

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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June 26, 2017

Rosemary Chiavetta, Secretary
PA Public Utility Commission
Commonwealth Keystone Bldg.
400 North Street
Harrisburg, PA 17120

Re: Application of Aqua Pennsylvania Wastewater, Inc.
Pursuant to Sections 1102 and 1329 of the Public
Utility Code for Approval of its Acquisition of the
Wastewater System Assets of Limerick Township
Docket No. A-2017-2605434

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Prehearing Memorandum in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

/s/ Christine Maloni Hoover
Christine Maloni Hoover
Senior Assistant Consumer Advocate
PA Attorney I.D. #50026
E-Mail: CHoover@paoca.org

Attachment

cc: Honorable Steven Haas, ALJ
Certificate of Service

236161

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Aqua Pennsylvania	:	
Wastewater, Inc. Pursuant to Sections 1102	:	
and 1329 of the Public Utility Code for	:	Docket No. A-2017-2605434
Approval of its Acquisition of the	:	
Wastewater System Assets of Limerick	:	
Township	:	

PREHEARING MEMORANDUM
OF THE
OFFICE OF CONSUMER ADVOCATE

Pursuant to Section 333 of the Public Utility Code, 66 Pa. C.S. § 333 and the Prehearing Order issued by Administrative Law Judge Steven K. Haas on June 9, 2017, the Office of Consumer Advocate (OCA) provides the following:

I. INTRODUCTION

On May 19, 2017, Aqua Pennsylvania Wastewater (Aqua or Company) filed an Application pursuant to Sections 1102 and 1329 of the Public Utility Code for Approval of its Acquisition of the Wastewater System Assets of Limerick Township. The Commission acknowledged receipt of the Application by Secretarial Letter dated May 31, 2017 and served electronically on Aqua on June 6, 2017.

On June 8, 2017, the parties received Notice that a Prehearing would be held on June 28, 2017. On June 9, 2017, the presiding Administrative Law Judge issued a Prehearing Order directing the parties to provide prehearing memoranda by June 26, 2017. On June 9, 2017, the Office of Consumer Advocate (OCA) filed a protest. On the same date, the Bureau of

Investigation and Enforcement (I&E) filed a Notice of Appearance. On June 9, 2017, I&E filed a Motion to Expedite Discovery by which it sought to revise the Commission's discovery regulations. On June 14, 2017, the Presiding Officer issued an Order granting that Motion in part. On June 16, 2017, the OCA and I&E filed a Joint Petition asking the Commission to schedule an additional Public Meeting to allow the parties to utilize more of the statutory six-months provided for disposition of the Petition. On June 21, 2017, Limerick Township filed a Petition to Intervene.

II. SERVICE ON THE OCA

The OCA will be represented in this proceeding by Senior Assistant Consumer Advocates Christine Maloni Hoover and Erin L. Gannon. Two copies of all documents should be served in the OCA as follows:

Christine Maloni Hoover	Telephone:	(717) 783-5048
Senior Assistant Consumer Advocate	Fax:	(717) 783-7152
Office of Consumer Advocate	Email:	CHoover@paoca.org
555 Walnut Street, Forum Place 5th Floor		
Harrisburg, PA 17101-1923		

The OCA requests that these additional addresses be included on the e-mail distribution list: EGannon@paoca.org, AEverette@paoca.org and watkinsg@tai-econ.com. The OCA will extend the same courtesy to any other parties requesting that additional persons be included on the e-mail distribution list.

III. DISCOVERY

As noted above, I&E filed a motion to modify the Commission's discovery rules due to the expedited schedule under Section 1329 which requires a Commission Order on the Section 1329 request no later than six months after the filing of a Section 1329 application. 66 Pa. C. S.

§ 1329. ALJ Haas adopted I&E's proposed discovery modifications, in part. On June 9, 2017, the OCA served three sets of discovery.

IV. WITNESSES

The OCA intends to present the testimony of Ashley E. Everette (Financial, Ratemaking, Appraisal and Policy Issues) and Glenn A. Watkins (Appraisal and Policy Issues). Their contact information is as follows:

Ashley E. Everette
Office of Consumer Advocate
555 Walnut Street, 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Telephone: (717) 783-5048
E-mail: aeverette@paoca.org

Glenn A. Watkins
Technical Associates, Inc.
1503 Santa Rosa Road, Suite 130
Richmond, VA 23229
E-mail: watkinsg@tai-econ.com

To the extent necessary, the OCA's witnesses will present testimony regarding the impact of the proposed transaction on Aqua's existing customers and other financial, technical and ratemaking issues presented in this proceeding.

The OCA specifically reserves the right to call additional witnesses and to expand the issues addressed in testimony, as necessary. If the OCA determines that an additional witness is necessary for any portion of its case, it will notify all parties of record immediately.

