITY, AND REASONS FOR TRANSACTION

Q. PLEASE DESCRIBE THE CITY GENERALLY.

A. McKeesport is a City in Allegheny County, Pennsylvania. It is situated at the confluence of the Monongahela and Youghiogheny rivers and is part of the Greater Pittsburgh area. The population was 19,731 at the 2010 census. By population, it is Allegheny County’s second-largest city. Settled in 1795 and named in honor of its founders, the McKee family, McKeesport remained a village until 1830, when coal mining began in the region. McKeesport was incorporated as a borough in 1842 and as a city in 1891. The City’s population grew steadily until the mid-20th century, peaking in the 1940s. The city’s population in 1900 was 34,227; in 1910, 42,694; in 1920, 45,975; and in 1940, 55,355. The decrease in population since the 1940s is largely attributed to the decline of the steelmaking industry, which came to a final collapse in the 1980s.

Q. PLEASE DESCRIBE THE FINANCIAL CHALLENGES OF THE CITY OVER THE PAST TWENTY-FIVE YEARS.

A. While some previous administrations paved the way for this administration to be successful by whittling away at past debt, initiating long-term blight removal strategies that have allowed for development, and choosing to emphasize McKeesport’s assets in regional recreation (the Marina at McKees Point, Renziehausen Park), others have presented us with bigger financial hardships to overcome. For years, the City of McKeesport has been operating with a functional deficit of several million dollars, which we have compensated for annually with infusions of capital. This mechanism was made possible by liquidating

1 assets and using that revenue to supplement operating costs each year. This administration
2 established a Mayor's Reserve Fund that could support City finances in place of a standard
3 surplus. Our successful operation can be attributed to the increased collection of various
4 taxes and fees, combined with best practices to reduce expenditures including a decrease
5 in staffing through attrition; investment in infrastructure and community development
6 programs to grow our tax base; and, of course, the one-time sale of City assets. Non-
7 financial challenges include the socio-economic barriers of poverty, single-parent
8 households, and a lack of employment opportunities, among others.

9 According to recent Census data, the racial makeup of the city is 72.40% White,
10 24.46% African American, 0.27% Native American, 0.12% Asian, 0.01% Pacific Islander,
11 0.59% from other races, and 2.14% from two or more races. Hispanic or Latino of any
12 race were 1.50% of the population.

13 There are 9,655 households, out of which 28.6% have children under the age of 18
14 living with them, 34.7% are married couples living together, 21.9% have a female
15 householder with no husband present, and 38.1% are non-families. 33.9% of all
16 households are made up of individuals, and 15.7% have someone living alone who was 65
17 years of age or older. The average household size is 2.35 and the average family size is
18 3.01.

19 The median income for a household in the City is \$23,715, and the median income
20 for a family is \$31,577. At that time, about 18.1% of families and 23.0% of the population
21 were below the poverty line, including 35.9% of those under age 18 and 12.1% of those
22 age 65 or over. The poverty rate continues to increase. In 2015, 38% of McKeesport
23 residents maintained incomes below the poverty level, and 12% of McKeesport residents

1 had an income below 50% of the poverty level. These barriers make McKeesport less
2 buoyant in the face of its financial challenges, which are outlined throughout this
3 testimony.

4
5 **Q. WHAT IS THE RELATIONSHIP BETWEEN THE AUTHORITY AND THE**
6 **CITY?**

7 **A.** The Authority was established by the City in 1949, and construction began on the current
8 sewage treatment plant in 1959 and was completed in 1960. Initially, the plant offered
9 primary treatment only, as was customary at the time. In 1976, the plant underwent a
10 massive expansion that resulted in the secondary aeration system now in place. Over the
11 last five years, the plant again has undergone a large expansion to adhere to Act 537 and
12 new demand requirements.

13
14 **Q. DESCRIBE THE RATIONALE FOR THE DECISION TO EXPLORE THE SALE**
15 **OF THE AUTHORITY.**

16 **A.** The decision to sell or monetize the Authority was not made lightly. Indeed, it was the
17 result of deliberate and sustained consideration by many stakeholders, of which the City
18 was only one party. A sale or some other way to monetize the value of the Authority and
19 its assets has been evaluated and considered an option by the Authority, my Administration,
20 and others, for some time.

21 For more than two decades, the City has contemplated monetization of the
22 Authority, as it is the last remaining asset with substantial value under control of the City.
23 Exhaustive efforts were made to identify a plan to monetize the Authority without divesting

1 the City of the Authority's assets. All of these efforts to formulate a lease or licensing
2 arrangement failed to yield a mechanism which would allow any such funding to flow back
3 to the City. While the sale of these assets may be politically challenging, it is my firm
4 belief that this action provides the only means by which the City can survive, therefore
5 giving its residents a chance to thrive.

6
7 **III. PROJECT DESCRIPTION AND TRANSACTION BENEFITS**

8 **Q. PLEASE SUMMARIZE THE TRANSACTION.**

9 **A.** In general, the Transaction involves the sale by the Authority and the purchase by PAWC
10 of specific Authority assets used currently to provide wastewater service to the Authority's
11 customers who reside within the City, Dravosburg, Duquesne, and Port Vue along with
12 providing sewer services to eight bulk customers.

13
14 **Q. PLEASE DESCRIBE THE LIKELY IMPACT OF THE TRANSACTION ON THE
15 CITY, ITS RESIDENTS AND THE REGIONAL ECONOMY.**

16 **A.** It is clear that monetizing in some fashion the Authority's assets is a critical component to
17 the City's short and long-term financial health.

- 18 • Positive impacts to the City and neighboring communities include the areas of
19 infrastructure investment, economies of scale, addressing the ever-increasing cost
20 of sewage treatment, and more. The City's focus on a long-term commitment to
21 our residents is a true investment in that we plan to maintain and improve existing
22 services (police, fire, infrastructure, and community programming). There is room

1 for economic development and growth, while allowing for further focus and
2 investment in the City's Comprehensive Plan.

- 3 • The Authority, while currently operating at successful levels, is reaching its debt
4 ceiling under state law as a result of its recent expansions required by Act 537. Our
5 regional customers' ability to shoulder these burdens alone is nearing its threshold.
6 By transferring the asset to PAWC, the resulting economies of scale should
7 eliminate this concern in the future. A burden also exists on the Authority as it
8 attempts to provide employee benefits and meet its defined benefit pension
9 obligations. All of these concerns will be greatly alleviated as a result of partnering
10 with PAWC's exponentially larger customer base.

11
12 **Q. ARE THERE ADDITIONAL BENEFITS OF THE TRANSACTION FROM THE**
13 **CITY'S PERSPECTIVE?**

14 **A.** The Transaction has several additional benefits that justify Commission approval. Other
15 witnesses in this proceeding will address them more thoroughly from their specific
16 perspective. From my perspective, these further benefits include but are not limited to:

- 17 • Increased prospects for improved customer service and operations under PAWC
18 ownership of the System;
- 19 • PAWC will have better and more varied access to capital to make required System
20 expenditures and improvements and comply with applicable legal requirements,
21 such as Act 537, as mentioned above;
- 22 • PAWC is a skilled utility operator and owner of many wastewater assets;

- 1 • The acquisition of the Authority’s system by PAWC will bring additional expert
2 oversight of PAWC from the Commission and other statutory parties that routinely
3 monitor utility operations and participate in utility proceedings;
- 4 • Some of the anticipated proceeds from the Transaction are expected to be used to
5 balance the City’s annual budget, invest in infrastructure improvements, market the
6 City to new businesses and residents, and improve services to existing businesses
7 and residents; and,
- 8 • As a private entity, PAWC will be a taxpayer that will be paying additional property
9 taxes that will increase revenues to the City.

