

**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 : Docket No. A-2018-\_\_\_\_\_ *et al.*  
acquisition of wastewater system assets of the Township :  
of Sadsbury, related wastewater service rights, fair :  
market valuation ratemaking treatment, accrual and :  
deferral of certain post-acquisition improvement costs, :  
and certain contracts with municipal corporations :  
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**DIRECT TESTIMONY OF  
KEITH E. GABAGE  
ON BEHALF OF  
PENNSYLVANIA-AMERICAN WATER COMPANY**

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Dated: June 1, 2018

PAWC Statement No. 1

**DIRECT TESTIMONY OF  
KEITH E. GABAGE**

**INTRODUCTION**

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

**A.** My name is Keith E. Gabage and my business address is 100 Cheshire Court, Suite 104, Coatesville, PA 19320.

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

**A.** I am employed by Pennsylvania-American Water Company (“PAWC”) as the Senior Manager, Business Development.

**Q. WHAT ARE YOUR RESPONSIBILITIES AS PAWC’S SENIOR MANAGER, BUSINESS DEVELOPMENT?**

**A.** I develop and maintain necessary contacts to stay abreast of new business opportunities within the Commonwealth of Pennsylvania in both the community water and wastewater markets. In addition, I also monitor acquisition activity throughout the Commonwealth of Pennsylvania and complete the necessary research on potential opportunities. I also manage the acquisition process from initial contact where activity is not quite certain through to responding to Requests for Qualifications, Requests for Proposals and Requests for Bids issued by owners (or through the owners’ representatives) of community water and/or wastewater systems. Where successful, by evidence of an executed Asset Purchase Agreement (“APA”), I assist in preparing an Application for submission to the Pennsylvania Public Utility Commission (“PUC”). These responsibilities require that I maintain a good working knowledge of regulatory and technical developments, new

1 technologies and current trends as they affect the water and wastewater utility industries,  
2 and that I be familiar with legislation, regulation and public policy affecting business  
3 opportunities.

4  
5 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EDUCATION AND EXPERIENCE.**

6 **A.** I received a Bachelor of Arts (BA) degree in Liberal Arts, General Studies from Villanova  
7 University (1994) and a paralegal certificate from Pennsylvania State University –  
8 Abington Campus (1996). I attended Widener University School of Law and am currently  
9 pursuing a Master of Public Administration (“MPA”) at West Chester University. My  
10 experience in the water and wastewater utility industry began in July 1979 when I was  
11 employed by Philadelphia Suburban Water Company (PSW - now Aqua America, Inc.  
12 (“AQUA”)). I was employed by AQUA or its Pennsylvania subsidiary, Aqua  
13 Pennsylvania, Inc., until May 2013, and during that time served in the capacity of Survey  
14 Mechanic (Engineering) between 1979-1980; Draftsman (Engineering) between 1980-  
15 1981; Laborer (Operations) between 1981-1983; Service Department Representative  
16 (Operations/Engineering) between 1983-1989; Chief Estimator (Engineering) between  
17 1989-1990; New Business Representative (Engineering) between 1990-1994; Director of  
18 Safety & Claims (Law and Administration) between 1994-2002; and then Director of  
19 Business Development between 2002-2013.

20 I joined PAWC on May 13, 2013, where I have been serving in my current capacity  
21 as Senior Manager, Business Development and work on all Pennsylvania growth  
22 opportunities from the initial meeting to the filing of an Application with the PUC for those  
23 growth opportunities wherein PAWC enters into an Asset Purchase Agreement or similar  
24 agreements.

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

**A.** Yes. I have previously testified before the Commission as a company witness for several matters when employed by AQUA.

**Q. HAS PAWC FILED AN APPLICATION WITH THE COMMISSION FOR REGULATORY APPROVAL TO ACQUIRE THE WASTEWATER SYSTEM OF THE TOWNSHIP OF SADBURY (“TOS”) AND RELATED APPROVALS?**

**A.** Yes. PAWC filed its Application for approval of PAWC’s acquisition of the TOS’s wastewater collection system (“System”). I will refer to the acquisition in my testimony as the “Transaction.”