V. ISSUES

The OCA is participating in this proceeding to ensure the interests of Aqua's existing customers are protected. Based upon a preliminary analysis of the Application, the OCA has compiled a list of issues which it anticipates will be included in its investigation. It is anticipated that other issues may arise and may be pursued once the answers to the OCA's interrogatories

have been received and analyzed.

The issues set forth below will be analyzed and presented as appropriate by the OCA with the assistance of its expert witness:

(1) Provision of Safe, Adequate and Reasonable Service at Just and Reasonable Rates: The Asset Purchase Agreement provides that Aqua will pay \$75.1 million for the Township and Authority's sewer assets. Aqua seeks to have the purchase price approved for inclusion in rate base under Section 1329, as part of this proceeding.

- a. Proposed Rate Stabilization Plan: Aqua provides two scenarios for rolling the Limerick rate base into Aqua's overall wastewater system and, using several assumptions, estimates that the Limerick system needs an approximate revenue increase above its anticipated revenues in year two, which if spread over Aqua's existing sewer and water customers on a consolidated basis would increase monthly bills by \$1.42 or \$1.16. The Company estimates a monthly bill increase of \$0.34 or \$0.37 for years four through ten. Application Exh. U, Packer Testimony at 15-16. The Company's current total wastewater assets are \$111 million (Application Exh. U, Packer Testimony at 7), so the proposed rate base valuation would be adding approximately 67.7% to the current total wastewater assets. The acquisition would increase the wastewater customer base by 27%.
- b. Proposed Rate Freeze: Aqua has requested, as part of the application for a certificate of public convenience, approval to charge Limerick customers the base rates charged by Limerick at the time of closing. Aqua and Limerick agreed that those rates would remain the same for no less than

three years following the closing date. Application Section 7.05(b). Based on the Township's current rates, Aqua would charge \$84.30, which includes up to 1,000 gallons per quarter plus \$4.84 per 1000 gallons for 1,001-7,480 gallons per quarter and \$6.46 per 1000 gallons over 7,481 gallons per quarter for residential customers. According to Aqua witness Packer:

I note that the Commission maintains the authority to set rates in APW's next base rate case.

Application Exh. U (Packer Testimony at 6). The OCA submits that any Commission order approving this Application should explicitly include a condition that the Commission ultimately will decide on the appropriate rates to charge for this system in Aqua's next base rate case and, if those rates would otherwise violate the Company's commitment in the APA, then the Company shareholders would bear the cost of any rate differential accordingly. Otherwise, the OCA submits that the rate freeze provision in the APA is not in the public interest in that it predetermines rate increases without Commission approval and outside the context of a Section 1308 rate increase proceeding.

(2) The OCA submits that additional information is necessary to determine how the transaction will substantially and affirmatively benefit Aqua's existing customers.

(3) Conditions: Whether any conditions, in addition to the one proposed in (1)(c) above, should be imposed upon the proposed transfer to ensure that Aqua's existing customers are treated in a fair and just manner in accord with Pennsylvania law and Commission rules and regulations.

The OCA reserves the right to raise additional issues as the case proceeds and further information is obtained from the Applicant.

VI. PUBLIC INPUT HEARINGS

Aqua's existing wastewater customers are located in Adams, Bucks, Carbon, Chester, Clarion, Clearfield, Delaware, Lackawanna, Luzerne, Monroe, Montgomery, Pike, Schuylkill, Venango, and Wyoming Counties. They have not received direct notice or even newspaper notice of the proposed transaction and the impact on those customers has not been determined. The OCA is unaware of any specific consumer requests for public input hearings in this matter to date. However, if the OCA becomes aware of substantial consumer interest, the OCA will promptly notify the Administrative Law Judge and parties to request a public input hearing.

VII. SCHEDULE

The OCA proposes the following schedule, which it understands to be acceptable to all parties:

Other Party Direct Testimony	July 3, 2017
Rebuttal Testimony	July 11, 2017
Surrebuttal Testimony	July 18, 2017
Hearing (with Oral Rejoinder)	July 20-21, 2017
Main Briefs	August 11, 2017
Reply Briefs	August 18, 2017

VIII. SETTLEMENT

The OCA is willing to engage in settlement discussions with all parties.

Respectfully submitted,



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E-Mail: CHoover@paoca.org
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Tanya J. McCloskey
Acting Consumer Advocate

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DATED: June 26, 2017
236173

CERTIFICATE OF SERVICE

Re: Application of Aqua Pennsylvania :
Wastewater, Inc. pursuant to Sections : Docket No. A-2017-2605434
1102 and 1329 of the Public Utility Code :
for approval of the acquisition by Aqua of :
the wastewater system assets of :
Limerick Township :

I hereby certify that I have this day served a true copy of the following document, the Office of Consumer Advocate's Prehearing Memorandum, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 26th day of June 2017.

SERVICE BY E-MAIL & INTER-OFFICE MAIL

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Philip Kirchner, Esquire
Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
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Dated: June 26, 2017

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