10
11 **Q. HAS THE TRANSACTION BEEN APPROVED BY THE AUTHORITY AND THE**
12 **CITY?**

13 **A.** Yes. In June of 2015, the City issued a Request for Qualifications for expressions of
14 interest from qualified companies and entities for the lease of the sewer system in order to
15 initiate the bidding process. On July 1, 2015, City Council approved Resolution 2015-26
16 (attached hereto as **PAWC Exhibit MEC-1**), authorizing the proper city officials to engage
17 in a competitive bidding process to explore and identify ALL options open to the City in
18 relation to a long-term leasing agreement or sale. Throughout this process, the City worked
19 with financial professionals to examine the ramifications of leasing versus selling the
20 Authority, or restructuring the City’s relationship with the Authority. After this research,
21 the decision was made to pursue a sale. On June 3, 2016, the City and the Authority issued
22 a Request for Bids to solicit bids for an asset purchase agreement, which returned two
23 qualified bids on July 29, 2016.

1 On September 7, 2016, City Council adopted Ordinance 16-009 (attached hereto as
2 **PAWC Exhibit MEC-2**) authorizing the proper City officials to facilitate the sale of all
3 the sewer system assets of the Authority pursuant to an asset purchase agreement and to
4 take actions to dissolve and terminate the Authority. On September 8, 2016, the Authority
5 adopted Resolution 16-10 (attached hereto as **PAWC Exhibit MEC-3**) authorizing the sale
6 of substantially all the sewer system assets of the Authority by executing an asset purchase
7 agreement and authorizing the transfer of said assets to the winning bidder, PAWC, upon
8 closing.²

9
10 **Q. IS THIS TRANSACTION IN THE PUBLIC INTEREST?**

11 **A.** Yes. For all of the reasons specified above, the City believes that the Transaction is in the
12 public interest largely because of the broad array of stakeholders that benefit from it,
13 including the City and their respective residents, the Authority, the Authority's bulk
14 customers, PAWC, existing PAWC customers, and the Commonwealth of Pennsylvania.
15 I urge the Commission to promptly approve the Transaction.

16
17 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

18 **A.** Yes, it does. However, I reserve the right to file additional testimony at a later date as may
19 be necessary or appropriate.

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² *Pro forma* resolutions of the City and MACM authorizing the execution of the First Amendment to the APA are included here as exhibits and with the application's filing.

A RESOLUTION

OF THE CITY OF MCKEESPORT, ALLEGHENY COUNTY, PENNSYLVANIA, AUTHORIZING THE PROPER CITY OFFICIALS TO ENGAGE IN A COMPETITIVE BIDDING PROCESS TO EXPLORE AND IDENTIFY ALL OPTIONS OPEN TO THE CITY IN RELATION TO A LONG-TERM LEASING AGREEMENT FOR THE SEWAGE SYSTEM OF THE CITY OF MCKEESPORT.

RESOLVED, by the City of McKeesport, in Council assembled, that:

WHEREAS, the City of McKeesport, Allegheny County, a City of the Third Class (the "City"), created the Municipal Authority of the City of McKeesport ("the Authority"), which currently owns and operates a sanitary sewer system (the "Sewer System"), for the benefit and use of the residents of the Cities of McKeesport and Duquesne, the Boroughs of Glassport, Liberty, Lincoln, Port Vue, Versailles, East McKeesport, White Oak and Dravosburg, and the Townships of North Versailles and Elizabeth; and

WHEREAS, the City desires to pursue the potential long-term lease of the Sewer System through a competitive bidding process; and

WHEREAS, the City, on June 4, 2015, issued a Request for Qualifications (the "RFQ") for expressions of interest from qualified companies and entities for the lease of the Sewer System, and will receive responses from interested potential bidders; and

WHEREAS, the City intends to issue a Request for Bids ("RFB") to solicit bids from interested and qualified entities, and to develop a proposed form of long-term lease of the Sewer System in order to initiate the bidding process; and

WHEREAS, Public Financial Management, Inc., and Boenning & Scattergood, Inc. will serve as financial advisors (the "Financial Advisors"), and Dilworth Paxson LLP and Grogan & Graffam, P.C. will serve as outside counsel ("Counsel") to the City and the Authority in connection with the lease of the Sewer System; and

WHEREAS, the execution of a final lease agreement shall require approval by the City Council through the enactment of a future Ordinance.

NOW, THEREFORE, BE IT RESOLVED that the McKeesport City Council hereby authorizes the Mayor, with the assistance of the Financial Advisors, Counsel, and the City Solicitor to take all actions necessary to issue the RFB, to solicit bids, to consider and interview

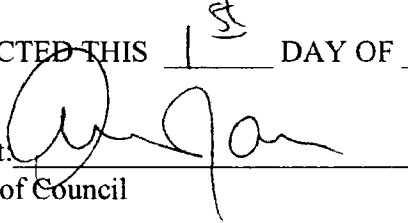
Bill #113 cont.

RFP respondents, to authorize the drafting of a lease agreement, to approve and execute any necessary application for regulatory approval, and to execute all documents necessary to effectuate the long-term lease and related transactions prior to and subject to final City approval.

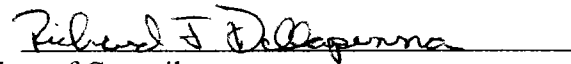
Section 2. Any and all resolutions that are in conflict herewith are hereby repealed.

ENACTED THIS 1st DAY OF JULY, A.D., 2015.

Attest:
Clerk of Council

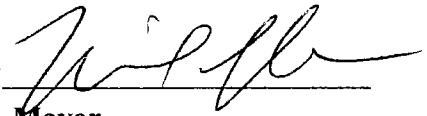


President of Council



EXAMINED AND APPROVED by me this 1st day of JULY, 2015.

Attest:



Mayor

EFFECTIVE DATE: 7-1-15

CITY OF MCKEESPORT

An Ordinance of the
City of McKeesport

Folder 200



SERIES: 2016

ORDINANCE NO.: 16-009

Presented By: Administration

Bill No.: 36

Introduced By: **James Barry**

Date: 9-7-16

Public Notice:

Public Hearing:

AN ORDINANCE OF THE CITY OF MCKEESPORT, ALLEGHENY COUNTY, PENNSYLVANIA, AUTHORIZING THE PROPER CITY OFFICIALS TO FACILITATE THE SALE OF SUBSTANTIALLY ALL OF THE SEWER SYSTEM ASSETS OF THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT (THE "AUTHORITY") PURSUANT TO AN ASSET PURCHASE AGREEMENT AND TO TAKE SUCH ACTIONS NECESSARY TO DISSOLVE AND TERMINATE THE AUTHORITY.

WHEREAS, the City of McKeesport, Allegheny County, a City of the Third Class (the "City"), incorporated the Authority, which currently owns and operates a sanitary sewer system, (the "Sewer System"), for the benefit and use of the residents of the Cities of McKeesport and Duquesne, the Boroughs of Glassport, Liberty, Lincoln, Port Vue, Versailles, East McKeesport, White Oak and Dravosburg, and the Townships of North Versailles and Elizabeth; and

WHEREAS, Public Financial Management, Inc., and Boenning & Scattergood, Inc. serve as financial advisors (the "Financial Advisors"), and Dilworth Paxson LLP and Grogan & Graffam, P.C./Dickie, McCamey & Chilcote, P.C. serve as outside counsel ("Counsel") to the City and the Authority in connection with the sale of the Sewer System; and

EXHIBIT

C

Bill No. 36 Cont.

WHEREAS, the City and the Authority on June 4, 2015, issued a Request for Qualifications (the "RFQ") for expressions of interest from qualified companies and entities for the lease or sale of the Sewer System, and received responses from interested potential bidders; and

WHEREAS, the City and the Authority, on June 3, 2016, issued a Request for Bids (the "RFB") to solicit bids from interested and qualified entities, based on a form of asset purchase agreement approved by the Authority and the City and acceptable to the qualified bidders for the sale of the Sewer System (the "Agreement"); and

WHEREAS, two (2) qualified bids were received on July 29, 2016; and

WHEREAS, the Authority and the City desire to award the bid and sell the Sewer System to the highest bidder, Pennsylvania American Water ("PAW"); and

WHEREAS, in the judgement of City Council, entering into the Agreement with the Authority and PAW for the sale of the Sewer System is in the best interests of the City and the public which it serves; and

WHEREAS, on or about the date that the sale is closed pursuant to the Agreement (the "Closing Date") and all of the bonds and system obligations are refunded and/or defeased to maturity, the City intends to dissolve and terminate the Authority.