The Application was prepared and filed under the direct supervision of Mr. Bernard J. Grundusky, Jr., Director of Business Development. As indicated in his Verification attached to the Application, the Application and its numerous appendices are true and correct to the best of his knowledge, information, and belief. We used PAWC records, as well as TOS records made available by TOS, to prepare the Application. For purposes of having a complete evidentiary record in this proceeding, upon which the Commission can base its decision, I incorporate by reference and submit the Application and all of its appendices (**Appendices A through K**) as **PAWC Exhibit No. KEG-1**.

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

**A.** There are four basic requests. First, PAWC is requesting approval of the acquisition under 66 Pa. C.S. § 1102, similar to many requests that come before the Commission.

1 Specifically, PAWC seeks approval to acquire the System and for the right to begin service  
2 in the areas currently served by TOS (“Service Area”), to include all areas pursuant to  
3 TOS’s Act 537 Plan. The Application contains a *pro forma* tariff supplement (**Appendix**  
4 **A-13**) under which TOS’s current rates would be initially adopted and would apply to all  
5 areas within TOS.

6 Second, pursuant to 66 Pa. C.S. § 1329 (“Section 1329”), PAWC is seeking to  
7 utilize fair market value for the ratemaking rate base of the System. As explained more-  
8 fully below, fair market value under Section 1329 is the lesser of the stated negotiated  
9 purchase price in the Asset Purchase Agreement, dated May 1, 2018, (“APA”) or the  
10 average of the appraisal of TOS’s Utility Valuation Expert (“UVE”) and the appraisal of  
11 PAWC’s UVE.

12 Third, PAWC seeking the accrual of Allowance for Funds Used During  
13 Construction (“AFUDC”) for post-acquisition improvements not recovered through its  
14 DSIC for book and ratemaking purposes and the deferral of depreciation related to post-  
15 acquisition improvements not recovered through the DSIC for book and ratemaking  
16 purposes.

17 Lastly, the APA, because it is between PAWC and a municipal corporation, is  
18 required to be filed with the Commission under 66 Pa. C.S. § 507. As part of the  
19 Transaction, certain agreements with municipal corporations will be assigned to PAWC at  
20 closing. They are attached to the Application as **Appendix A-24-f, Tab 1** and identified  
21 in the Application. Other agreements assigned to or assumed by PAWC either terminate  
22 or become obsolete at closing. Those agreements are attached hereto as **Appendix A-24-**  
23 **f, Tab 2**. PAWC requests that the Commission issue Certificates of Filing or otherwise

1 approve the agreements attached at **Appendix A-24-f, Tab 1** if the Commission deems that  
2 Certificates of Filing or approvals for these agreements are necessary under 66 Pa. C.S. §  
3 507.

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 SECTION 1329?**

**A.** Yes. PAWC’s Application has been prepared in accordance with the fair market value provision of Section 1329 of the Pennsylvania Public Utility Code (“Code”). 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 will 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 Michael Guntrum, PAWC, Senior Project Engineer, Engineering; and Mr. John Cox,  
3 American Water Works Service Company, Director of Rates and Regulation, for the Mid-  
4 Atlantic Division. PAWC is also sponsoring direct testimony by its selected UVE, Mr.  
5 Jerome C. Weinert, Principal & Director of AUS Consultants. PAWC will not be  
6 sponsoring direct testimony by TOS's selected UVE or a representative of TOS.

