

66 Pa. C.S. Section 1329 Application Completeness Review
Pennsylvania-American Water Company – Wastewater Division
Sadsbury Township Wastewater Acquisition at Docket No. A-2018-3002437

Missing Application Information

1. Checklist Item No. 4 – AUS Consultants, Inc. (AUS) Appraisal
 - a. Appendix A-5 references Excel documents that were not included in the working Excel files of Appendix A-4. Please provide a working copy of each of the following Excel files:
 - i. File named “PA-American Sadsbury Wastewater Industry Valuation Summary Created 2-4-2017.xlsx”
 - ii. File named “section2_original cost_sewer system_tangible assets.xlsx”
 - iii. File named “Water Industry.xlsx”
 - iv. File named “Excluded-Assets-Original Cost Tables – NGT-2016Update.xlsx”
 - b. Appendix A-5 contains a document titled “Valuation Summary.” Page 5 of the Valuation Summary contains a spreadsheet named “Market Approach.” The values shown for the purchase price of McKeesport Wastewater System do not match the values stated on Page 29 of AUS’s appraisal dated November 21, 2017. Please explain this discrepancy.
 - c. Within the Excel Spreadsheet named “24 Appendix A-4 PAWC UVE Electronic Working Papers 2 of 2” on the “Mains Unit Costs” tab, there are multiple reference errors. Please provide a statement that these reference errors do not influence any calculations.
2. Checklist Item No. 4 – Herbert, Rowland & Grubic, Inc. (HRG) Appraisal
 - a. Certain information referenced in Appendix A-5 does not appear to be supported by corresponding working papers. Please provide working papers for the following:
 - i. HRG Schedule C, “a detailed analysis of regional wastewater collection system construction costs” resulting in an estimated unit cost per lineal foot of \$154.
 - ii. HRG Schedule F, an explanation of the assigned present value discount rate of 6.75%.

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- iii. HRG Schedule G, evidence supporting the assigned 2017 cost per square foot of \$3.90 for easements.
- b. The customer list in Appendix A-4 includes the following addresses which are outside of the requested territory defined in Appendix A-16a through A-16h. Please revise Appendix A-16a through A-16h as necessary for the following addresses:
 1. 2063 Valley Road, Parkesburg 19365
 2. 2061 Valley Road, Parkesburg 19365
 3. 2041 Valley Road, Parkesburg 19365
 4. 1953 Valley Road, Parkesburg 19365
 5. 157 Cowan Road, Parkesburg 19365
- c. Checklist Item No. 10 - HRG's appraisal does not appear to include an appraisal certification, pursuant to USPAP Rule 2-3, 6-3, 8-3, and 10-3.
- d. The photos included in Exhibit 2 of HRG's appraisal are not captioned. Please provide captions explaining what assets the photos are depicting.
3. Checklist Item No. 8 – The Application's Appendix A-8 provides copies of an agreement and invoices from both AUS Consultants, Inc. and HRG but does not quantify the total fees paid to each firm for providing completed utility valuation appraisals for the acquisition. Please provide statements that quantify the total fees paid to each company.
4. Checklist Item No. 16.d – The written descriptions of the four separate service territories by metes and bounds are not labeled by corresponding area number designated in Appendix A-16-a. Please identify the area numbers corresponding to each metes and bounds description.
5. The Application's Paragraph 35 states, in part, that no corporation is furnishing or has rights to furnish service in the requested territory. However, this conflicts with the agreement as of November 15, 2011, between Sadsbury Township and Valley Township regarding sanitary sewer service for 2800 West Lincoln Highway provided within Appendix A-24-a, Tab 1. Please either revise the requested territory to exclude the subject property; or provide a statement that PAWC will be seeking to terminate the subject agreement and provide required information pursuant to 52 Pa. Code § 3.501(a)(9).

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6. Provide copies of the “Terminated Agreements” identified in Section 4.1(k)(iv) of the Asset Purchase Agreement (APA).
7. Checklist Item No. 19.a – Please provide a copy of Sadsbury Township’s audited financial information for 2017.
8. Checklist Item No. 19.b – Please provide a copy of Sadsbury Township’s adopted budget for 2017.
9. Checklist Item No. 19.e – The Application’s Appendix A-19-e identifies Sadsbury Township’s debt to be approximately \$2.745 million. Please identify the nature, terms, and payment history of this outstanding debt and any outstanding debt identified in Sadsbury Township’s 2017 audited financial information.
10. Checklist Item No. 22.e – The Application provides statements in the direct testimony and a letter from Sadsbury Township indicating the Application is consistent with the Chester County Comprehensive Plan but does not provide evidence from the Chester County Planning Commission indicating the filing is consistent with the Chester County Comprehensive Plan. Please provide evidence the Application is consistent with the Chester County Comprehensive Plan.
11. Checklist Item No. 22.e – Map II-1, provided as part of Appendix A-22b-1 appears to have been folded over when it was scanned and is not legible. Please provide a legible copy of Map II-1.

Please mark the materials “CONFIDENTIAL” in bold or highlighted manner if any of the requested information is deemed to be of a confidential nature.

Bibikos, George A.

From: Donnelly, Sean <SDONNELLY@pa.gov>
Sent: Thursday, June 7, 2018 3:51 PM
To: Zambito, David
Cc: Searfoorce, Daniel; McKinley, Clinton; Zander, Paul; Chiavetta, Rosemary; Susan.Marsh@amwater.com; Bibikos, George A.; Nase, Jonathan
Subject: PAWC-WD Sadsbury Township Section 1329 Application at Docket A-2018-3002437
Attachments: 20180607 PAWC-WD Sadsbury Twp Application Review Missing Checklist Item Information.docx

David Zambito, Esq.
Cozen O'Connor
17 North Second Street
Harrisburg, PA 17101

Dear Attorney Zambito,

The Commission's Bureau of Technical Utility Service (TUS) performed a completeness review of Pennsylvania-American Water Company – Wastewater Division's (PAWC-WD's) above-referenced Section 1329 application submitted on June 1, 2018. Based upon our initial review, we have determined the application to be missing information required by the 66 Pa. C.S. § 1329 Application Filing Checklist as revised 3/17/2017. Attached is a draft list of information that still needs to be provided to perfect the subject application. Please note the identified information needs to be filed with the Secretary's Bureau by the close of business on Wednesday, June 13, 2018, as the ten business-day review period ends on June 15, 2018, otherwise the Bureau may reject the application.

Sincerely,

Sean P. Donnelly, P.E.
Fixed Utility Valuation Engineer Supervisor
Bureau of Technical Utility Services
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265
Tele. No. (717) 783-2505

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1. Checklist Item No. 4 – AUS Consultants, Inc. (AUS) Appraisal
 - a. Appendix A-5 references Excel documents that were not included in the working Excel files of Appendix A-4. Please provide a working copy of each of the following Excel files:
 - i. File named “PA-American Sadsbury Wastewater Industry Valuation Summary Created 2-4-2017.xlsx”

RESPONSE: In its filing, Pennsylvania-American renamed the file “PA-American Sadsbury Wastewater Industry Valuation Summary” to “Appendix A-4 PAWC UVE Electronic working papers 1 of 2.” That file was included with the application. The file previously named “PA – American Sadsbury Wastewater Industry Summary” was created on 11-21-2017 and superseded “PA – American Sadsbury Wastewater Industry Valuation Summary Created 2-4-2017.xlsx”; which is now enclosed with this response on a CD ROM.