THE CITY OF MCKEESPORT HEREBY ORDAINS:

Section 1. (a) Cooperation and Coordination with the Authority

The McKeesport City Council hereby approves the Agreement and authorizes the Mayor (or his designee), with the assistance of the Financial Advisors, Counsel, and the City Solicitor, to (i) execute and deliver the Agreement in substantially the form provided to City Council and (ii) take all actions necessary or desirable to assist, advise and/or coordinate with the Authority in relation to the sale of the Sewer System, including (a) executing and delivering the (Deposit Note) as such term is defined in the Agreement, (b) amending or assigning the Authority's existing municipal service agreements, © approving and executing any necessary application for regulatory approval, (d) assigning any permits, € engaging valuation experts, engineers, title search companies or other advisors necessary or desirable to effectuate the sale of the Sewer System and (f) to execute, deliver and file all documents, agreements or instruments and take any actions necessary or desirable to transfer the real estate and other assets of the Sewer System and to otherwise effectuate the Agreement.

Bill No. 36 Cont.

(b) General Authorization

The McKeesport City Council hereby further authorizes the City, the Mayor, and its agents, including the Financial Advisors, Counsel and the City Solicitor and its employees to take any and all necessary actions required under applicable law or the Agreement to assist, advise and/or coordinate with the Authority in effectuating the sale of the Sewer System.

(c) Ratification of Prior Acts

The McKeesport City Council hereby ratifies and approves the engagement of the Financial Advisors and Counsel, the RFQ process, the RFB process, including the solicitation of bids and any an all related acts taken by the City, its agents and employees in order to facilitate and complete the sale of the Sewer System.


(d) Authority Dissolution/Termination

The McKeesport City Council hereby approves the dissolution and termination of the Authority on or immediately after the Closing Date, orders and directs the Authority to prepare such certificate and other documents necessary for it to dissolve and terminate and authorizes the Mayor (or his designee) to execute, deliver or file any and all documents, certificates, agreements or instruments necessary or desirable to effectuate such dissolution and termination, it being understood that such dissolution and termination of the Authority shall not occur until the Closing Date provided all of the Authority bonds and system obligations are refunded and/or defeased to maturity.

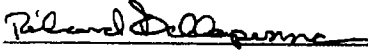
Section 2. Any an all ordinances or parts thereof that are in conflict herewith are hereby repealed.

ENACTED INTO LAW this 7TH day of September, A.D. 2016.

ATTEST:



Clerk of Council



President of Council

EXAMINED AND APPROVED this 7TH day of September, A.D., 2016

ATTEST:

Mayor

An Ordinance of the
City of McKeesport

Folder 200



SERIES: 2017

ORDINANCE NO.: 17-012

Presented By: Administration

Bill No.: 87

Introduced By:

Date: 6-7-17

Public Notice:

Public Hearing:

AN ORDINANCE OF THE CITY OF MCKEESPORT, ALLEGHENY COUNTY, PENNSYLVANIA, AUTHORIZING THE PROPER CITY OFFICIALS TO EXECUTE THE ATTACHED ASSET PURCHASE AGREEMENT AMENDMENT RELATING TO THE TERMS OF THE ASSET PURCHASE AGREEMENT COVERING THE SALE OF SUBSTANTIALLY ALL OF THE SEWER SYSTEM ASSETS OF THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT.

WHEREAS, the City of McKeesport, Allegheny County, a City of the Third Class (the "City"), incorporated the Authority, which currently owns and operates a sanitary sewer system, (the "Sewer System"), for the benefit and use of the residents of the Cities of McKeesport and Duquesne, the Boroughs of Glassport, Liberty, Lincoln, Port Vue, Versailles, East McKeesport, White Oak and Dravosburg, and the Townships of North Versailles and Elizabeth: and

WHEREAS, Public Financial Management, Inc. and Boenning & Scattergood, Inc. serve as financial advisors (the "Financial Advisors"), and Dilworth Paxson LLP and Grogan & Graffam, P.C. and Dickie McCamey & Chilcote, P.C. as outside counsel ("Counsel") to the City and the Authority in connection with the sale of the Sewer System; and

Bill No. 87 Cont.

WHEREAS, the City and the Authority on June 4, 2015, issued a Request for Qualifications (the "RFQ") for expressions of interest from qualified companies and entities for the lease or sale of the Sewer System, and received responses from interested potential bidders; and

WHEREAS, the City and the Authority, on June 3, 2016, issued a Request for Bids (the "RFB") to solicit bids from interested and qualified entities, based on a form of asset purchase agreement approved by the Authority and the City, and acceptable to the qualified bidders for the sale of the Sewer System (the "Agreement"); and

WHEREAS, two (2) qualified bids were received on July 29, 2016; and

WHEREAS, the Authority and the City desire to award the bid and sell the Sewer System to the highest bidder, Pennsylvania American Water ("PAW"); and

WHEREAS, in the judgement of City Council, entering into the Agreement with the Authority and PAW for the sale of the Sewer System is in the best interests of the City and the public which it serves; and

WHEREAS, on or about the date that the sale is closed pursuant to the Agreement (the "Closing Date") and all of the bonds and system obligations are refunded and/or defeased to maturity, the City intends to dissolve and terminate the Authority; and

WHEREAS, as a result of the terms of the Asset Purchase Agreement, the parties were required to negotiate an increased purchase price and extension of the "End Date" of said agreement in order to comply with all applicable statutes and/or regulations.

Bill #87 cont.

NOW, THEREFORE, BE IT ORDAINED AND ENACTED by the City of McKeesport, in Council assembled, and it is hereby ordained and enacted by the authority of the same as follows:

SECTION 1. The proper City Officials are hereby authorized to execute the attached "First Amendment to the Asset Purchase Agreement".

SECTION 2. Any and all provisions of any Ordinances, Resolutions, or Motions that are in conflict with the provisions hereof are hereby repealed.

ENACTED this _____ day of _____, A.D. 2017.

ATTEST:

Clerk of Council

President of Council

EXAMINED AND APPROVED this _____ day of _____, A.D., 2017

ATTEST:

Mayor

OFFICIAL
THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
RESOLUTION NO. 2016-10

A RESOLUTION OF THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT, COUNTY OF ALLEGHENY AND COMMONWEALTH OF PENNSYLVANIA, AUTHORIZING THE SALE OF SUBSTANTIALLY ALL OF THE SEWER SYSTEM ASSETS OF THE AUTHORITY BY EXECUTING AND CLOSING AN ASSET PURCHASE AGREEMENT; AUTHORIZING TRANSFER OF THE ASSETS TO THE WINNING BIDDER UPON CLOSING; AND AUTHORIZING PREPARATION AND FILING OF A CERTIFICATE OF TERMINATION OF THE AUTHORITY ON THE CLOSING DATE PROVIDED ALL LIABILITIES OF THE AUTHORITY ARE SATISFIED.