7 Mr. Guntrum will address the anticipated day-to-day operation of the System once  
8 it is acquired by PAWC, including staffing and the customer service enhancements that  
9 PAWC intends to implement for the benefit of TOS's customers. Mr. Guntrum will also  
10 describe engineering and environmental issues associated with the System, support  
11 PAWC's technical fitness to operate the System, and explain certain commitments made  
12 by PAWC in the APA. Mr. Cox will address the initial rates, rules, and regulations for the  
13 TOS customers as well as the impact of the Transaction on PAWC's existing customers.  
14 Mr. Cox will also discuss the financing of the Transaction and the overall financial fitness  
15 of PAWC. Mr. Weinert will provide supporting testimony for his fair market valuation  
16 report.

17

18 **DESCRIPTION OF THE TRANSACTION**

19 **Q. PLEASE PROVIDE A DESCRIPTION OF THE TRANSACTION NEGOTIATION**  
20 **PROCESS.**

21 A. Prior to November 21, 2016, PAWC met with representatives of TOS to discuss the  
22 potential acquisition of the System. As a result of this meeting, on November 21, 2016,  
23 PAWC forwarded its "Letter of Interest" to the Board of Supervisors confirming PAWC's

1 interest in discussing the potential acquisition of the System and the use of Section 1329,  
2 the fair market value approach. TOS's representatives executed the Letter of Interest on  
3 December 6 and 7, 2016 and returned it to PAWC. This "Letter of Interest" was extended  
4 through amendments on March 9, 2017, May 2, 2017, June 6, 2017, and July 5, 2017 to  
5 allow the parties to enter into a definitive agreement. Through these extensions, PAWC  
6 and TOS jointly retained the services of Herbert E. MacCombie, Jr., P.E., of Media  
7 Pennsylvania to complete the Engineer's Assessment of Tangible Assets pursuant to  
8 Section 1329. The Engineer's Assessment of Tangible Assets is included as **Schedule 1.1**  
9 of the APA and included with the UVE fair market valuation reports at **Appendix A-5**.  
10 PAWC, pursuant to Section 1329, retained the services of AUS Consultants of Greenfield  
11 Wisconsin to complete an appraisal of the System. TOS retained the services of Herbert,  
12 Rowland & Grubic, Inc. of Harrisburg, Pennsylvania to also complete an appraisal of the  
13 System. These appraisals accompany the Application at **Appendix A-5** (together with  
14 electronic working documents at **Appendix A-4**) and are included as **Schedule 2.2** of the  
15 APA. After receipt of the two appraisals and subsequent arms-length negotiations, on May  
16 1, 2018 TOS's Board of Supervisors approved the APA, which was subsequently executed  
17 by PAWC and TOS that day too. This APA includes a negotiated purchase price of  
18 \$9,250,000.

19  
20 **Q. CAN YOU PLEASE PROVIDE AN OVERVIEW OF THE APA?**

21 **A.** Yes. The APA is attached as **Appendix A-24-a** to the Application (**PAWC Exhibit KEG-**  
22 **1**). The APA sets forth the terms and conditions pursuant to which the TOS will sell, and  
23 PAWC will purchase, the System, as well as substantially all assets, properties and rights

1 that TOS owns and uses in connection with the System. The APA sets forth the entire  
2 understanding of the parties with respect to the Transaction. Under the APA, the closing  
3 of the Transaction will occur after the receipt of all applicable governmental approvals,  
4 including approvals from this Commission, and after all applicable conditions have been  
5 met (or waived) by the parties.

6 Upon closing of the Transaction, PAWC will take ownership of the System and  
7 begin rendering wastewater services to TOS's current customers and TOS will permanently  
8 discontinue providing or furnishing wastewater service to the public within a portion of the  
9 Township of Sadsbury, Chester County, Pennsylvania.

10  
11 **Q. CAN YOU PLEASE PROVIDE A SUMMARY OF THE APA'S PROVISIONS**  
12 **GOVERNING THE TRANSFER OF ASSETS?**

13 **A.** The specific properties, assets and rights to be transferred to PAWC are defined and  
14 described in the APA's Section 1.1, **Appendix A-24-a**. Generally, the APA states that  
15 every asset, property and right owned by the TOS, and used in the provision of wastewater  
16 service, whether real, personal, mixed, tangible or intangible, and including all the physical  
17 plant, property, equipment and facilities comprising the System owned by TOS shall be  
18 conveyed to PAWC. All interests in real estate, including leases, easements and access to  
19 public rights-of-way, owned by TOS and relating to the System, as well as all assigned  
20 contracts, **Schedule 5.1(c)**, also will be conveyed to PAWC.