- ii. File named “section2_original cost_sewer system_tangible assets.xlsx”

RESPONSE: In its filing, Pennsylvania-American renamed the file “section2_original_cost_sewer system_tangible assets.xlsx” to “Appendix A-4 PAWC UVE Electronic Working Papers 2 of 2.” The files are the same. Please refer to that file, which is enclosed again with this response on a CD ROM.

- iii. File named “Water Industry.xlsx”

RESPONSE: The file “Water Industry.xlsx” is enclosed with this response on a CD ROM.

- iv. File named “Excluded-Assets-Original Cost Tables – NGT-2016Update.xlsx”

RESPONSE: The file “Excluded-Assets-Original Cost Table – NGT_2016Update.xlsx” was referred to in AUS Consultants Market Approach, page 6 of 29, only to provide the basis for the market comparable statistic of Depreciated Original Cost for the New Garden Township sale of its wastewater system which was adjudicated

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in PA PUC Docket No. A-2016-2580061. A copy of the file is provided with this response on a CD ROM.

- b. Appendix A-5 contains a document titled “Valuation Summary.” Page 5 of the Valuation Summary contains a spreadsheet named “Market Approach.” The values shown for the purchase price of McKeesport Wastewater System do not match the values stated on Page 29 of AUS’s appraisal dated November 21, 2017. Please explain this discrepancy.

RESPONSE: At the November 21, 2017 appraisal date, the purchase price agreed upon between Pennsylvania-American and the Municipal Authority of the City of McKeesport was \$162 million. The narrative of the appraisal report reflects that purchase price at page 29; this purchase price revised an earlier proposed purchase price of \$156 million, which is detailed in the Market Approach of the appraisal statistics at Valuation Summary page 5 of 10 and the Market Approach page 3 of 29. Subsequent to the finalization of the Sadsbury appraisal I understand a settlement agreement was proposed at a purchase price of \$158 million for the MACM assets.

- c. Within the Excel Spreadsheet named “24 Appendix A-4 PAWC UVE Electronic Working Papers 2 of 2” on the “Mains Unit Costs” tab, there are multiple reference errors. Please provide a statement that these reference errors do not influence any calculations.

RESPONSE: The reference errors referred to in the spreadsheet “24 Appendix A-4 PAWC UVE Electronic Working Papers 2 of 2,” on the Tab “Mains Unit Costs,” are only descriptive column references which do not affect the calculation of the mains unit costs.

Response(s) provided by: Jerome C. Weinert
Principal and Director, AUS Consultants, Inc.

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2. Checklist Item No. 4 – Herbert, Rowland & Grubic, Inc. (HRG) Appraisal

- a. Certain information referenced in Appendix A-5 does not appear to be supported by corresponding working papers. Please provide working papers for the following:
- i. HRG Schedule C, “a detailed analysis of regional wastewater collection system construction costs” resulting in an estimated unit cost per lineal foot of \$154.

RESPONSE: The construction cost of the Borough of Conshohocken Authority’s sewer system was the regional wastewater collection system used in the detail analysis. Enclosed is a summary of the construction cost analysis showing the estimated replacement value at \$16,163,705 and a total linear feet of 104,645, which results in an estimated unit cost per lineal foot of \$154. The Excel file is included on the accompanying CD ROM.

- ii. HRG Schedule F, an explanation of the assigned present value discount rate of 6.75%.

RESPONSE: The present value discount rate of 6.75% is the equally weighted average cost of capital between the rate of return on equity (9%) and the cost of borrowing money (4.5%). There are no corresponding working papers in Excel format.

- iii. HRG Schedule G, evidence supporting the assigned 2017 cost per square foot of \$3.90 for easements.

RESPONSE: The basis of the \$3.90 per square foot is as follows: In 2013, 8 parcel appraisals were performed in various areas of Susquehanna Township, Dauphin County. The parcels were similar in size, type and use as those in Sadsbury Township, Chester County. These parcels were reviewed and found to identify fee simple unit values that ranged \$3.60 to \$6.60 per square foot.

Similarly, in 2017, 2 parcels appraisals were performed in West Hanover Township, Dauphin County, which appear to be more rural in nature and of similar use as those in Sadsbury Township, Chester County. These parcels were reviewed and found to identify a fee simple unit value of \$3.00 per square foot.

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Current “for sale” internet listings on Zillow.com were reviewed for 7 properties in various areas of Sadsbury Township, Chester County. Price per square foot for the developed properties ranged significantly as follows: \$3.68, \$8.31, \$9.04, \$18.22, \$44.06, \$133 and \$236 (townhouse). Note - for sale (asking) prices are not used as a basis for determining fair market value of similar parcels; however, the information may help support actual "sold" cost data for fair market value of parcels.

Conclusion: An estimated unit value of \$5.20 per SF is assumed as an average fee simple value for Sadsbury Township, Chester County. A percentage of the fee simple value is applied for permanent sanitary sewer easements. A range of percentages may be used and consideration should be given to the level of impact the easement would have to the owner's use of the property. For this estimate, 75 percent of the fee simple unit value or \$3.90 per square foot is used. There are no corresponding working papers in Excel format.

- b. The customer list in Appendix A-4 includes the following addresses which are outside of the requested territory defined in Appendix A-16a through A-16h. Please revise Appendix A-16a through A-16h as necessary for the following addresses:

1. 2063 Valley Road, Parkesburg 19365
2. 2061 Valley Road, Parkesburg 19365
3. 2041 Valley Road, Parkesburg 19365
4. 1953 Valley Road, Parkesburg 19365
5. 157 Cowan Road, Parkesburg 19365

RESPONSE: The Township has confirmed that properties located at 2063, 2061, 2041, and 1953 on Valley Road in Parkesburg are connected to the System. The property located at 157 Cowan Road in Parkesburg is outside of the Service Area and not connected to the System. The Service Area has been modified to include the properties on Valley Road as reflected in revised map and metes/bounds descriptions accompanying the response to Item No. 4.

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- c. Checklist Item No. 10 - HRG's appraisal does not appear to include an appraisal certification, pursuant to USPAP Rule 2-3, 6-3, 8-3, and 10-3.

RESPONSE: See enclosed certification.

- d. The photos included in Exhibit 2 of HRG's appraisal are not captioned. Please provide captions explaining what assets the photos are depicting.

RESPONSE: See enclosed photos.

Response(s) provided by: As to Item Nos. 2.a., 2.c., and 2.d. and their subparts, Adrienne M. Vicari, P.E., Practice Area Leader, Financial Services, for Herbert, Rowland, and Grubic, Inc.

As to Item No. 2.b., Michael J. Guntrum, Senior Project Engineer for Pennsylvania-American Water Company.

Borough of Conshohocken Authority
Exhibit 2
Summary of Replacement Costs - Collection Part

Sewer Mains Complete and in Place Including Pavement Restoration

Size (inches)	Linear Feet	Current Unit Price	Current Replacement Value
18" Total	29	\$ 202.25	5,865
15" Total	241	\$ 202.25	48,742
12" Total	1,214	\$ 169.65	205,955
10" Total	1,509	\$ 155.84	235,163
8" Total	101,040	\$ 154.13	15,573,295
6" Total	612	\$ 154.13	94,328
	104,645		\$ 16,163,348

Manhole Installed Cost with Frames and Covers

Total Number of Manholes	480
Average Depth (feet)	6.5
Unit Price Installed	\$ 3,685
Replacement Cost of Manholes	\$ 1,768,800

Replacement Cost - Sewer Mains and Manholes **\$ 17,932,148**

Collection Part Facilities

Sewer Mains		16,163,348
Manholes	480	1,768,800
Total Collection Part Facilities		17,932,148

Excluded Facilities (Contributed)

Sewer Mains		
12" Total		1,245
8" Total		5,898
Manholes		60

Inventory of Facilities Obtained from GIS Data on 02/26/2016
Replacement Cost as of April, 2016

PER THE UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE

STANDARD 2: REAL PROPERTY APPRAISAL, REPORTING

Standard Rule 2-3

I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- my engagement in this assignment was not contingent upon developing or reporting predetermined results.
- my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- I have not made a personal inspection of the property that is the subject of this report.
- no one, other than HRG personnel under my direction, provided significant real property appraisal assistance to the person signing this certification.

