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| PUC logo | COMMONWEALTH OF PENNSYLVANIAPENNSYLVANIA PUBLIC UTILITY COMMISSIONP.O. BOX 3265, HARRISBURG, PA 17105-3265 | **IN REPLY PLEASE REFER TO OUR FILE** |

June 22, 2017

Docket No. A-2017-2606103

Utility Code 230073

David P Zambito Esquire

Cozen O Connor

17 North Second Street Suite 1410

Harrisburg PA 17101

RE: Pennsylvania-American Water Company – Wastewater Division McKeesport Wastewater Acquisition Application at Docket A-2017-2606103

Dear Attorney Zambito,

On June 14, 2017, Pennsylvania-American Water Company – Wastewater Division filed an application with the Commission to acquire the assets of the Municipal Authority of the City of McKeesport under Section 1329 of the Public Utility Code. In order for the Commission to complete analysis of the filing, the Water/Wastewater Division requires responses to the attached data requests. Please be advised that you are directed to forward the requested information to the Commission **within 10 working days** of the date of this letter.

Please send all responses to the Secretary of the Commission at the following address:

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| --- |
| Secretary, Pennsylvania Public Utility Commission |
| 400 North Street, 2nd FloorHarrisburg, Pennsylvania 17120 |

All documents requiring notary stamps must have original signatures. Some responses may be e-filed at <http://www.puc.pa.gov/efiling/default.aspx>. A list of allowable e-filing document types is available at <http://www.puc.pa.gov/efiling/DocTypes.aspx>.

**Please note that your answers must be verified per 52 Pa Code § 1.36.** Accordingly, you must provide the following statement with your responses:

*I, \_*[print name of appropriate company representative] *, hereby state that the facts above set forth are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter.  I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).*

Signature \_\_\_\_\_\_\_\_

Title \_\_\_\_\_\_\_\_\_\_\_\_

Please contact the below staff person if any problems should arise that prevents a full response within ten working days or if any clarification of these data requests is needed. Please mark the materials “CONFIDENTIAL” in bold or highlighted manner if any of the requested information is deemed to be of a confidential nature.

In addition, to expedite review completion of the filing, please send a copy of the information to Clinton McKinley via e-mail at **cmckinley@pa.gov** or by fax at (717) 787-4750 as well as to the Office of Consumer Advocate, the Office of Small Business Advocate and the Commission’s Bureau of Investigation and Enforcement. Questions may be directed to Mr. McKinley in the Bureau of Technical Utility Services, Water/Wastewater Division at telephone number (717) 783-6161. Thank you in advance for your cooperation.

 Sincerely,

 Rosemary Chiavetta

 Secretary

Enclosure

cc: Tanya McCloskey, Office of Consumer Advocate

 John Evans, Office of Small Business Advocate

 Richard Kanaskie, PUC Bureau of Investigation and Enforcement

Note: Please restate the data request prior to providing a response. In addition, provide the name and title of the person(s) providing the response and/or information for each data request.

1. The Application requests Commission approval for Pennsylvania-American Water Company -Wastewater Division (PAWC-WD) to charge a Distribution System Improvement Charge (DSIC) related to the acquired system prior to the first base rate case incorporating the system’s value. However, the Application does not include information required by 66 Pa. C.S. § 1353(b). 66 Pa. C.S. § 1353(b) requires, among other things, a description of the eligible property; a computation of the proposed charge; testimony, affidavits, exhibits or other evidence that the DSIC is in the public interest; and a revised Long Term Infrastructure Improvement Plan. If PAWC-WD intends to charge customers within the requested territory a DSIC, please provide the information required by the above-referenced statute.