WHEREAS, under the provisions of the Pennsylvania Municipal Authorities Act, Act 22 of 2001, 53 Pa.C.S.A. Section 5601 et seq., formerly the Municipality Authorities Act of 1945, as amended, the City of McKeesport, Allegheny County, a City of the Third Class (the "City"), incorporated, created and has the power to dissolve and/or terminate The Municipal Authority of the City of McKeesport (the "Authority"), which currently owns and operates a sanitary sewer system (the "Sewer System"), for the benefit and use of the residents of the Cities of McKeesport and Duquesne, the Boroughs of Glassport, Liberty, Lincoln, Port Vue, Versailles, East McKeesport, White Oak and Dravosburg, and the Townships of North Versailles and Elizabeth; and

WHEREAS, Public Financial Management, Inc., and Boenning & Scattergood, Inc. serve as financial advisors (the "Financial Advisors"), and Dilworth Paxson LLP and Grogan & Graffam, P.C./Dickie, McCamey&Chilcote, P.C. serve as outside counsel ("Counsel") to the City and the Authority in connection with the sale of the Sewer System; and

WHEREAS, the Authority, as requested by the City, and the City issued a Request for Qualifications (the "RFQ") on June 4, 2015, for expressions of interest from qualified companies and entities for the possible lease or sale of the Sewer System, and received responses from interested potential bidders; and

WHEREAS, the Authority, as requested by the City, and the City issued a Request for Bids (the "RFB") on June 3, 2016, to solicit bids from interested and qualified entities based on a form of asset purchase agreement approved by the Authority and the City for the sale of the Sewer System (the "Agreement"), and with an exact copy of the Agreement being attached hereto as Exhibit A; and

WHEREAS, two qualified bids were received on July 29, 2016; and

WHEREAS, the Authority, as requested by the City which incorporated and created the Authority and has the power to dissolve and/or terminate the Authority so long as all bonds, debts and obligations of the Authority are satisfied on or before the date of dissolution and/or termination, and the City desire to award the bid and sell the Sewer System to the highest bidder,

Pennsylvania American Water (“PAW”), and with an exact copy of the Bid of PAW attached hereto as Exhibit B; and

WHEREAS, upon such sale, the Authority shall pay or provide for the payment of all of its debts, **bonds** and obligations not otherwise assigned to the City or PAW; and

WHEREAS, the City has authorized, ordered and directed the Authority to dissolve and terminate on or immediately after the date that the sale is closed pursuant to the Agreement (the “Closing Date”) and with all of the Authority bonds and system obligations to be refunded and/or defeased to maturity, as evidenced by the Ordinance of the City Council of the City to effect the foregoing attached hereto as Exhibit C, and which Ordinance was enacted into law by the City on September 7, 2016.

NOW, THEREFORE, BE IT RESOLVED AND ADOPTED by the Board of The Municipal Authority of the City of McKeesport, County of Allegheny, Commonwealth of Pennsylvania, and it is hereby RESOLVED and ADOPTED by authority of the same, that:

1. The Chairman or Vice-Chair of the Board of the Authority is authorized to execute and deliver the Agreement in substantially the form provided to the Board, after consultation with the Authority Solicitor, the Financial Advisors and Counsel, and is further authorized to execute, deliver and file all documents and take any actions necessary, on the Closing Date, to transfer the assets of the Sewer System and to otherwise effectuate the Agreement, subject to full compliance by the Authority, the City and PAW with all applicable Federal, State and County laws and regulations .
2. The Board of the Authority hereby ratifies and approves the engagement of the Financial Advisors and Counsel, the RFQ process, the RFB process, including the solicitation of bids and any and all related acts taken by the Authority, its agents and employees in order to facilitate and complete the sale of the Sewer System, subject to full compliance by the Authority, the City and PAW with all applicable Federal, State and County laws and regulations .
3. The Chairman or Vice-Chair of the Board of the Authority is directed and authorized to execute a certificate of termination (in the form to be provided by the City) and deliver the executed certificate to the Mayor of the City for filing in the Office of the Secretary of the Commonwealth of Pennsylvania and take any and all actions necessary or desirable to effectuate the dissolution and termination of the Authority, it being understood that such filing shall not occur until such date that the sale is closed pursuant to the Agreement; all of the bonds and system obligations of the Authority are refunded and/or defeased to maturity; and there is full compliance by the Authority, the City and PAW with all applicable Federal, State and County laws and regulations.

RESOLVED AND ADOPTED by the Board of The Municipal Authority of the City of McKeesport, County of Allegheny, Commonwealth of Pennsylvania, meeting in regular and public session, the 8th day of September, 2016.

ATTEST:

Mary Smitley

Mary Smitley, Secretary

**THE MUNICIPAL AUTHORITY OF THE
CITY OF MCKEESPORT**
By: *Dale McCall*

Dale McCall, Chairman

**OFFICIAL
THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT
RESOLUTION NO. _____**

A RESOLUTION OF THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT, COUNTY OF ALLEGHENY AND COMMONWEALTH OF PENNSYLVANIA, AUTHORIZING THE PROPER AUTHORITY OFFICERS TO EXECUTE THE ATTACHED FIRST AMENDMENT TO THE ASSET PURCHASE AGREEMENT FOR THE SALE OF SUBSTANTIALLY ALL OF THE SEWER SYSTEM ASSETS OF THE AUTHORITY.

WHEREAS, under the provisions of the Pennsylvania Municipal Authorities Act, Act 22 of 2001, 53 Pa.C.S.A. Section 5601 et seq., formerly the Municipality Authorities Act of 1945, as amended, the City of McKeesport, Allegheny County, a City of the Third Class (the "City"), incorporated, created and has the power to dissolve and/or terminate The Municipal Authority of the City of McKeesport (the "Authority"), which currently owns and operates a sanitary sewer system (the "Sewer System"), for the benefit and use of the residents of the Cities of McKeesport and Duquesne, the Boroughs of Glassport, Liberty, Lincoln, Port Vue, Versailles, East McKeesport, White Oak and Dravosburg, and the Townships of North Versailles and Elizabeth; and

WHEREAS, Public Financial Management, Inc., and Boenning & Scattergood, Inc. serve as financial advisors (the "Financial Advisors"), and Dilworth Paxson LLP and Grogan & Graffam, P.C./Dickie, McCamey&Chilcote, P.C. serve as outside counsel ("Counsel") to the City and the Authority in connection with the sale of the Sewer System; and

WHEREAS, the Authority, as requested by the City, and the City issued a Request for Qualifications (the "RFQ") on June 4, 2015, for expressions of interest from qualified companies and entities for the possible lease or sale of the Sewer System, and received responses from interested potential bidders; and

WHEREAS, the Authority, as requested by the City, and the City issued a Request for Bids (the "RFB") on June 3, 2016, to solicit bids from interested and qualified entities based on a form of asset purchase agreement approved by the Authority and the City for the sale of the Sewer System (the "Agreement"), and with an exact copy of the Agreement being attached hereto as Exhibit A; and

WHEREAS, two qualified bids were received on July 29, 2016; and

WHEREAS, the Authority, as requested by the City which incorporated and created the Authority and has the power to dissolve and/or terminate the Authority so long as all bonds, debts and obligations of the Authority are satisfied on or before the date of dissolution and/or termination, and the City desire to award the bid and sell the Sewer System to the highest bidder, Pennsylvania American Water ("PAW"), and with an exact copy of the Bid of PAW attached hereto as Exhibit B; and

WHEREAS, upon such sale, the Authority shall pay or provide for the payment of all of its debts, **bonds** and obligations not otherwise assigned to the City or PAW; and

WHEREAS, the City has authorized, ordered and directed the Authority to dissolve and terminate on or immediately after the date that the sale is closed pursuant to the Agreement (the “Closing Date”) and with all of the Authority bonds and system obligations to be refunded and/or defeased to maturity, as evidenced by the Ordinance of the City Council of the City to effect the foregoing attached hereto as Exhibit C, and which Ordinance was enacted into law by the City on September 7, 2016.

WHEREAS, as a result of the terms of the Asset Purchase Agreement the parties were required to negotiate an increased purchase price and extension of the “End Date” of said agreement in order to comply with all applicable statutes and/or regulations.

NOW, THEREFORE, BE IT RESOLVED AND ADOPTED by the Board of The Municipal Authority of the City of McKeesport, County of Allegheny, Commonwealth of Pennsylvania, and it is hereby **RESOLVED** and **ADOPTED** by authority of the same, that:

1. The Chairman or Vice-Chair of the Board of the Authority is authorized to execute and deliver the attached First Amendment to the Asset Purchase Agreement in substantially the form provided to the Board and all actions taken in this regard prior to this date are hereby ratified and approved.

RESOLVED AND ADOPTED by the Board of The Municipal Authority of the City of McKeesport, County of Allegheny, Commonwealth of Pennsylvania, meeting in regular and public session, the 8th day of September, 2016.