STANDARD 6: MASS APPRAISAL, DEVELOPMENT AND REPORTING

Standard Rule 6-3

When necessary for credible assignment results, I have:

- identified and analyzed the effect on use and value of the following factors: existing land use regulations, reasonably probable modifications of such regulations, economic supply and demand, the physical adaptability of the real estate, neighborhood trends, and highest and best use of the real estate.
- to the best of my knowledge and belief no personal property was identified, analyzed or appraised that is subject to this property.

STANDARD 8: PERSONAL PROPERTY APPRAISAL, REPORTING

Standard Rule 8-3

I certify that, to the best of my knowledge and belief, no personal property was identified, analyzed or appraised that is subject to this property.

STANDARD 10: BUSINESS APPRAISAL, REPORTING

Standard Rule 10-3

I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
- I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- my engagement in this assignment was not contingent upon developing or reporting predetermined results.
- my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- no one, other than HRG personnel under my direction, provided significant real property appraisal assistance to the person signing this certification.

Date: 6/13/2018

Adrienne M. Vicari

Adrienne M. Vicari
Practice Area Leader, Financial Services
Herbert, Rowland, and Grubic, Inc.

**SADSBURY TOWNSHIP SANITARY SEWER SYSTEM
FAIR MARKET VALUATION AS OF DECEMBER 31, 2016**

STOTTSVILLE PUMP STATION



Emergency Generator



Access to Valve Pit

**SADSBURY TOWNSHIP SANITARY SEWER SYSTEM
FAIR MARKET VALUATION AS OF DECEMBER 31, 2016**

STOTTSVILLE PUMP STATION



Electrical Supply



Wet Well and Valve Pit

**SADSBURY TOWNSHIP SANITARY SEWER SYSTEM
FAIR MARKET VALUATION AS OF DECEMBER 31, 2016**

STOTTSVILLE PUMP STATION



Pump Control Panels



Valve Pit and Wet Well

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3. Checklist Item No. 8 – The Application’s Appendix A-8 provides copies of an agreement and invoices from both AUS Consultants, Inc. and HRG but does not quantify the total fees paid to each firm for providing completed utility valuation appraisals for the acquisition. Please provide statements that quantify the total fees paid to each company.

RESPONSE: The following table details the fees rendered (to date) by AUS Consultants, Inc. and HRG for their utility valuation appraisals for the acquisition:

Consultant	Invoice Date	Fees
AUS Consultants	04/07/17	\$6,525.00
AUS Consultants	06/02/17	14,397.72
AUS Consultants	10/10/17	1,641.00
AUS Consultants (Final Invoice)	06/11/18	9,466.00

Total Billed to Date		\$32,029.72
		=====
HRG	03/03/17	\$1,133.00
HRG	04/07/17	3,762.50
HRG	05/05/17	12,370.51
HRG	06/08/17	7,121.51
HRG	07/07/17	2,250.00

Total Billed to Date		\$26,637.52
		=====

See also enclosed the final invoice received from AUS Consultants, Inc. on June 11, 2018.

Response(s) provided by: Jerome C. Weinert Principal and Director, AUS Consultants, Inc.; and Adrienne M. Vicari, P.E., Practice Area Leader, Financial Services, for Herbert, Rowland, and Grubic, Inc.



AUS CONSULTANTS

Jerome C. Weinert, PE, ASA, CDP
Principal and Director, Depreciation and Valuation
e-mail: weinert@auswest.net

Revised June 11, 2018
May 30, 2018

Mr. Scott D. Fogelsanger
Senior Business Development Manager
Pennsylvania American Water Company
852 Wesley Drive
Mechanicsburg, PA 17055-4475

Dear Scott:

Enclosed is our final invoice for AUS Consultants appraisal and pre-filing activities for the Sadsbury Township Wastewater Utility System. This invoice is for appraisal activities through issuing our final appraisal report and the final draft of my direct testimony.

Very truly yours,

A handwritten signature in black ink that reads "J. Weinert". The signature is written in a cursive, flowing style.

eaw
Enclosure

INVOICE

Pennsylvania American Water Company

June 11, 2018

Enclosed is our final invoice for AUS Consultants appraisal and prefilling activities for the Sadsbury Township Wastewater Utility System. This invoice is for appraisal activities through issuing our final appraisal report and the final draft of my direct testimony.

Proposed Fee & Expenses

Appraisal	\$26,960
Inspections	\$1,462.50
Prefiled Testimony	\$3,000
FedEx	\$31
Report Processing	\$397.72
Travel Expenses	\$178.50
TOTAL PROPOSED FEE THIS INVOICE	\$32,029.72

Previous Billings

4/6/2017	\$6,525
6/1/2017	\$14,397.72
10/10/2017	\$1,641
TOTAL PREVIOUS BILLINGS	\$22,563.72

GRAND TOTAL THIS INVOICE \$9,466.00

Please remit with a duplicate copy of this invoice to:

**AUS Consultants, Inc.
155 Gaither Drive, Suite A
Mt. Laurel, NJ 08054**

CUSTOMER I.D. 70-PAA-01

INVOICE NO. 149197

Reference No. 10-0606-03
(G/L No. 441036)

Employer I.D. No.22-194-3906
INCORPORATED

Remit Wires to:
AUS, Inc. at Webster Bank, N.A.
Account 10974951, ABA# ACH211170101