**Data Requests A-2 through A-13 refer to information provided in the Application’s Appendix A-5.**

1. The Market Approach Summary of AUS Consultants, Inc.’s (AUS’) valuation utilizes $85,320,322 as the value for the Municipal Authority of the City of McKeesport’s (MACM’s) assets as of September 2016. Please provide a justification as to how this amount was calculated and explain why this amount was utilized in lieu of the $80,085,602 calculated as the original cost less depreciation in the same report.
2. The invoices from AUS show charges for “Administrative Staff”, but the agreement between AUS and PAWC does not specify pricing for administrative staff. Please provide documentation identifying how charges for administrative staff were established.
3. The invoices from AUS show hourly rates that differ from the amounts specified in the valuation service agreement. Please explain why hourly rates differ from the amounts specified in the valuation service agreement and provide supporting documentation that justifies the rates charged.
4. The agreement between AUS and PAWC-WD shows pricing for valuation activity performed following completion of pre-filed testimony as “hourly rates plus expenses”. Please provide documentation showing the hourly rate for each AUS staff member without expenses.
5. Please explain why AUS’ “Water Industry Valuation Summary Created 5-16-2017” Excel file, sheet “DCF Forecast Parameters”, cell C65 uses data from the sheet “Cost of Capital 4-1-2016” while the rest of the referenced table uses data from the sheet “Cost of Capital 10-1-2016”.
6. Please identify if the value in cell P98 on AUS’ “Water Industry Valuation Summary Created 5-16-2017” Excel file, sheet “SBBI Summaries” represents a full year or a portion of a year, and if the value complies with the valuation’s September 2016 effective date.
7. Please explain why AUS’ “Water Industry Valuation Summary Created 5-16-2017” Excel file, sheet “Market Approach” changes the value in cell B85 from the value in cell B85 of AUS’s “Water Industry Valuation Summary Created 4-8-2017” Excel file, sheet “Market Approach”. Also, please separately identify the source of the data in cell B85 for each subject file.
8. Schedule L of HRG’s “MACM UVE Model – Final” Excel file uses a 6% state tax rate in Column I. Please explain why HRG utilized 6% as the state tax rate.
9. Please identify how HRG calculated 8,500 bulk customers in the “# Customers” sheet of their “MACM UVE Model – Final” Excel file and provide documentation that supports using this number.
10. Please explain why HRG’s “MACM UVE Model – Final” Excel file, sheet “Sch L-Income Cash Flow” discounts cash flows by an estimated inflation rate. Also, please justify the calculated rate of inflation/discount rate.
11. The 2016-2017 Uniform Standards of Professional Appraisal Practice (USPAP) Standard Rules 1-2(f) and 1-2(g) require the identification of any extraordinary assumptions or hypothetical conditions necessary in an assignment. Please state if any extraordinary assumptions or hypothetical conditions were assumed in HRG’s valuation.
12. A fee schedule and agreement were not provided for the KLH Engineers, Inc. engineering assessment. Please provide a copy of the subject fee schedule and agreement with KLH Engineers, Inc. for the engineering assessment as well as provide copies of all associated invoices.

**Data Requests A-14 through A-15 refer to the *pro forma* tariff contained in the Application’s Appendix 13 and MAMC’s existing wastewater rates noted in Appendix 18-a.**

1. The *pro forma* tariff in Appendix A-13 indicates that PAWC-WD will bill Port Vue Borough wastewater customers either on a monthly basis at a rate of $19.35 with a monthly usage allowance of 0 - 1,400 gallons or on a quarterly basis at a rate of $58.05 with a monthly usage allowance of 0 - 4,000 gallons. 66 Pa. C.S. § 1329(d)(1)(v) requires a tariff containing a rate equal to the existing rates of the selling utility at the time of acquisition. Please explain why PAWC-WD proposes a disproportionally greater usage allowance for customers billed on a monthly basis.
2. Appendix A-18-a indicates that MACM currently charges Port Vue Borough wastewater customers $58.05 quarterly for 0 - 4,000 gallons of usage. Please clarify whether this 0 – 4,000 gallon usage allowance for Port Vue Borough customers is per month or per quarter.

**Data Requests A-16 and A-17 refer to PAWC-WD Statement No. 3 in the Application’s Appendix A-14.**

1. Please provide a detailed estimate of the costs associated with implementing the Nine Minimum Control Plan (NMCP) and the Long Term Control Plan (LTCP) referenced in the Direct Testimony of David S. Kaufman.
2. Please provide a copy of both the NMCP and LTCP.