21  
22 **Q. HAS PAWC AGREED TO ASSUME ANY LIABILITIES OF TOS'S AS PART OF**  
23 **THE TRANSACTION?**

1 A. With the exception of Assigned Contracts listed on Schedule 5.1(c), PAWC is not  
2 assuming any of TOS's liabilities as part of this Transaction on the day of and after closing  
3 on the Transaction.

4

5 **Q. CAN YOU PLEASE SUMMARIZE THE APA'S PROVISIONS GOVERNING THE**  
6 **NEGOTIATED PURCHASE PRICE OF THE TRANSACTION?**

7 A. The consideration for the purchase of the System is set forth in Section 2.1. of the APA.  
8 The negotiated purchase price is \$9,250,000.

9

10 **Q. PLEASE EXPLAIN THE RATES THAT WILL APPLY TO TOS'S CUSTOMERS**  
11 **FOLLOWING THE CLOSING OF THE TRANSACTION.**

12 A. As set forth in Section 6.7 of the APA and as will be explained more-fully in the Direct  
13 Testimony of Mr. Cox, PAWC Statement No. 3, PAWC will adopt TOS's rates at the time  
14 of closing of the Transaction. Moreover, the parties recognize that ratemaking authority  
15 is vested with the Commission. Other charges, such as PAWC's DSIC and State Tax  
16 Adjustment Surcharges, will apply and may be subject to increases. PAWC will bill all  
17 TOS customers on a monthly basis, effective following closing. The effective rates are  
18 shown in Appendix A-24-a, Schedule 6.7 of the APA, and referenced in Appendix A-18-  
19 a through A-18-c to the Application (PAWC Exhibit KEG-1).

20

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

1 A. None, however, my colleague, Michael Guntrum, will discuss our proposed capital plan  
2 post closing in his written direct testimony, PAWC Statement No. 2. In addition, Mr.  
3 Guntrum will also discuss anticipated day-to-day operation of the System once it is  
4 acquired by PAWC, including staffing, in his written direct testimony.  
5

6 **TRANSACTION IS IN THE PUBLIC INTEREST**

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

8 A. PAWC, a subsidiary of American Water Works Company Inc., (“American Water”), is the  
9 largest regulated public utility corporation duly organized and existing under the laws of  
10 the Commonwealth of Pennsylvania, engaged in the business of collecting, treating,  
11 storing, supplying, distributing, and selling water to the public, and collecting, treating,  
12 transporting and disposing of wastewater for the public. Water and wastewater service is  
13 furnished by PAWC to the public in a service territory encompassing more than 400  
14 communities in 36 counties, including Chester County and neighboring counties of  
15 Lancaster, Berks, and Montgomery. Overall, PAWC serves a combined population of over  
16 2,300,000 across the Commonwealth and is American Water’s largest subsidiary with  
17 nearly 22 percent of American Water’s regulated customer base.

18 PAWC currently employs approximately 1,000 professionals with expertise in all  
19 areas of water and wastewater utility operations, including engineering, regulatory  
20 compliance, water and wastewater treatment plant operation and maintenance, distribution  
21 and collection system operation and maintenance, materials management, risk  
22 management, human resources, legal, accounting and, most importantly, customer service.  
23 PAWC has the expertise, the record of environmental compliance, the commitment to

1 invest in necessary capital improvements and resources, and experienced managerial and  
2 operating personnel necessary to provide safe and reliable sewer services to the residents of  
3 the TOS and surrounding areas. PAWC is currently the water provider within TOS and is  
4 the operator of TOS's System pump station.