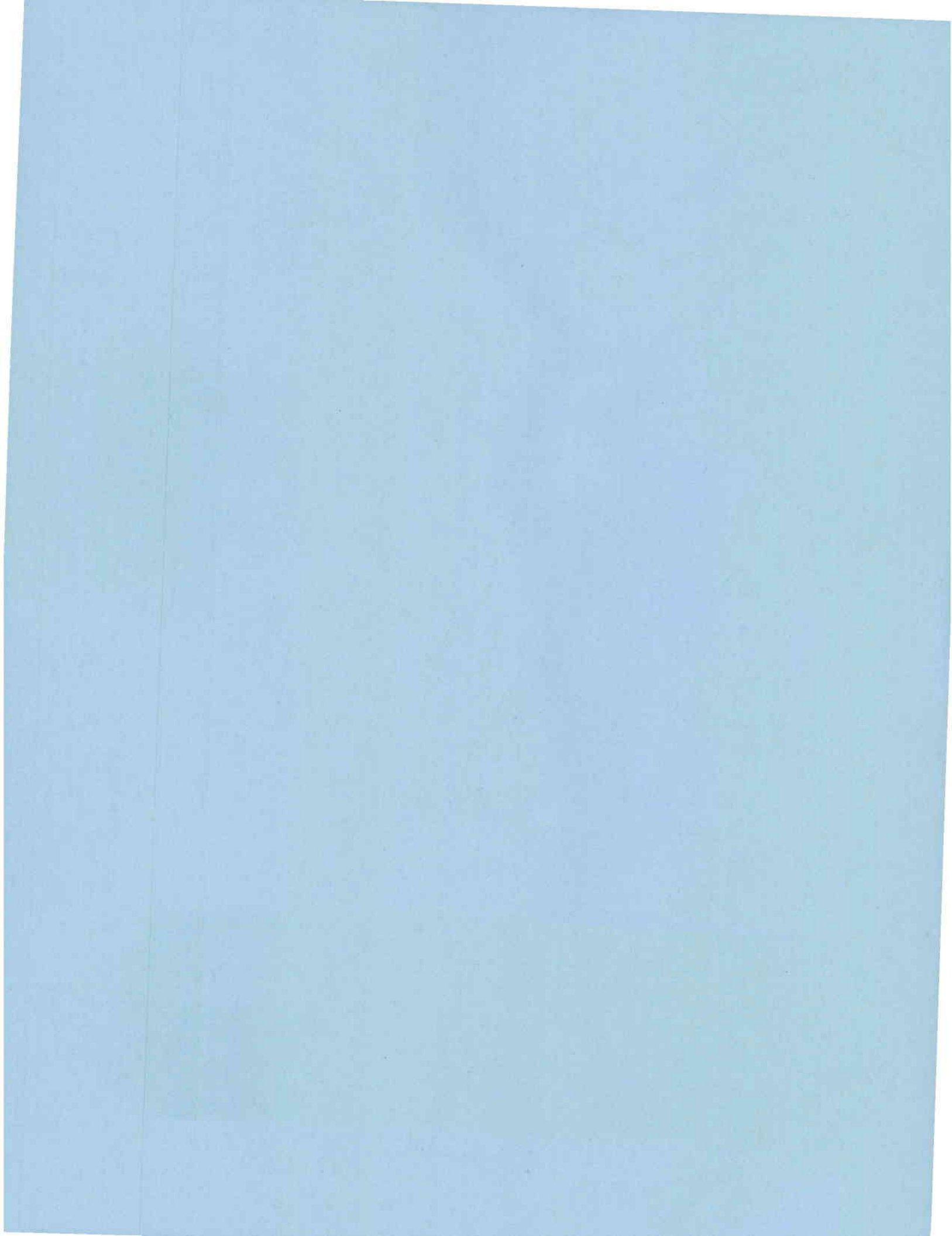


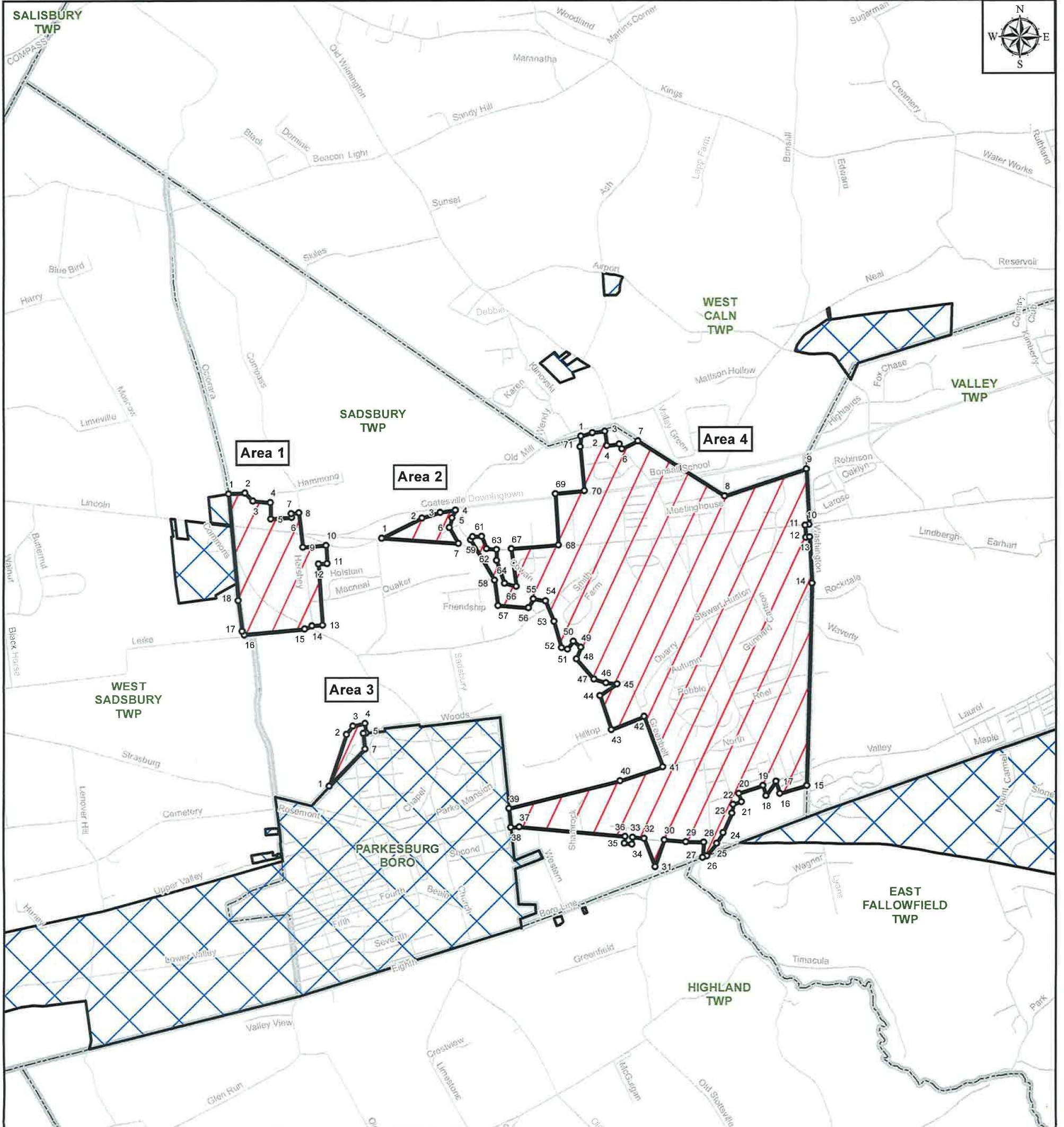
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4. Checklist Item No. 16.d – The written descriptions of the four separate service territories by metes and bounds are not labeled by corresponding area number designated in Appendix A-16-a. Please identify the area numbers corresponding to each metes and bounds description.

RESPONSE: Please see revised map and revised descriptions accompanying this response, which are also included on the accompanying CD ROM.

Response(s) provided by: Michael J. Guntrum, Senior Project Engineer for Pennsylvania-American Water Company.





Pennsylvania-American Water Company
 Coatesville Operating Area
 Proposed Service Territory - Sadsbury Wastewater System
 Approximately 1,550 Acres
 Sadsbury Township, Chester County



Pennsylvania American Water
 800 West Hersheypark Drive
 Hershey, PA 17033

Date: 6/13/2018

- Bearings and Distance Points
- Applied For Wastewater Service Territory
- PAWC Certificated Wastewater Service Territory
- Municipality

TO BE USED FOR REFERENCE ONLY
 Although every effort has been made to ensure the accuracy of the information, errors and conditions originating from physical sources to develop the Certificated Service Territory may be reflected in the data supplied.

1 In = 3,500 Ft



Disclaimer: Bearings and distances were not developed as a result of a physical survey completed by a Professional Licensed Surveyor, but instead completed through employment of ESRI's ArcGIS COGO tool.

* Bearings and Distances attached separately

Area 1 Starting Point: Approximately 286 feet north and 18 feet west of the northeastern-most point of parcel pin 36-3-75. The starting point is located on the municipal boundary of Sadsbury Township and West Sadsbury Township.