ATTEST:

Mary Smitley, Secretary

**THE MUNICIPAL AUTHORITY OF THE
CITY OF MCKEESPORT**

By: _____
Dale McCall, Chairman

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application and related filings of Pennsylvania-American :
Water Company under Sections 507, 1102(a), and 1329 of the :
Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 507, 1102(a), :
1329, for approval of its acquisition of wastewater system assets : Docket No. A-2017-_____ *et al.*
of The Municipal Authority of the City of McKeesport, related :
wastewater service rights, fair market valuation ratemaking :
treatment, deferral of the post-acquisition improvement costs, :
and certain contracts with municipal corporations :

**DIRECT TESTIMONY OF JEROME C. WEINERT, ASA, PE, CDP
UTILITY VALUATION EXPERT SELECTED BY
PENNSYLVANIA-AMERICAN WATER COMPANY**

Date: May 24, 2017

PAWC Statement No. 7

INTRODUCTION

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

A. Jerome C. Weinert, ASA, PE, CDP, with business addresses at 2405 Park Drive Suite 203, Harrisburg, PA and 8555 West Forest Home Avenue Suite 201, Greenfield, Wisconsin 53228.

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

A. I am employed by Associated Utility Services, Inc. ("AUS") as a Principal and Director in AUS's consulting operation ("AUS Consultants"), a position I have held since 1987. AUS was founded in 1967 as a financial consulting firm specializing in utility rate-making and regulatory matters. AUS Consultants is based in Mount Laurel, New Jersey, with various subsidiary offices located in Harrisburg, Pennsylvania; Greenfield (Milwaukee), Wisconsin; and Albuquerque, New Mexico. AUS Consultants comprises several subsidiary groups, including Utility Services Group, C.A. Turner Utility Reports, Valuation and Depreciation Services Group.

Q. WHAT ARE YOUR RESPONSIBILITIES AS PRINCIPAL AND DIRECTOR OF AUS CONSULTANTS?

A. As a Principal of AUS Consultants, I am responsible for appraisals and depreciation studies which AUS Consultants performs for its clients. As Director of AUS Consultants, I am responsible for the daily and administration and operations of AUS Consultants' staff and offices in Harrisburg, PA; Greenfield, WI; and Albuquerque, NM.

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

3 A. I received a Bachelor of Science Degree in Mechanical Engineering from the Milwaukee
4 School of Engineering in Milwaukee, WI, in 1972 and a Master of Business
5 Administration Degree from Marquette University in 1988.

6 I am registered as a Professional Engineer (E-15552) in the State of Wisconsin. I
7 have held a Professional Engineer's License continuously since 1976, when I completed
8 the State of Wisconsin's engineering certification requirements. Those requirements
9 include successfully completing two 8-hour written examinations along with four years
10 of qualifying engineering experience. Wisconsin also requires that licensed engineers
11 complete continuing education requirements of 15 professional development hours on a
12 semi-annual basis for renewal of a Professional Engineers license. I most recently
13 renewed my Wisconsin Professional Engineers' license on July 31, 2016.

14 Since 1982, I also have been an Accredited Senior Appraiser ("ASA") in the
15 American Society of Appraisers, which is a technical society whose charter is to ensure
16 the integrity and continuation of the appraisal profession. My accreditation is in the
17 specialty of Technical Specialties, which includes public utility valuation. I recertify in
18 this specialty every five years, most recently recertifying in June 2012. I also hold Senior
19 Membership in Public Utility Valuation. To become a senior member, a candidate must
20 have five years of qualifying experience in the designated field and pass a written
21 examination that covers general appraisal principles and issues specific to the candidate's
22 field. Finally, the candidate's work is reviewed for a selected number of valuation
23 problems, which, for Public Utility Valuation, requires the applicant to demonstrate

1 understanding of values, both tangible and intangible, for utility property. These
2 valuations may be in connection with rate case studies, sale or acquisition, eminent
3 domain (condemnation), ad valorem property tax appraisals, and insurance risk
4 management appraisals. These valuations require special knowledge in order to take into
5 account the unique economic and value characteristics of public utility properties and
6 properly recognize regulatory factors which influence value conclusions. Senior
7 membership in Public Utility Valuation also requires an understanding of the principles
8 and practices necessary in developing appropriate capital recovery (depreciation) accrual
9 rates for public utilities.

10 I am also a founding member of the Society of Depreciation Professionals.
11 Formed in 1987, the Society of Depreciation Professionals is an international society
12 whose purpose is to recognize the professional field of depreciation engineering and
13 those individuals contributing to that field; to promote the development and professional
14 ethics of the profession; and collect and exchange information concerning depreciation
15 engineering and analysis. Its membership, of which there are approximately 200
16 individual and corporate members, is comprised of professionals from regulated
17 industries (telephone, electric, gas, and water), regulatory agencies, consulting firms, and
18 educational institutions. I have held various offices with the Society including serving as
19 treasurer in 1993, vice president in 1994, and president in 1995.

20 I gained the status of a Certified Depreciation Professional from the Society of
21 Depreciation Professionals in 1997. To obtain this status, a candidate must have five
22 years of qualifying experience in the field of depreciation, pass a written examination that
23 covers depreciation engineering principles and practices, and provide references to his or

1 her work and qualifications as a depreciation professional. I have re-certified every five
2 years since 1997 with the most recent re-certification effective January 1, 2013.

3
4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
5 **PUBLIC UTILITY COMMISSION (“COMMISSION”)?**

6 A. Yes. In valuation matters related to utility rate base, I most recently testified before the
7 Commission in the matter of *Application of Aqua Pennsylvania Wastewater, Inc.,*
8 *pursuant to Sections 1102 and 1329 of the Pennsylvania Public Utility Code (“Code”),*
9 *66 Pa. C.S. §§ 1102 and 1329, for Approval of its Acquisition of the Wastewater System*
10 *Assets of New Garden Township, Docket No. A-2016-2580061, on behalf of Aqua*
11 *Pennsylvania, Inc. relative to its acquisition of New Garden Township, PA’s wastewater*
12 *system assets. I have also presented testimony on the subject of depreciation to the*
13 *public service commission’s in the states of Alaska, Arkansas, Illinois, Indiana, Iowa,*
14 *Nebraska, Nevada, North Carolina, Ohio, and Oregon. I have testified on depreciation*
15 *matters before the Federal Energy Regulatory Commission (“FERC”) and the CRTTC.*
16 *In addition, I have testified on valuation matters before the Massachusetts Superior*
17 *Court; the Court of Common Pleas, Fayette County, Ohio; the Twentieth Judicial Circuit*
18 *Court in Charlotte County, Florida; the Nineteenth Judicial Circuit Court in St. Lucie*
19 *County, Florida; the New Hampshire Public Service Commission; the California Board*
20 *of Equalization and Assessment; and the Valuation Adjustment Boards in the Florida*
21 *counties of Duval, Hillsborough, Okeechobee, and Palm Beach. Attached to this direct*
22 *testimony as **Appendix A** is a copy of my current curriculum vitae which includes a*
23 *listing of cases in which I have testified.*

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

2 A. The purpose of my testimony is to describe the fair market value appraisal of the
3 wastewater system and related plant, property, equipment and assets (collectively the
4 “System”) of The Municipal Authority of the City of McKeesport (“MACM”) that I and
5 my staff performed on behalf of Pennsylvania-American Water Company (“PAWC”), the
6 buyer of the System. Our report dated April 10, 2017, is entitled “The City of
7 McKeesport, Pennsylvania and The Municipal Authority of the City of McKeesport Fair
8 Market Value Appraisal as of September 9, 2016, as Adjusted on May 16, 2017.” The
9 appraisal and its report was developed to meet the criteria established in paragraph
10 Section 1329 of the Pennsylvania Public Utility Code (“Code”), 66 Pa. C.S. § 1329
11 (“Determination of the fair market value of water and wastewater assets”).

