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July 12, 2017

**VIA E-FILING**

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
PO Box 3265  
Suite 3130  
Harrisburg, PA 17105

**RE: APPLICATION OF PENNSYLVANIA-AMERICAN WATER COMPANY - WASTEWATER UNDER SECTION 1329 OF THE PENNSYLVANIA PUBLIC UTILITY CODE, 66 PA. C.S. §1329, FOR APPROVAL OF THE USE FOR RATEMAKING PURPOSES OF THE LESSER OF THE FAIR MARKET VALUE OR THE NEGOTIATED PURCHASE PRICE OF THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT'S ASSETS RELATED TO ITS WASTEWATER COLLECTION AND TREATMENT SYSTEM AND OTHER RELATED TRANSACTIONS; DOCKET NO. A-2017-2606103**

Dear Secretary Chiavetta:

Enclosed please find the Prehearing Memoranda for the City of McKeesport and the Municipal Authority of the City of McKeesport in the above-captioned proceeding.

If you have any questions, please do not hesitate to contact me at 215-575-7286.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Tom Wyatt', is written over a large, stylized signature graphic that resembles a 'W' or 'Y'.

Thomas S. Wyatt

cc: ALJ Mark A. Hoyer  
ALJ Mary D. Long  
Certificate of Service

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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**The Honorable Mark A. Hoyer and the Honorable Mary Long, Presiding**

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Application of Pennsylvania-American Water	:	A-2017-2606103
Company-Wastewater under Section 1329 of the	:	
Pennsylvania Public Utility Code, 66 Pa. C.S.	:	
§ 1329, for approval of the use for ratemaking	:	
purposes of the lesser of the fair market value or the	:	
negotiated purchase price of The Municipal	:	
Authority of the City of McKeesport's assets related	:	
to its wastewater collection and treatment system	:	
and other related transactions.	:	

**PREHEARING MEMORANDUM OF  
THE MUNICIPAL AUTHORITY OF THE CITY OF MCKEESPORT**

AND NOW, comes the Municipal Authority of the City of McKeesport (the “Authority”) and submits this Prehearing Memorandum in connection with the Initial Prehearing Conference scheduled to be held in the above captioned matter on July 13, 2017.

**I. BACKGROUND**

This proceeding concerns the Application of Pennsylvania-American Water Company-Wastewater. (“Pennsylvania-American”), filed with the Public Utility Commission (“Commission”) on June 14, 2017, for approval of its acquisition of the wastewater system assets of the Authority pursuant to Sections 1102 and 1329 of the Public Utility Code.

By Secretarial Letter dated June 14, 2017, the Commission, *inter alia*, acknowledged receipt of the Application and advised that notice of its filing would be published in the

Pennsylvania Bulletin on June 24, 2017. The Application was assigned Docket No. A-2017-2606103.

Deputy Chief Administrative Law Judge Mark A. Hoyer and Administrative Law Judge Mary Long were assigned to preside over the proceeding. An Initial Prehearing Conference was noticed for July 13, 2017.

Judge Hoyer issued a Prehearing Conference Order on June 23, 2017. Paragraph 2 of the Prehearing Conference Order directs parties to file and serve a prehearing memorandum on or before 2:30 PM on Wednesday, July 12, 2017.

## **II. LIST OF ISSUES AND THE AUTHORITY'S POSITION IN REGARD TO THEM**

There are two central issues in this Application proceeding:

### **Issue:**

Should the Pennsylvania Public Utility Commission approve Pennsylvania-American's application to (i) acquire the wastewater system assets of the Authority and (ii) begin to offer, render, furnish and supply wastewater service to the public in the Authority's Service Area (defined below)?

### **The Authority's Position:**

The Commission should issue one or more certificate(s) of public convenience approving the acquisition, because Pennsylvania-American's acquisition of the wastewater system assets of the Authority is necessary or proper for the service, accommodation, convenience or safety of the public.

- A. The Authority currently provides wastewater service to approximately 12,780 customers within its service area, including the City of McKeesport, the City of Duquesne, Port Vue Borough, the Borough of Dravosburg, and a portion of West Mifflin Borough, Allegheny County, Pennsylvania and to three bulk service interconnection points located in Liberty Borough, White Oak Borough, and North Versailles Borough, Allegheny County, Pennsylvania (collectively, the "Service Area"). The Commission has a longstanding policy in favor of consolidation and regionalization of small, local water and wastewater systems in order to allow the industry to institute better management practices and achieve

greater economies of scale.<sup>1</sup> This acquisition will permit the Authority to take advantage of Pennsylvania-American's expertise in operating wastewater utility systems and regulatory compliance.