<u>Sequence</u>	<u>From</u>	<u>To</u>	<u>Bearing</u>	<u>Distance</u>
1	1	2	N87°01'47"E	432.092022
2	2	3	S44°57'45"E	295.086506
3	3	4	S84°58'24"E	462.107195
4	4	5	S1°16'12"E	435.021668
5	5	6	N85°35'33"E	558.663413
6	6	7	N7°29'37"W	101.200456
7	7	8	N85°34'47"E	199.23185
8	8	9	S6°47'08"E	911.609537
9	9	10	N85°14'35"E	617.508365
10	10	11	S3°05'48"E	479.490478
11	11	12	S86°00'15"W	231.924111
12	12	13	S4°11'27"E	1609.592668
13	13	14	S84°31'43"W	282.310746
14	14	15	S69°18'56"W	203.210075
15	15	16	S84°18'55"W	1600.410456
16	16	17	N32°55'38"W	113.729936
17	17	18	N7°06'06"W	816.480109
18	18	1	N5°18'51"W	2821.110281

Approximate Area: 156 Acres

Area 2 Starting Point: The western-most point of parcel pin 37-2-8.4.

<u>Sequence</u>	<u>From</u>	<u>To</u>	<u>Bearing</u>	<u>Distance</u>
1	1	2	N63°36'34"E	1190.887008
2	2	3	N72°09'47"E	495.990548
3	3	4	N82°39'51"E	407.813637
4	4	5	S24°37'00"W	213.584
5	5	6	S15°36'38"W	267.721039
6	6	7	S29°32'26"E	490.482128
7	7	1	N85°53'29"W	2029.43522

Approximate Area: 21 Acres

Area 3 Starting Point: The southern-most point of parcel pin 37-3-23.

<u>Sequence</u>	<u>From</u>	<u>To</u>	<u>Bearing</u>	<u>Distance</u>
1	1	2	N18°14'58"E	1437.458637
2	2	3	N37°38'31"E	276.589611
3	3	4	N78°04'46"E	336.087038
4	4	5	S4°52'05"E	258.351235
5	5	6	S83°13'15"W	69.82751
6	6	7	S5°51'11"E	410.815258
7	7	1	S43°54'02"W	1359.056198

Approximate Area: 14 Acres

Area 4 Starting Point: Approximately 169 feet south and 168 feet east of the intersection of Old Mill Road and Wendy Circle. The starting point is located on the municipal boundary of Sadsbury Township and West Caln Township.

<u>Sequence</u>	<u>From</u>	<u>To</u>	<u>Bearing</u>	<u>Distance</u>
1	1	2	N73°26'42"E	312.225998
2	2	3	N82°47'01"E	332.096086
3	3	4	S6°57'13"E	386.755376
4	4	5	N82°52'57"E	337.777439
5	5	6	S27°41'49"E	150.880423
6	6	7	N62°28'34"E	472.982989
7	7	8	S57°28'33"E	2699.004229
8	8	9	N71°50'13"E	2263.986796
9	9	10	S2°49'28"E	1466.318901
10	10	11	S83°22'45"W	104.948895
11	11	12	S4°26'17"E	327.22009
12	12	13	N83°24'29"E	95.712551
13	13	14	S2°49'28"E	1216.982625
14	14	15	S1°31'43"W	5329.418079
15	15	16	S72°58'19"W	738.649177
16	16	17	N17°38'52"W	338.004402
17	17	18	S34°20'13"W	459.002178
18	18	19	N17°26'45"W	282.260651
19	19	20	S72°00'30"W	667.306297
20	20	21	S17°29'01"E	238.190422
21	21	22	S72°32'15"W	234.8439
22	22	23	S8°27'19"W	225.138064
23	23	24	S23°11'33"W	566.048891
24	24	25	S31°20'15"W	332.155107
25	25	26	S39°23'25"W	419.930313
26	26	27	S68°40'30"W	111.485536
27	27	28	N4°35'46"E	394.35041
28	28	29	N88°51'09"W	473.363075
29	29	30	N84°50'18"W	569.122529
30	30	31	S19°18'17"W	743.675977
31	31	32	N20°42'45"W	801.477286
32	32	33	N84°50'18"W	305.217944
33	33	34	S4°31'46"W	181.818785
34	34	35	N83°58'16"W	204.187371
35	35	36	N5°08'21"E	178.716617
36	36	37	N84°50'18"W	2790.995028
37	37	38	S86°39'54"W	214.658697
38	38	39	N5°41'39"W	502.897248
39	39	40	N75°50'47"E	3006.475445
40	40	41	N72°07'25"E	1175.524751
41	41	42	N20°06'26"W	1426.582323
42	42	43	S67°47'21"W	928.354753
43	43	44	N18°05'42"W	939.052374

44	44	45 N55°14'05"E	542.033154
45	45	46 N82°40'04"W	294.588743
46	46	47 N72°10'27"W	332.31873
47	47	48 N41°01'08"W	695.476606
48	48	49 N21°10'30"E	329.094085
49	49	50 N51°25'50"W	261.178039
50	50	51 S34°35'38"W	253.940376
51	51	52 N77°49'14"W	172.838275
52	52	53 N15°48'17"W	720.978844
53	53	54 N22°24'48"W	585.256674
54	54	55 N81°12'51"W	316.473085
55	55	56 S30°32'38"W	270.110847
56	56	57 N85°35'56"W	794.207289
57	57	58 N7°58'49"W	664.906129
58	58	59 N30°16'13"W	1240.788938
59	59	60 N29°59'03"E	95.29971
60	60	61 N88°36'37"E	241.897134
61	61	62 S21°13'57"E	350.431426
62	62	63 S84°29'59"E	256.938706
63	63	64 S0°18'13"W	280.920994
64	64	65 S19°30'38"E	643.937947
65	65	66 S76°42'45"E	316.646098
66	66	67 N7°37'16"W	989.638362
67	67	68 N85°11'15"E	1246.554567
68	68	69 N3°16'04"W	1347.069047
69	69	70 N83°46'33"E	763.581689
70	70	71 N5°36'46"W	1163.701091
71	71	1 N4°48'32"E	284.134116

Approximate Area: 1,359 Acres

66 Pa. C.S. Section 1329 Application Completeness Review
Pennsylvania-American Water Company – Wastewater Division
Sadsbury Township Wastewater Acquisition at Docket No. A-2018-3002437

5. The Application's Paragraph 35 states, in part, that no corporation is furnishing or has rights to furnish service in the requested territory. However, this conflicts with the agreement as of November 15, 2011, between Sadsbury Township and Valley Township regarding sanitary sewer service for 2800 West Lincoln Highway provided within Appendix A-24-a, Tab 1. Please either revise the requested territory to exclude the subject property; or provide a statement that PAWC will be seeking to terminate the subject agreement and provide required information pursuant to 52 Pa. Code § 3.501(a)(9).

RESPONSE: PAWC presumes this item refers to Appendix A-24-f, Tab 2. (To clarify, it appears there may be a bookmarking error on the PDF version of the Application and its appendices. The referenced agreement is the first agreement in Appendix A-24-f, Tab 2, on the hard copy, which includes the referenced agreement). PAWC has revised the requested territory to exclude the subject property as reflected on the map provided in response Item No. 4.

Response(s) provided by: Michael J. Guntrum, Senior Project Engineer for Pennsylvania-American Water Company; Keith Gabage, Senior Manager, Business Development, for Pennsylvania-American Water Company.