12 In its 2015-2016 legislative session, the Pennsylvania Legislature passed Act 12
13 of 2016 that session and Governor Wolf signed into law Section 1329 of the Code
14 establishing the legislative guidelines facilitating the acquisition of municipal and
15 regional water and wastewater systems by private investor-owned utilities and other
16 entities which are rate-regulated by the Pennsylvania Public Utility Commission
17 (“PUC”). This legislation was intended to facilitate the acquisition of water and
18 wastewater system in order to facilitate capital improvements to the water and or
19 wastewater properties.

20

21 **QUALIFICATION AS UTILITY VALUATION EXPERT**

22 **Q. IS AUS CONSULTANTS ON THE COMMISSION’S REGISTRY OF UTILITY**
23 **VALUATION EXPERTS?**

1 A. Yes. AUS Consultants is a Utility Valuation Expert (“UVE”) in the Commonwealth of
2 Pennsylvania approved by the PUC (Utility Code 9919181).

3

4 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH AUS CONSULTANTS WAS**
5 **PLACED ON THE COMMISSION’S REGISTRY OF UTILITY VALUATION**
6 **EXPERTS.**

7 A. After passage of Section 1329 of the Pennsylvania Consolidated Code, the Commission
8 established an application process by which the Commission would approve and
9 designate firms to be placed on the Commission’s “Registry of Utility Valuation
10 Experts.” AUS Consultants submitted its application and the required proof of
11 experience in July of 2016 and received confirmation and approval from the Commission
12 of AUS Consultants’ placement on the Commission’s UVE Registry in August 2016.

13

14 **Q. PLEASE EXPLAIN YOUR QUALIFICATIONS TO ACT AS A UVE IN THIS**
15 **PROCEEDING.**

16 A. I have been involved in utility consulting in the valuation and depreciation area for my
17 entire 45-year career. I have been a Registered Professional Engineer since 1978, an
18 Accredited Senior Appraiser (“ASA”) since 1988 in the American Society of Appraiser
19 in their Technical Valuation specialty which includes utilities such as water and
20 wastewater utilities, and I am a Certified Depreciation Professional (“CDP”) since 2000
21 in the Society of Depreciation Professionals.

22 I have prepared fair market value appraisal for numerous clients during my career
23 as well as numerous depreciations studies in support of utilities depreciation rates for rate

1 making. In my capacity as Principal and Director for AUS, I have performed numerous
2 appraisals of water, wastewater, gas, electric and telecommunication companies and their
3 property. Similarly, in the area of depreciation studies, I have performed depreciations
4 studies for water, gas, electric and telecommunications companies. Prior to my
5 employment with AUS, I worked for 14 years in the Regulated Industries Group at
6 American Appraisal Associates, a national appraisal firm, with emphasis on performing
7 public utility appraisals and depreciation studies.

8
9 **Q. HAVE YOU EVER HAD YOUR PROFESSIONAL CREDENTIALS REVOKED**
10 **OR SUSPENDED?**

11 A. No.

12
13 **Q. DO YOU HAVE SPECIFIC EXPERIENCE WITH THE VALUATION AND**
14 **APPRAISAL OF UTILITY ASSETS?**

15 A. Yes. I annually prepare several fair market valuation appraisals for clients for various
16 purposes. In recent years, AUS Consultants has been quite active in the consulting in the
17 water and wastewater industry, particularly in Pennsylvania. This consulting included
18 original cost studies, depreciated original cost studies, and fair market value appraisals
19 for municipalities and investor-owned utilities. During my career, I have participated in
20 or have been responsible for more than 208 valuation studies and 128 depreciation
21 studies. These appraisals and depreciation studies are identified in my curriculum vitae
22 attached hereto as Appendix A. Over the course of my career, I have submitted
23 depreciation study results to the public service commission's in the states of Alabama,

1 Alaska, Arkansas, Colorado, Florida, Georgia, Illinois, Indiana, Idaho, Iowa, Kentucky,
2 Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, North Carolina, Ohio,
3 Oregon, Pennsylvania, Washington, and Wisconsin. I also have submitted depreciation
4 study results to the Federal Communications Commission; the Canadian Radio,
5 Television, and Telephone Commission (“CRTTC”); and the State of New York’s Board
6 of Equalization and Assessment.

7
8 **Q. HAVE YOU OR AUS CONSULTANTS OR ANY OF ITS STAFF DERIVED ANY**
9 **MATERIAL FINANCIAL BENEFIT FROM THE SALE OF THE MACM**
10 **ASSETS OTHER THAN FEES FOR YOUR SERVICES RENDERED?**

11 A. No.

12
13 **Q. ARE YOU OR AUS CONSULTANTS OR ANY OF ITS STAFF AN IMMEDIATE**
14 **FAMILY MEMBER OF A DIRECTOR, OFFICER, OR EMPLOYEE OF EITHER**
15 **PAWC OR MACM?**

16 A. No.

17
18 **Q. IS AUS CONSULTANTS IN COMPLIANCE WITH APPLICABLE**
19 **PENNSYLVANIA LAWS?**

20 A. Yes.

21
22 **Q. DOES AUS CONSULTANTS HAVE THE FINANCIAL AND TECHNICAL**
23 **FITNESS, INCLUDING PROFESSIONAL LICENSES AND TECHNICAL**

1 **CERTIFICATIONS, TO PERFORM A FAIR MARKET VALUATION OF THE**
2 **ASSETS OF MACM?**

3 A. Yes. As described earlier I am a accredited Senior Appraiser (ASA designation) in the
4 American Society of Appraisers, a registered Professional Engineer in the State of
5 Wisconsin (WI license E-15552) and a Certified Depreciation Professional (CDP
6 designation) in the Society of Depreciation Professionals all societies and state licensing
7 agencies involved in various aspects of the valuation and depreciation profession. These
8 designations coupled with my 45 years of appraisal and depreciation experience
9 demonstrate my and AUS Consultants' financial and technical capabilities to perform
10 utility appraisals.

11
12 **Q. ARE YOU AWARE OF ANY FACT, INCLUDING BUT NOT LIMITED TO ANY**
13 **POTENTIAL CONFLICT OF INTEREST, THAT WOULD CAST DOUBT UPON**
14 **YOUR ABILITY TO PROVIDE A THOROUGH, OBJECTIVE, UNBIASED, AND**
15 **FAIR VALUATION IN THIS PROCEEDING?**

16 A. No.

17
18 **FEES PAID FOR UTILITY VALUATION EXPERT SERVICES**

19 **Q. HOW IS AUS CONSULTANTS BEING COMPENSATED FOR ITS SERVICES**
20 **IN THIS MATTER?**

21 A. AUS Consultants is being compensated on a fee-and-expenses basis for the initial
22 appraisal and a per-diem rate plus fee-and-expenses basis for activities beyond the
23 issuance of a final appraisal report. True, correct, and complete copies of AUS

1 Consultants' invoices to PAWC for this matter, as of the date of Application filing, are
2 attached to PAWC's Application as Appendix A-5 and I incorporate those invoices in my
3 direct testimony as if set forth in their entirety.

4
5 **Q. WHAT IS THE ESTIMATED TOTAL COMPENSATION THAT AUS**
6 **CONSULTANTS WILL RECEIVE FOR ITS SERVICES IN THIS MATTER?**

7 A. The fee for our initial appraisal is \$32,000 plus expenses and our per-diem rate for
8 activities subsequent to the initial appraisal range from \$150 to \$250 per hour depending
9 on the consultant involved. My per-diem rate is \$250 per hour. Expenses include travel,
10 lodging, and report production and shipping expenses, all of which are billed at cost.

11
12 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH THIS COMPENSATION WAS**
13 **NEGOTIATED?**

14 A. AUS Consultants met with PAWC personnel to describe the corporate appraisal and
15 depreciation capabilities of AUS Consultants and for AUS Consultants to understand
16 PAWC's requested scope of work. After that meeting, AUS Consultants provided a fee
17 estimate for the appraisal of the System including a schedule of per-diem rates for
18 activities subsequent to the appraisal report. Next, the parties drafted a contract,
19 including a non-disclosure agreement, which were both signed. The contract and non-
20 disclosure agreement form the basis of the relationship between AUS Consultants and
21 PAWC. True, correct, and complete copies of the contract and non-disclosure agreement
22 are attached as Appendix A-8 of PAWC's Application and I incorporate them in my
23 direct testimony as if set forth in their entirety.