- B. Pennsylvania-American is a viable operator of the Authority's wastewater system, its viability will not be impaired by the acquisition, and it maintains the managerial, technical, and financial capabilities to safely and adequately operate the Authority's system in compliance with 66 Pa.C.S. (relating to the Public Utility Code), the Pennsylvania Safe Drinking Water Act (35 P. S. §§ 721.1--721.17) and other requisite regulatory requirements.
- C. The duly-elected Board of the Authority believes that the sale of the Authority's wastewater system is in the best interest of the residents of the Service Area, and they therefore have agreed to the sale to Pennsylvania-American pursuant to a heavily negotiated Assets Purchase Agreement.
- D. Pennsylvania-American is a regulated public utility that furnishes water and wastewater to the public in various counties throughout Pennsylvania, and it has the experience necessary to demonstrate that it is able to operate wastewater treatment and collection systems in a safe, reliable and efficient manner.
- E. Pursuant to the Assets Purchase Agreement, the acquisition will not have any immediate impact on the rates of the Authority customers.

**Issue:**

Pursuant to Section 1329 of the Public Utility Code, what is the ratemaking rate base of the wastewater system assets of the Authority?

**The Authority's Position:**

Under Section 1329 of the Public Utility Code, the ratemaking rate base of the wastewater system assets is set based on the lower of the purchase price or the average of two fair market value appraisals. The ratemaking rate base determined pursuant to Section 1329(c)(2) of the Public Utility Code is \$162,000,000, being the lesser of the revised purchase price of \$162,000,000 negotiated by Pennsylvania-American, the City of McKeesport, and the Authority and the average of the fair market value appraisals, \$184,176,500 – the average of \$161,343,000 (rounded)<sup>2</sup> valuation presented in the appraisal of AUS Consultants,

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<sup>1</sup> Pennsylvania Public Utility Commission, Final Policy Statement on Acquisitions of Water and Wastewater Systems, Docket No. M-00051926, Final Order at 18 (Aug. 17, 2006).

<sup>2</sup> Revised appraisal as of the revised May 17, 2017. AUS's original appraisal as of November 8, 2016 found a fair market value of \$157,600,000.

Inc. and the \$207,010,000 valuation presented in the appraisal of Herbert, Rowland, and Grubic, Inc.

### **III. WITNESSES**

The Authority may call as a witness Adrienne Vicari, P.E., of Herbert, Rowland and Grubic, Inc. (“HRG”), Utility Valuation Expert, in support of HRG’s fair market value appraisal performed pursuant to Section 1329. The address and telephone number for Ms. Vicari is as follows:

Adrienne M. Vicari, P.E.  
Herbert, Rowland & Grubic, Inc.  
369 East Park Drive  
Harrisburg, PA 17111  
(717) 564-1121

The Authority reserves its right to call additional witnesses, if necessary, and agrees to notify Deputy Chief Administrative Law Judge Hoyer, Administrative Law Judge Long and the parties promptly should the Authority determine that any additional witnesses will be called.

### **IV. LITIGATION SCHEDULE**

The Authority has no objections to the proposed litigation schedule.

### **V. SETTLEMENT**

The Authority is willing to address settlement of all or part of the proceeding with the other parties.

### **VI. DISCOVERY**

The Authority has no objection to the proposed modifications to the discovery rules negotiated by the other parties.

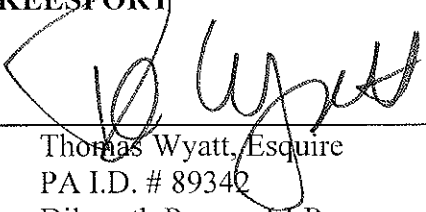
**VII. PETITION FOR PROTECTIVE ORDER**

The Authority has no objection to the proposed Petition for Protective Order.

Respectfully submitted,

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

By \_\_\_\_\_

  
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*Counsel for the Municipal Authority of the City of  
McKeesport*

Date: July 12, 2017

CERTIFICATE OF SERVICE

I hereby certify that I have this 12<sup>th</sup> day of July, 2017, served a true and correct copy of the foregoing Prehearing Memorandum of the Municipal Authority of the City of McKeesport, upon the persons and in the manner set forth below:

VIA ELECTRONIC AND 1<sup>ST</sup> CLASS MAIL

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