5  
6 **Q. PLEASE DESCRIBE PAWC'S HISTORICAL RELATIONSHIP WITH TOS.**

7 A. Since PAWC's acquisition of the water and wastewater assets of the City of Coatesville  
8 Authority ("CCA") in March 2001, PAWC has been the regional wastewater (and water)  
9 provider in the City of Coatesville and surrounding communities. . PAWC's treats the  
10 wastewater from the communities of Sadsbury Township, City of Coatesville, East  
11 Fallowfield Township, Caln Township, West Caln Township, Valley Township, West  
12 Sadsbury Township, Highland Township, West Brandywine Township and Parksburg  
13 Borough. TOS has been a bulk wastewater customer of PAWC since PAWC's acquisition  
14 of CCA's water and wastewater system assets. We maintain a relationship with TOS and  
15 other local municipalities by participating in local events, providing environmental and  
16 firefighting grants, offering the "H2O Assistance Program," and supporting economic  
17 growth through infrastructure improvements in the communities we serve.

18  
19 **Q. HOW MANY CUSTOMERS DOES THE TOS SYSTEM CURRENTLY SERVE  
20 AND HOW MANY CUSTOMERS DOES PAWC CURRENTLY SERVE?**

21 A. As of December 31, 2016, TOS furnished wastewater services to 998 customers. This  
22 number includes 950 residential and 48 commercial customer connections. Of these

1 approximately 240 residential and 11 commercial accounts are not connected to public  
2 water, but instead obtain water from their individual groundwater sources.

3 As of December 31, 2017, PAWC furnished wastewater services to 64,917  
4 customers in Pennsylvania, inclusive of 59,821 residential customers, 4,875 commercial  
5 customers, 182 municipal customers, 35 industrial customers, and 4 bulk customers.  
6 PAWC furnishes water services to 657,710 customers, inclusive of 605,770 residential  
7 customers, 45,022 commercial customers, 525 industrial customers, 2,225 municipal,  
8 4,290 fire protection customers, and 22 sales for resale customers.

9  
10 **Q. CAN YOU PLEASE EXPLAIN WHY THE PROPOSED TRANSACTION IS IN**  
11 **THE PUBLIC INTEREST?**

12 **A.** Yes. The Transaction will result in affirmative public benefits of a substantial nature. First,  
13 PAWC, as a large and long-established public utility, has the managerial, technical, and  
14 financial fitness to operate the System in a safe and efficient manner in compliance with  
15 the Pennsylvania Public Utility Code, the Pennsylvania Clean Streams Law, and all other  
16 applicable statutory and regulatory requirements. PAWC has extensive experience in the  
17 operation of wastewater collection and treatment systems. The acquisition fosters the  
18 Commission's stated goal of regionalizing wastewater systems to provide greater  
19 environmental and economic benefits to customers.

20 Second, TOS's current customers will benefit in several ways from becoming  
21 PAWC customers. PAWC is a large, financially-sound company that has the capacity to  
22 finance necessary capital additions and improvements that will benefit its customers. In  
23 addition, given its size, its access to capital, and its recognized strengths in system

1 planning, capital budgeting, and construction management, PAWC is well-positioned to  
2 ensure that high quality wastewater service meeting all applicable state and federal  
3 regulatory requirements is provided to TOS's customers. Additionally, PAWC is subject  
4 to the jurisdiction of the Commission and must comply with the Code. The Township is  
5 not regulated by the Commission and does not need to comply with the Code.

6 Third, TOS's current customers will benefit from enhanced and proven customer  
7 service that PAWC provides. My colleague, Michael Guntrum, discusses these customer  
8 service enhancements in more detail in PAWC Statement No. 2; however, I would like to  
9 note that they include, but are not limited to, additional bill payment options, extended  
10 customer service and call center hours, enhanced customer information and education  
11 programs, and access to PAWC's customer assistance program.