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Q. ARE THESE FEES CONSISTENT WITH COMPENSATION RECEIVED FOR SIMILAR SERVICES PROVIDED TO OTHER CLIENTS?

A. Yes.

FAIR MARKET VALUATION OF MACM ASSETS

Q. PLEASE IDENTIFY APPENDIX A-5 TO THE APPLICATION IN THIS PROCEEDING?

A. Appendix A-5 of PAWC’s Application contains my appraisal report dated April 10, 2017, as adjusted on May 16, 2017, which I prepared for PAWC to be filed with its Application.

Q. HOW DO YOU RECOGNIZE IT?

A. I personally prepared and supervised AUS Consultants personnel in preparing the report, and recognize it as AUS Consultants’ work product.

Q. IS THE AUS REPORT CONTAINED IN APPENDIX A-5 A TRUE, COMPLETE, AND ACCURATE COPY OF YOUR VALUATION REPORT?

A. Yes, and I incorporate it into my direct testimony as if set forth in its entirety.

Q. PLEASE DESCRIBE THE PROCESS BY WHICH YOU PREPARED THE VALUATION REPORT.

1 A. In accordance with Section 1329 of the Code, PAWC and MACM engaged KLH
2 Engineers as the licensed engineer to conduct an assessment of the tangible assets of
3 MACM. PAWC engaged AUS to prepare the fair market valuation report for the System.
4 PAWC provided financial statements from MACM regarding the System and a copy of
5 the Engineering Assessment development by KLH Engineers as required by Section
6 1329(a)(4). AUS Consultants received access to a “Data Room” containing information
7 relative to the System. After reviewing that information, AUS Consultants inspected the
8 System on February 7, 2017, with MACM personnel conducting the on-site tour. After
9 those activities and data gathering, we developed the appraisal.

10 The appraisal contains a letter of transmittal; a table of contents detailing all the
11 sections of the report and work papers; certification describing that the appraisal was
12 prepared in conjunction with the Uniform Standards of Professional Appraisal Practices
13 (“USPAP”); a narrative report containing an Executive Summary; a Purpose and Scope
14 of the Work; a description of the water and wastewater industry – nationally and in the
15 state of Pennsylvania; a description of the System including the assets, property, plant,
16 and equipment; the appraisal procedures and supporting data and analysis; KLH
17 Engineer’s Engineer Assessment; and miscellaneous public documents describing
18 Section 1329 of the Code.

19 The intent of the valuation report is to provide the appraisal results, as well as the
20 entire appraisal work file, in sufficient detail to satisfy the parties’ and Commission’s
21 review requirements of Section 1329 and the Commission’s Final Implementation Order,
22 *In re: Implementation of Section 1329 of the Public Utility Code*, Docket No. M-2016-
23 2543193 (Order Entered October 27, 2016). In addition to a copy of my appraisal report,

1 I have provided supporting work papers for the appraisal report in Appendix A-5 to
2 PAWC's Application. The relevant work papers have also been submitted to the
3 Commission and provided to the public advocates in live electronic format.
4

5 **Q. IS THERE ANYTHING THAT YOU WOULD CHANGE IN THE VALUATION**
6 **REPORT SINCE ITS PREPARATION?**

7 A. Yes. I made adjustments to account for the First Amendment to the Asset Purchase
8 Agreement ("APA") dated May 15, 2017, described below.
9

10 **Q. WAS THE FAIR MARKET VALUATION OF THE MACM ASSETS**
11 **DETERMINED IN COMPLIANCE WITH THE UNIFORM STANDARDS OF**
12 **PROFESSIONAL APPRAISAL PRACTICE ("USPAP")?**

13 A. Yes. Included in my appraisal report is a document entitled "Compliance with Uniform
14 Standard of Professional Appraisal Practice (USPAP) 2016-2017" which described our
15 reports compliance with USPAP.
16

17 **Q. DID YOU EMPLOY THE COST, MARKET AND INCOME APPROACHES IN**
18 **PREPARING YOUR VALUATION?**

19 A. Yes. We developed our appraisal utilizing the cost, income, and market approaches as
20 required by USPAP and Section 1329 of the Code. These approaches are summarized
21 below.

22 *Cost Approach.* The cost approach has as its basis the principle of substitution in
23 that the maximum value of the property is the cost to construct a replacement property of

1 similar capacity, quality, and condition. In this appraisal, we utilized the trend cost
2 method to determine the cost new, evaluated the condition of the property using age-life
3 depreciation, and evaluated external obsolescence based on the income and market
4 approaches.

5 *Income Approach.* Under the income approach, the valuation basis is the value of
6 an income producing property as defined by its economic returns. There are several
7 income approach valuation methods, primarily the direct capitalization (of income from
8 operation) and the discounted cash flow methods. In the direct capitalization method, the
9 economic returns of the property, as defined by its operating income, are directly
10 capitalized into value by dividing a single estimate of the near-term income with a
11 capitalization rate. In the discounted cash flow, the result of future periods operations are
12 determined with each periods' cash flow being forecast and then discounted to appraisal
13 date values using a discount rate. The two procedures are similar in nature in that they
14 both estimate the value of the property based on capitalizing or discounting future
15 economic returns of the property's operation. The capitalization of income approach
16 attempts to incorporate all future periods' changes in revenues, operating expenses, and
17 working capital into a single operating income estimate while the discounted cash flow
18 method allows the appraiser to forecast each future periods' operating results considering
19 changes to customer growth, changing revenues and operating expenses in the analysis.
20 Considering that MACM's operations will be undergoing a change from municipal
21 operation to an investor-owned, rate-regulated operation, the flexibility of the discounted
22 cash flow to adjust the operating inputs and criteria make it superior to the capitalized
23 income approach.

1 *Market Approach.* The market or comparable sales approach to value looks to
2 market sales of comparable properties in order to arrive at value. In this appraisal, the
3 market approach was addressed from a comparable sales approach (Pennsylvania
4 wastewater systems) and market value to book value ratios based on investor-owned
5 water utilities reported in Value Line Investment Survey.

6
7 **Q. DID YOU RELY UPON A LICENSED ENGINEER'S ASSESSMENT OF THE**
8 **TANGIBLE ASSETS OF MACM IN PERFORMING YOUR VALUATION?**

9 A. Yes. PAWC and MACM engaged KLH Engineers as the licensed engineer to conduct an
10 assessment of the tangible assets of MACM. PAWC provided a copy of the Engineering
11 Assessment development by KLH Engineers as required by Section 1329(a)(4). A copy
12 of the Engineering Assessment is attached to the appraisal.