**Data Requests A-18 through A-20 refer to Tab 6 of the information submitted on June 9, 2017, to supplement the Application’s Appendix A-17-a.**

1. The supplemental information states West Mifflin Borough owns the sewer collection system serving the 18 MACM customers in West Mifflin Borough. Please reconfirm this statement is correct and clarify if these assets are to be included as part of PAWC-WD’s proposed acquisition of MACM’s wastewater assets.
2. Please provide a detailed inventory, including quantity, material, and year of construction of wastewater collection system assets in West Mifflin Borough that provide service to the 18 MACM customers in West Mifflin Borough.
3. Please state if an inter-municipal agreement exists between MACM and West Mifflin Borough for providing wastewater service to MACM’s 18 customers located within West Mifflin Borough. If so, please provide a copy of the subject agreement.
4. Note 11 of MACM’s 2015 Financial Statement, contained in the Application’s Appendix A-19-a references an Intergovernmental Agreement Fee pursuant to a Cooperation Agreement between MACM and the City of McKeesport. Please provide a copy of the Cooperation Agreement. Please also state if PAWC-WD plans to assume the Cooperation Agreement.
5. The copy of Port Vue Borough’s National Pollution Discharge Elimination System (NPDES) permit, submitted on June 8, 2017, as supplemental information to the Application’s Appendix A-20-b, is missing page 15. Please provide a copy of page 15 from Port Vue Borough’s NPDES Permit No. PA0254690.
6. A copy of the MACM wastewater treatment plant’s (WWTP’s) water quality management permit was provided as supplemental information to the Application’s Appendix A-20-b on June 8, 2017. However, copies of the water quality permits for the Dravosburg and Duquesne WWTPs were not provided. Please provide copies of all water quality management permits applicable to the assets being acquired.
7. Please indicate if the City of Duquesne will continue its street sweeping program in an effort to reduce the pollutants entering the combined system, as referenced in Appendix 20c – Part 2 of the Application, or if PAWC-WD will assume this obligation and cost.
8. A copy of MACM’s 2006 Act 537 Official Sewage Facilities Plan was provided as supplemental information to the Application’s Appendix A-22-a on June 8, 2017, but did not include pages 5, 7, 18, 78, or 88. Please provide a copy of the missing pages.
9. A copy of an agreement between MACM and the Elizabeth Township Sanitary Authority dated June 18,2008, was provided as supplemental information to Appendix A-22-a on June 8, 2017. Please state if PAWC-WD plans to assume this agreement.

**Data Requests A-27 through A-30 refer to the Application’s Asset Purchase Agreement (APA) contained in Appendix A-24-a.**

1. The filing does not quantify the amount of MACM’s debt PAWC-WD will assume as part of the acquisition. Please separately state the amount of MACM’s outstanding indebtedness which PAWC-WD expects to assume at the time of closing and state the amount of MACM’s outstanding indebtedness which PAWC-WD plans to pay at the time of closing.
2. Please identify any outstanding amounts owed to employee benefit plans identified in Schedule 4.11(b) of the APA for which PAWC-WD plans to assume.
3. Please provide a copy of the collective bargaining agreement referenced as being attached to Schedule 4.12(a) of the APA.
4. The APA’s Section 7.11 states the seller shall provide an easement map to the buyer. Please provide a copy of the subject easement map.

**Data Request A-31 refers to the nine municipal service agreements contained in the Application’s Appendices B-1 through B-17.**

1. The municipal service agreements contain a provision in Section 2, noting if a municipality’s sewage volume exceeds 350% of the aggregate quantity of water used by the municipality’s water users during any billing period, the municipality must pay MACM’s prevailing rates and charges for handling such excess in addition to typical sewage charges. Please state if PAWC-WD plans to charge municipalities any rate for handling excess sewage in addition to the rates shown in PAWC-WD’s *pro forma* tariff supplement. If so, please provide an updated version of the *pro forma* tariff supplement reflecting this provision.