12 Finally, the Transaction will benefit PAWC's existing customers and TOS's current  
13 customers in the long-term by expanding PAWC's customer base. There will be no  
14 immediate rate impact on PAWC's existing customers, and we expect that the Transaction  
15 will help PAWC maintain reasonable rates for all its customers going forward. Moreover,  
16 by adding additional connections to the entire PAWC system, there are more customers to  
17 share future infrastructure investment cost, which promotes stable rates across the entire  
18 PAWC system. Customers who benefit from near-term improvements will one day help  
19 pay for improvements on behalf of other customers on other parts of the PAWC system.  
20 Being able to spread the costs of investing in and maintaining public wastewater systems  
21 over a growing customer base, particularly in a time of increased environmental  
22 requirements, is essential to the continued success of wastewater systems and maintaining  
23 reasonable rates for customers. Indeed, the Pennsylvania General Assembly recognized,

1 as a matter of public policy, the importance of consolidation and cost sharing in the passage  
2 of Act 11 of 2012. There is also a clear legislative intent associated with Section 1329 and  
3 its allowance of fair market valuation for ratemaking purposes. The General Assembly  
4 intended to facilitate the acquisition of municipal water and wastewater systems by  
5 investor-owned utilities for the benefit of municipal corporations and their customers.

6  
7 **PAWC'S LEGAL, FINANCIAL AND TECHNICAL FITNESS**

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

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

13  
14 **Q. CAN YOU EXPLAIN WHY PAWC IS FINANCIALLY FIT TO ACQUIRE AND**  
15 **OPERATE THE SYSTEM?**

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

18 As part of the Application, PAWC provided the audited internal balance sheet, as  
19 of December 31, 2017, for PAWC (**Appendix D to PAWC Exhibit KEG-1**), as well as  
20 the audited income statement, as of December 31, 2017, for PAWC (**Appendix F to**  
21 **PAWC Exhibit KEG-1**). Those documents show that PAWC had total assets of  
22 approximately \$4.62 billion as of December 31, 2017. Further, they show that PAWC had  
23 net income of approximately \$161 million for the 12 months ending December 31, 2017.

1 These figures further demonstrate that PAWC has the financial stability and wherewithal  
2 to acquire the System and operate it in the public interest. My colleague, John Cox, will  
3 provide additional details in PAWC Statement No. 3 on the financial health of PAWC and  
4 its ability to access capital.

5  
6 **Q. PLEASE EXPLAIN WHY PAWC IS TECHNICALLY FIT TO OPERATE THE**  
7 **SYSTEM?**

8 **A.** As I discussed earlier, PAWC is engaged in the business of collecting, treating, transporting  
9 and disposing of wastewater for the public. PAWC is the largest investor-owned water  
10 utility in the Commonwealth of Pennsylvania and already has significant wastewater  
11 operations -- including a large combined sanitary and wastewater system in Scranton,  
12 Pennsylvania. PAWC is experienced in undertaking and completing water and wastewater  
13 system acquisitions with public and private sector owners and successfully integrating  
14 those assets into our business operations. My colleague, Michael Guntrum, will explain in  
15 greater detail in PAWC Statement No. 2, specifically how PAWC intends to operate the  
16 System once acquired.

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20 **SERVICE TERRITORY**

21 **Q. PLEASE EXPLAIN THE SERVICE TERRITORY SOUGHT BY PAWC IN THE**  
22 **APPLICATION.**

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

9 TOS also accepts sewage from communities within West Caln Township that are  
10 served by PAWC. The agreements related to these communities are included in **Appendix**  
11 **A-24-f and identified** as items a. and c. on **Exhibit A to the APA**; a. and c. on **Schedule**  
12 **5.1(c) to the APA**; and b. and d. on **Schedule 4.1(k)(i)** to the APA. The agreements will  
13 terminate after closing on the Transaction with TOC. The areas served within West Caln  
14 Township are already included in PAWC's current certificated service areas and are not a  
15 subject of this filing.