66 Pa. C.S. Section 1329 Application Completeness Review
Pennsylvania-American Water Company – Wastewater Division
Sadsbury Township Wastewater Acquisition at Docket No. A-2018-3002437

6. Provide copies of the “Terminated Agreements” identified in Section 4.1(k)(iv) of the Asset Purchase Agreement (APA).

RESPONSE: Please refer to Appendix A-24-f, Tab 2. Appendix A-24-f, Tab 2 includes all the “Terminated Agreements” referenced in APA ¶ 4.1(k)(iv) (although they may not be in the exact order in which they are referenced in the APA). PAWC produced them in the paper filing of the Application and appendices and on the electronic version of the Application and appendices as PDFs. The complete APA does not include hard copies of those documents. Accordingly, PAWC separately provided copies of the Terminated Agreements in response to Checklist item 24.f, which calls for copies of agreements referenced in the APA.

Response(s) provided by: Keith Gabage, Senior Manager, Business Development, for Pennsylvania-American Water Company.

66 Pa. C.S. Section 1329 Application Completeness Review
Pennsylvania-American Water Company – Wastewater Division
Sadsbury Township Wastewater Acquisition at Docket No. A-2018-3002437

7. Checklist Item No. 19.a – Please provide a copy of Sadsbury Township’s audited financial information for 2017.

RESPONSE: The Township’s audited financial information for 2017 will not be available until September/October 2018. Please see response to Appendix A-19-a accompanying the Application for the 2015 and 2016 Audited Financial Statements provided by the Township. These are the most recent available audited financial statements for the Township. For each of these documents, the auditor’s letters are dated October 18, 2016, and September 26, 2017, respectively, consistent with PAWC’s understanding from the Township that the Township has its annual audited financial statements prepared in the September/October time frame.

Response(s) provided by: John R. Cox, Director of Rates and Regulations – Pennsylvania, for Pennsylvania-American Water Company.

66 Pa. C.S. Section 1329 Application Completeness Review
Pennsylvania-American Water Company – Wastewater Division
Sadsbury Township Wastewater Acquisition at Docket No. A-2018-3002437

8. Checklist Item No. 19.b – Please provide a copy of Sadsbury Township’s adopted budget for 2017.

RESPONSE: Please see Appendix A-19-b accompanying the Application which includes the 2017 adopted budget that the Township provided. This is the most recent available budget information from the Township and is enclosed.

Response(s) provided by: John R. Cox, Director of Rates and Regulations – Pennsylvania, for Pennsylvania-American Water Company.

Sadsbury Township
 2017 Sewer Budget
 Initial 10/17/2016
 Revised 12/14/2016

Account Numbers	2016 Budget Final	Amount To Date October 31, 2016	2017 Budget Proposed	Comment
Sewer Revenue				
340.04 Interest Income	100	505	600	
360.10 Tapping Fees	2,900	4,294		0 tapping fees at 2,963 as follows; 1 0 DiSciullo lot along Wallace
360.11 · West Caln tapping fee	0	0	0	Calnshire: 29 unit not sold: connections at \$2,938 per connection, Lawrence Tract
360.12 Lateral Insp.	300	235	320	none, 0 connection from Calnshire Estate
360.14 Usage Fees	1,136,000	801,752	1,008,000	2 at 160.00 per inspection New Rates, Flat fee 300.00 per year, 13.50 per 1,000 Gallons
360.14 Usage Fees West Caln Twp Billed to PAW	11,000	11,580	29,700	
360.18 Application Fee	200	573	0	0 other at \$50 per connection
NEW Sewer Management Program Fee	0	0	0	2017 will be Initial year
360.21 Capacity Fees	550	771	0	0 other at \$550 per connection
360.22 Water Meters	600	667	1,000	
360.24 · Late Charges	17,400	19,987	16,200	
360.24A · Interest Charges	1,500	233	300	
360.25 Sewer Certification	1,850	1,470	2,000	
390.00 Miscellaneous Revenue	500	500	500	
390.01 Loan from Capital Reserve Fund	0	0	0	
Total Sewer Revenue	1,172,900	842,567	1,058,620	

Sadsbury Township
 2017 Sewer Budget
 Initial 10/17/2016
 Revised 12/14/2016

Account Numbers	2016 Budget Final	Amount To Date October 31, 2016	2017 Budget Proposed	Comment
Sewer Expense				
402 Financial Administration				
402.00 Administration/Billing	49,400	0	65,600	To General Fund,
402.01 Professional fees for sale of sewer system			115,000	
402.10 Right a Way Payments	0			Perkesbury Renewal, July, 14, 2019, Phase 0 2B & 3B Renewal 12/1/2018
402.10 PAW Billing & Collection Fees	550	596	550	
402.20 · Banking fees	3,050	1,902	2,700	
402.10 Auditor Fees	55,000	40,374	45,000	
402.30 Phone @ Pump Station	4,600	1,903	2,800	
402.50 Loan Principle 1998 Notes	49,000	49,000	51,000	
402.60 Loan Interest 1998 Notes	32,200	26,697	29,800	
402.61 Principal on 2003 Note	194,000	194,000	202,000	
402.61 Interest on 2003 Note	76,900	61,863	67,800	
402.62 Principal on 2009 Note	1,000	1,000	1,000	
402.62 Interest on 2009 Note	8,200	5,280	8,100	
Total 402 Administration	473,900	382,615	591,350	
461 Construction/Design				
461.11 Application Reviews	0	0	0	Average rate increase 3.27%,
461.12 Lateral Inspections	2,800	258	400	Average rate increase 3.27%,
461.13 Reimbursement	7,400	1,642	3,100	Average rate increase 3.27%,
461.14 West Caln Project	0	0	0	
NEW Sewer Management Program Fee	0	0	0	0 2017 will be the Initial year
461.10 · Engineering - Other	25,000	10,111	17,500	General, 16,000; Western Sewer District Tapping fee calculation (2,500)
461.12 Capital Projects	59,500	8,192	85,700	New security and fence gates (\$5,000), Replace existing hoist (\$10,000), Replace cracked concrete pad around wet wall (\$22,000), Install sump pump in force main meter pit (\$5,000), Security cameras & Weather Station (\$7,500); Install Pump (17,000), Sewer Manhole repairs 19,200

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Sadsbury Township
 2017 Sewer Budget
 Initial 10/17/2016
 Revised 12/14/2016

Account Numbers	2016 Budget Final	Amount To Date October 31, 2016	2017 Budget Proposed	Comment
Total 461 Construction/Design	94,700	20,203	106,700	
462 PAWC Fees				
462.10 Treatment	544,000	339,614	491,500	No Rate increase until 1/1/2018
462.20 Capacity	0	0	0	Payment to PAW on 100 new EDU at \$525
Total 462 PAWC Fees	544,000	339,614	491,500	
463 Legal				
463.11 Legal Sewer	14,400	-2,310	9,000	No Rate increase in 2017
Total 463 Legal	14,400	-2,310	9,000	
464 Maintenance	28,900	28,441	32,300	Includes Generator maintenance 2 Major, 2 Mlnor & PAWC Service Fee 505 per month
464A Maintenance Pump Station	25,000	0	25,000	
465 Water Meters	3,100	1,240	1,300	
Total 464 Capital & Maintenance	57,000	29,681	58,600	
TOTAL EXPENSES	1,184,001	769,803	1,257,150	
Total Revenue	1,172,900	842,567	1,058,620	
Total Expenses	1,184,001	769,803	1,257,150	
Surplus (Deficit)	-11,101	72,764	-198,530	
Estimate of Cash Balance at Beginning of Year	144,000		326,400	
Estimate of Cash Balance at Ending of Year	132,899		127,870	

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66 Pa. C.S. Section 1329 Application Completeness Review
Pennsylvania-American Water Company – Wastewater Division
Sadsbury Township Wastewater Acquisition at Docket No. A-2018-3002437

9. Checklist Item No. 19.e – The Application’s Appendix A-19-e identifies Sadsbury Township’s debt to be approximately \$2.745 million. Please identify the nature, terms, and payment history of this outstanding debt and any outstanding debt identified in Sadsbury Township’s 2017 audited financial information.