13
14 **Q. DID THE LICENSED ENGINEER'S ASSESSMENT INCLUDE AN INVENTORY**
15 **OF THE USED AND USEFUL UTILITY PLANT ASSETS TO BE**
16 **TRANSFERRED COMPILED BY YEAR AND ACCOUNT?**

17 A. Yes.

18
19 **Q. DID THE LICENSED ENGINEER'S ASSESSMENT IDENTIFY SEPARATELY**
20 **ANY UTILITY PLANT THAT IS BEING HELD FOR FUTURE USE?**

21 A. Yes.

1 **Q. DID THE LICENSED ENGINEER'S ASSESSMENT LIST ALL NON-**
2 **DEPRECIABLE PROPERTY SUCH AS LAND AND RIGHTS-OF-WAY?**

3 A. Yes.

4
5 **Q. TO THE BEST OF YOUR KNOWLEDGE, WAS THE LICENSED ENGINEER'S**
6 **INVENTORY DEVELOPED FROM AVAILABLE RECORDS, MAPS, WORK**
7 **ORDERS, DEBT ISSUE CLOSING DOCUMENTS FUNDING CONSTRUCTION**
8 **PROJECTS, AND OTHER SOURCES TO ENSURE AN ACCURATE LISTING**
9 **OF UTILITY PLANT INVENTORY BY UTILITY ACCOUNT?**

10 A. Yes.

11
12 **Q. DO YOU HAVE ANY REASON TO DOUBT THE ACCURACY OF THE**
13 **LICENSED ENGINEER'S INVENTORY OF THE ASSETS?**

14 A. No.

15
16 **Q. DID YOU INCORPORATE THE LICENSED ENGINEER'S ASSESSMENT INTO**
17 **YOUR COST APPROACH IN DEVELOPING YOUR VALUATION?**

18 A. Yes.

19
20 **Q. DID YOU HAVE TO EXERCISE PROFESSIONAL DISCRETION IN**
21 **DEVELOPING ANY ASPECT OF YOUR VALUATION?**

22 A. Yes. In the Cost Approach the selection of costing factors such as the cost trends to be
23 utilized in developing the cost new and the depreciation factors such as service lives and

1 survival and retirement patterns were inputs to the depreciation portion of the cost
2 approach; all of these input were based on my expertise in appraising similar utility
3 property and an understanding of the significance of these inputs. In the Income
4 Approach the analysis of historical financial and how that analysis is used in forecasting
5 future expectation of the property's return(s), along with the selection of cost of capital
6 inputs in developing the present value of future returns which quantifies the income
7 approach conclusion are significant inputs which this appraiser exercises appraisal
8 discretion. In the Market Approach the selection of comparable sales required appraisal
9 discretion. Finally, the consideration of each of the individual value indicators, cost,
10 income, and market, in developing the final appraisal conclusion required appraisal
11 discretion.

12
13 **Q. WHAT, IF ANY, FACTORS DID YOU TAKE INTO CONSIDERATION WHEN**
14 **HAVING TO MAKE DISCRETIONARY DECISIONS?**

15 A. I considered the interrelation of the inputs and how those inputs relate to the value of
16 wastewater property plant and equipment, its operations and resultant value.

17
18 **CONCLUSION**

19 **Q. WHAT IS YOUR CONCLUSION REGARDING THE FAIR MARKET VALUE**
20 **OF THE MACM ASSETS TO BE PURCHASED BY PAWC?**

21 A. The fair market value of the System to be purchased by PAWC is \$157,600,000, as of
22 September 9, 2016, before I made adjustments to account for the First Amendment to the
23 Asset Purchase Agreement ("APA") dated May 15, 2017. As described above, we

1 utilized the cost, income, and market approaches to utility valuation for purposes of
 2 appraising the System. The results of those appraisal analyses and our conclusions as of
 3 September 2016 are summarized in the following table:

Pennsylvania American, Inc.
The Municipal Authority of the City of McKeesport
Wastewater
Investor-Owned Utility
AS of September 2016

Fair Market Value Appraisal

	Value Conclusion	Weight	Wtd Value
Cost Approach			
Cost New less Depreciation	\$ 156,524,909		
Original Cost less Depreciation	\$ 80,085,602		
Cost Approach Conclusion	156,524,909	50%	78,262,455
Income Approach	160,457,682	40%	64,183,073
Market Approach	151,870,173	10%	15,187,017
4 Appraisal Conclusion	\$ 157,600,000		157,632,545

5

6 The fair market value determination of the tangible assets was based primarily on the cost
 7 approach with the income and market approaches being supportive of the cost approach
 8 conclusion. The System's original cost was determined to be \$108,231,570 and its
 9 reproduction cost new as of September 2016 is \$323,139,630. Because the System has
 10 aged and experienced depreciation, physical depreciation, and possibly function and
 11 external obsolescence, the condition of the property was determined using age life
 12 depreciation. The cost new less depreciation under this methodology resulted in our
 13 preliminary cost approach conclusion of \$156,524,909. AUS Consultants utilized the

1 income and market approaches to evaluate for external obsolescence. Under that
2 analysis, the income \$160,457,682 and market \$151,870,173 conclusions indicate that no
3 external obsolescence exists in the System at the preliminary cost approach conclusion of
4 \$156,524,909. The cost approach therefore yields a fair market value of the System
5 tangible assets as \$156,524,909. Based on all the factors that AUS Consultants evaluated
6 in accordance with valuation standards and statutory requirements, the cost approach is
7 the most reliable and useful indicator of the value of the MACM assets, property, plant,
8 and equipment of MACM to be acquired by PAWC.

9
10 **Q. ARE YOU AWARE OF THE FIRST AMENDMENT TO THE APA DATED MAY**
11 **15, 2017?**

12 A. Yes. On May 15, 2017, PAWC advised me that they had renegotiated the APA with
13 The City of McKeesport to a purchase price of \$162,000,000.

14
15 **Q. DOES THE FIRST AMENDMENT TO THE APA CHANGE THE PURCHASE**
16 **PRICE OF THE SYSTEM REFLECTED IN THE ORIGINAL APA DATED**
17 **SEPTEMBER 9, 2016?**

18 A. Yes it does.

19
20 **Q. HAVE YOU CONSIDERED THE FIRST AMENDMENT TO THE APA IN**
21 **ORDER TO DETERMINE IF ADJUSTMENTS TO THE FAIR MARKET VALUE**
22 **APPRAISAL NEEDED TO BE MADE TO ACCOUNT FOR THE AMENDED**

1 **PURCHASE PRICE AND DATE OF THE SYSTEM REFLECTED IN THE FIRST**
2 **AMENDMENT TO THE APA?**

3 A. Yes I have. I considered with the passage of time what adjustment should be made to
4 each of the three approaches to value and if those adjustments would cause me to revise
5 my value conclusion as of September 2016.

6
7 **Q. PLEASE EXPLAIN THE ADJUSTMENTS TO THE FAIR MARKET VALUE**
8 **APPRAISAL THAT YOU MADE TO ACCOUNT FOR THE NEW PURCHASE**
9 **AND DATE OF THE SYSTEM REFLECTED IN THE FIRST AMENDMENT TO**
10 **THE APA.**

11 A. With the passage of nearly six months between the original APA of September 9, 2016,
12 and the revised purchase agreement of May 15, 2017, that passage of time potentially
13 affects the Cost Approach determination in that six additional months of utility plant
14 construction inflation has occurred and the property has also aged an additional six
15 months. I reviewed the cost trends used in the development of the replacement cost new
16 in order to arrive at the extent of the construction inflation. I found that the construction
17 costs experienced a 2% (2.04%) increase each six-month period from July to January
18 over the period 2013 through 2016. Based on that evidence I adjusted the replacement
19 cost new by 2% from \$323,139,630 to 330,964,950; the average condition of the property
20 is 48.26% resulting in a replacement cost new less depreciation of \$160,301,491 which is
21 the revised Cost Approach indicator of value.

22
23 I also reviewed the inputs to the Income Approach and found additional information
24 related to the inflation provision in the cost of capital. No other adjustment were

1 necessary. When this additional information was incorporated into the discounted cash
2 flow the revised Income Approach indicator was determined to be \$162,455,017.

3
4 Finally I reviewed the Market Approach and incorporated the revised purchase price into
5 that analysis which resulted in a Market Approach indicator of \$162,108,612.

6
7 Considering all three approaches to value, the results are summarized as follows:

8
**Investor-Owned Utility
As of May 25, 2016**

Fair Market Value Appraisal

	Value Conclusion	Weight	Wtd Value
Cost Approach			
Cost New less Depreciation	\$ 160,301,491		
Original Cost less Depreciation	\$ 80,085,602		
Cost Approach Conclusion	160,301,491	50%	80,150,746
Income Approach	162,455,017	40%	64,982,007
Market Approach	162,108,612	10%	16,210,861
Appraisal Conclusion	\$ 161,343,000		161,343,614

9
10
11 Based on my initial appraisal and the above described adjustments to that appraisal I
12 conclude a fair market value of \$161,343,000.

13
14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

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

3