16  
17 **APPROVAL OF CONTRACTS WITH MUNICIPAL CORPORATIONS**

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

20 **A.** Yes. In addition to the approvals sought under Code Sections 1102(a) and 1329, 66 Pa.  
21 C.S. §§ 1102(a), 1329, the APA (attached as **Appendix A-24-a**) and any contract with a  
22 municipal corporation that will be assumed by PAWC must be filed with the Commission  
23 pursuant to Code Section 507. As part of the Transaction, certain agreements will be

1 assigned to PAWC at closing. They are attached to the Application as **Appendix A-24-f,**  
2 **Tab 1.** In addition to the APA, PAWC requests that the Commission issue Certificates of  
3 Filing or otherwise approve the agreements attached at **Appendix A-24-f, Tab 1** identified  
4 above if the Commission deems that Certificates of Filing and/or approvals for these  
5 agreements are necessary under 66 Pa. C.S. § 507. These agreements include:

- 6 • *Letter* dated May 15, 2000, from Vincent Pompo, Esq. (Solicitor for Sadsbury  
7 Township – “Township”) to Velma A. Redmond, Esq. (former Vice President,  
8 Corporate Counsel and Secretary for PAWC), will remain in effect following  
9 Closing. However, it is important to note that items 1, 2, 3, 4, and 6 on pages 1-3,  
10 have either expired or are no longer valid to be assigned to PAWC at Closing and  
11 will effectively terminate at Closing. Additionally, items 1, 3, 4 and 5 on pages 3-  
12 4 have too either expired or are no longer valid. The Franchise Area sections are  
13 subject to filings with the Commission and would be supported by a showing of  
14 need (via a contract with a Developer, etc. for the extension of PAWC’s water  
15 and/or wastewater system within the Township).
- 16 • *Wastewater Conveyance Agreement*, dated September 16, 2003, between PAWC,  
17 TOS, and All County Partnership and Calnshire Estates, LLC (“Developers”)  
18 allowed PAWC to construct a force main carrying wastewater flows from the  
19 Developments of the Developers through the Township’s wastewater collection  
20 system to PAWC’s Coatesville collection and treatment system. The wastewater  
21 system constructed by the Developers in their respective developments is owned  
22 and maintained by PAWC. However, although this Agreement will be assigned by  
23 the Township to PAWC at Closing, PAWC will seek to terminate this Agreement

1 within 30 days following Closing as there are no remaining obligations between the  
2 parties under this Agreement.

- 3 • *Memorandum*, dated as of September 16, 2003, recorded September 17, 2003, in  
4 the Office of Recorder of Deeds for Chester County. The *Memorandum* also related  
5 to the *Wastewater Conveyance Agreement* will terminate within 30 days following  
6 Closing.

- 7 • *Second Agreement for the Conveyance of Wastewater from West Caln Township*  
8 *through Sadsbury*, dated August 9, 2013, between PAWC, TOS, West Caln  
9 Township (“West Caln”), and Lawrence Developers, L.P. (“Developer”) allowed  
10 for the Developer’s Development to also benefit from the force main constructed  
11 by PAWC (as referenced in the September 16, 2003 agreement above) such that  
12 wastewater flows from the Development of Developer would too flow through the  
13 Township and into PAWC’s Coatesville collection and treatment system. The  
14 wastewater system constructed by the Developers in their respective Development  
15 is owned and maintained by PAWC. However, although this Agreement will be  
16 assigned by the Township to PAWC at Closing, PAWC will seek to terminate this  
17 Agreement within 30 days following Closing as there are no remaining obligations  
18 between the parties under this Agreement.

- 19 • *Agreement*, between TOS and Valley Township (“Valley”), dated November 15,  
20 2011, allows for Valley to provide wastewater service to 2800 West Lincoln  
21 Highway. This Agreement will be assigned by Sadsbury to PAWC at Closing and  
22 remain in effect beyond Closing.