RESPONSE: As noted in response to Item No. 7, the Township’s audited financial information for 2017 will not be available until September/October 2018. PAWC is not assuming any debt of the Township upon closing. For the most recent information available from the Township, please see response at Appendix A-19-a, which includes the 2016 Financial Statement Year Ended December 31, 2016. Page MD&A 18 outlines the Guaranteed Sewer Revenue Notes Series 1998, 2003, and 2009, with a total principal outstanding balance of \$2.745 million as of December 31, 2016. Please also see pages 26-31 of Appendix A-19-a for detailed information regarding each of the Guaranteed Sewer Revenue Notes. All referenced pages are enclosed with this response.

Response(s) provided by: John R. Cox, Director of Rates and Regulations – Pennsylvania, for Pennsylvania-American Water Company.

**SADSBURY TOWNSHIP
Management Discussion and Analysis
December 31, 2016**

DEBT ADMINISTRATION

As of January 1, 2016, the Township had total outstanding principal on notes of \$2,989,000. During the year, the Township made payments against principal in the amount of \$244,000, resulting in ending outstanding debt, as of December 31, 2016, of \$2,745,000.

**Debt Service Schedule
December 31, 2016**

	<u>Principal Outstanding Jan. 1, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Principal Outstanding Dec. 31, 2016</u>
Guaranteed Sewer Revenue Note Series 1998	\$ 672,000	\$	\$ 49,000	\$ 623,000
Guaranteed Sewer Revenue Note Series 2003	1,773,000		194,000	\$ 1,579,000
Guaranteed Sewer Revenue Note Series 2009	<u>544,000</u>		<u>1,000</u>	<u>543,000</u>
	<u>\$ 2,989,000</u>	<u>\$</u>	<u>\$ 244,000</u>	<u>\$ 2,745,000</u>

More detailed information about our long-term liabilities is included in the Notes to the Financial Statements.

THE TOWNSHIP'S FUTURE

The Township expects to experience growth in the next five years as the economy improves.

FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Township's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Linda Shank, Assistant Secretary/Assistant Treasurer at the Township office.

SADSBURY TOWNSHIP
Notes to Financial Statements
December 31, 2016

Interest Rate Risk

The Township has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Township has no interest rate risk.

Credit Risk

The Township has no investment policy that would limit its investment choices to certain credit ratings.

Concentration of Credit Risk

The Township places no limit on the amount that the Township may invest in any one issuer.

7. DEBT OBLIGATIONS

Following is a summary of changes in debt obligations for the year ended December 31, 2016:

(See next page)

SADSBURY TOWNSHIP
Notes to Financial Statements
December 31, 2016

<u>Description</u>	<u>Amount Outstanding 1/1/2016</u>	<u>Additions Current Year</u>	<u>Retired Current Year</u>	<u>Amount Outstanding 12/31/2016</u>
<u>1998 Guaranteed Sewer Revenue Note</u> The original issue amount of \$975,000 had a fixed interest rate of 4.584%. Beginning September 2006, the note bears interest at a fixed rate of 4.25%.	\$ 449,000	\$	\$ 33,000	\$ 416,000
<u>1998 Guaranteed Sewer Revenue Note</u> The original issue amount of \$405,000 had a variable weekly interest rate based on the Municipal Swap Index as set by the Bond Market Association. This rate cannot exceed 25% per annum. The average rate was 3.35%. Beginning September 2006, the note bears interest at a fixed rate of 4.045%.	223,000		16,000	207,000
<u>2003 Guaranteed Sewer Revenue Notes Series A</u> The original issue amount of \$2,123,000 had a variable weekly interest rate based on the Municipal Swap Index as set by the Bond Market Association. This rate cannot exceed 15% per annum. The average rate was 3.37%. Beginning September 2006, the note bears interest at a fixed rate of 3.979%.	396,000		194,000	202,000
<u>2003 Guaranteed Sewer Revenue Notes Series B</u> The original issue amount of \$1,377,000 had a variable weekly interest rate based on the Municipal Swap Index as set by the Bond Market Association. This rate cannot exceed 15% per annum. The average rate was 3.37%. Beginning September 2006, the note bears interest at a fixed rate of 3.979%.	1,377,000			1,377,000
<u>2009 Guaranteed Sewer Revenue Notes Series A-1</u> The original issue amount of \$8,000 had a variable weekly interest rate based on the Municipal Swap Index as set by the Securities Industry and Financial Market Association. This rate cannot exceed 15% per annum. The average rate was 1.210%.	2,000		1,000	1,000
<u>2009 Guaranteed Sewer Revenue Notes Series A-2</u> The original issue amount of \$542,000 had a variable weekly interest rate based on the Municipal Swap Index as set by the Securities Industry and Financial Market Association. This rate cannot exceed 15% per annum. The average rate was 1.210%.	542,000			542,000
Total Debt Obligations	\$ 2,989,000	\$	\$ 244,000	\$ 2,745,000

SADSBURY TOWNSHIP
Notes to Financial Statements
December 31, 2016

The Township can prepay the Guaranteed Sewer Revenue Notes—the Series of 1998, and both Series A and B of 2003, and both Series A-1 and A-2 of 2009 subject to paying the costs associated with the liquidation of the notes.

The Guaranteed Sewer Revenue Notes—Series of 1998, both Series A and B of 2003, and both Series A-1 and A-2 of 2009—are secured by the revenue base of the sewer system and by the full faith, credit, and taxing powers of the Township.

Interest expense was \$111,581 for the year ended December 31, 2016.

The amounts of future annual principal and interest payments on debt outstanding, assuming a variable rate of 4% for the 2009 notes, as of December 31, 2016, for each of the next five years and in the aggregate are as follows:

Year Ending December 31,	Principal	Interest	Total
2017	\$ 254,000	\$ 107,383	\$ 361,383
2018	263,000	96,899	359,899
2019	273,000	86,029	359,029
2020	284,000	74,798	358,798
2021	296,000	62,980	358,980
2022-2026	1,149,000	150,626	1,299,626
2027-2028	226,000	8,972	234,972
	<u>\$ 2,745,000</u>	<u>\$ 587,687</u>	<u>\$ 3,332,687</u>

Proceeds from tax-exempt bonds issued after September 1, 1986, are subject to the 1986 Tax Reform Act. The Township invests, records, and reports these proceeds in the manner set forth by the U.S. Treasury and Internal Revenue Service to maintain the tax-exempt status of the bonds at December 31, 2016. There are no arbitrage liabilities. The Township is in compliance with provisions of all note agreements.

The Township issued the Guaranteed Sewer Revenue Notes, 1998 A and B Series, the Guaranteed Sewer Revenue Notes, 2003 A and B Series, and the Guaranteed Sewer Revenue Notes, 2009 Series to the Delaware Valley Regional Finance Authority ("DelVal") to evidence its obligations for loans from DelVal. Under the terms of the Loan Agreements, the Township pays interest on the loans sufficient to pay its allocable share of DelVal's bond debt service, interest rate swaps (including termination costs), and administrative costs.

DelVal has entered into interest rate swap transactions to hedge its exposure to changing market conditions, to minimize the costs to provide loans, and to minimize fixed and variable loan rates. All DelVal loans are initially variable rate, and all loans are allocated a notional amount, equal to the outstanding principal of the loans, of DelVal interest rate swaps under which DelVal pays a variable rate to its Counterparty. These are programmatic swap agreements that would only be terminated if the DelVal Loan Program were being collapsed. DelVal provides a fixed rate loan if requested by a borrower by entering into an offsetting swap transaction under which DelVal pays a fixed rate. This offsetting transaction is entirely allocable to the fixed rate borrower. The offsetting transaction would only be terminated if the fixed rate borrower requested the termination (to prepay its loan or to reset the interest rate), the fixed rate borrower defaulted on its payment obligations, or the DelVal Loan Program were collapsed.

SADSBURY TOWNSHIP
Notes to Financial Statements
December 31, 2016

INTEREST RATE SWAP - SERIES OF 1998 GUARANTEED SEWER REVENUE NOTES A

Objective of the interest rate swap - The Township issued the \$975,000 Series of 1998. Guaranteed Sewer Revenue Notes to DelVal to minimize its costs of issuance and to take advantage of the ability to set the Notes at a variable rate or a fixed rate. The Notes were converted to a fixed rate in 2006.

Terms - The Township's obligations for the allocable notional amounts of the DelVal swap agreements are scheduled to terminate on September 25, 2026. The allocable notional amount equals the Notes balance outstanding. Currently, under the Loan Agreement, the Township pays DelVal a fixed rate of 4.25% plus a spread of 40 basis points.

Fair Value - The allocable portion of DelVal's variable rate swap had a positive fair value of \$58,681 at December 31, 2016. The fixed rate swap allocable to the Township had a negative fair value of \$61,200 at December 31, 2016. The fair value was derived from proprietary models based upon well recognized financial principals and reasonable estimates about relevant future market conditions.

Credit risk - As of December 31, 2016, the Township was exposed to credit risk because the swaps had a combined negative fair value. The Township is exposed to credit risk in the amount of the derivatives fair value if the DelVal Loan Program is collapsed, the Township elects to prepay the Notes or to reset the interest rate on the Notes, or the Township defaults on its payment obligations. DelVal was rated A1 by Moody's Investors Service and A+ Standard and Poor's as of December 31, 2016.

Basis risk - The Township does not have any basis risk under the allocable DelVal swap agreements.

INTEREST RATE SWAP SERIES OF 1998 GUARANTEED SEWER REVENUE NOTES B

Objective of the Interest rate swap - The Township issued the \$405,000 Series of 1998. Guaranteed Sewer Revenue Notes to DelVal to minimize its costs of issuance and to take advantage of the ability to set the Notes at a variable rate or a fixed rate. The Notes were converted to a fixed rate in 2006.

Terms - The Township's obligations for the allocable notional amounts of the DelVal swap agreements are scheduled to terminate on September 25, 2026. The allocable notional amount equals the Notes balance outstanding. Currently, under the Loan Agreement, the Township pays DelVal a fixed rate of 4.045% plus a spread of 40 basis points.

Fair Value - The allocable portion of DelVal's variable rate swap had a positive fair value of \$29,200 at December 31, 2016. The fixed rate swap allocable to the Township had a negative fair value of \$24,682 at December 31, 2016. The fair value was derived from proprietary models based upon well recognized financial principals and reasonable estimates about relevant future market conditions.

SADSBURY TOWNSHIP
Notes to Financial Statements
December 31, 2016

Credit risk - As of December 31, 2016, the Township was not exposed to credit risk because the swaps had a combined positive fair value. The Township is exposed to credit risk in the amount of the derivatives fair value if the DelVal Loan Program is collapsed, the Township elects to prepay the Notes or to reset the interest rate on the Notes, or the Township defaults on its payment obligations. DelVal was rated A1 by Moody's Investors Service and A+ Standard and Poor's as of December 31, 2016.

Basis risk - The Township does not have any basis risk under the allocable DelVal swap agreements.

INTEREST RATE SWAP - SERIES OF 2003 GUARANTEED SEWER REVENUE NOTES A AND B

Objective of the interest rate swap - The Township issued the \$3,500,000 Series of 2003. Guaranteed Sewer Revenue Notes to DelVal to minimize its costs of issuance and to take advantage of the ability to set the Notes at a variable rate or a fixed rate. The Notes were converted to a fixed rate in 2006.

Terms - The Township's obligations for the allocable notional amounts of the DelVal swap agreements are scheduled to terminate on June 25, 2023. The allocable notional amount equals the Notes balance outstanding. Currently, under the Loan Agreement, the Township pays DelVal a fixed rate of 3.979% plus a spread of 40 basis points.

Fair Value - The allocable portion of DelVal's variable rate swap had a positive fair value of \$222,736 at December 31, 2016. The fixed rate swap allocable to the Township had a negative fair value of \$134,168 at December 31, 2016. The fair value was derived from proprietary models based upon well recognized financial principals and reasonable estimates about relevant future market conditions.

Credit risk - As of December 31, 2016, the Township was not exposed to credit risk because the swaps had a combined positive fair value. The Township is exposed to credit risk in the amount of the derivatives fair value if the DelVal Loan Program is collapsed, the Township elects to prepay the Notes or to reset the interest rate on the Notes, or the Township defaults on its payment obligations. DelVal was rated A1 by Moody's Investors Service and A+ Standard and Poor's as of December 31, 2016.

Basis risk - The Township does not have any basis risk under the allocable DelVal swap agreements.

INTEREST RATE SWAP - SERIES OF 2009 GUARANTEED SEWER REVENUE NOTES

Objective of the interest rate swap - The Township issued the \$550,000 Series of 2009. Guaranteed Sewer Revenue Notes to DelVal to minimize its costs of issuance and to take advantage of the ability to set the Notes at a variable rate or a fixed rate. The Notes were issued at a variable rate.

Terms - The Township's obligations for the allocable notional amounts of the DelVal swap agreements are scheduled to terminate on June 25, 2023. The allocable notional amount equals the Notes balance outstanding. At December 31, 2016, the variable interest rate was 1.253%.

SADSBURY TOWNSHIP
Notes to Financial Statements
December 31, 2016

Fair value - The allocable portion of DelVal's variable rate swap had a positive fair value of \$76,596 at December 31, 2016. The fair value was derived from proprietary models based upon well recognized financial principals and reasonable estimates about relevant future market conditions.

Credit risk - As of December 31, 2016, the Township had no credit risk because the variable rate swap had a positive fair value. DelVal was rated A1 by Moody's Investors Service and A+ Standard and Poor's as of December 31, 2016.

Basis risk - The Township does not have any basis risk under the allocable DelVal swap agreements.

8. JOINT SEWER AGREEMENTS

PENNSYLVANIA-AMERICAN WATER COMPANY (FORMERLY CITY OF COATESVILLE AUTHORITY)

Under an agreement dated July 7, 1997, the Pennsylvania-American Water Company (formerly City of Coatesville Authority) agreed to provide sewage conveyance and treatment capacity of 410,750 gallons per day to Sadsbury Township. The Pennsylvania-American Water Company constructed facilities needed for the additional sewage conveyance and financed this project by issuing bonds. This agreement expires thirty years from the effective date. Either party may terminate this agreement upon giving five years written notice. The Township is responsible for the design, financing, and construction of the sewer lines and pumping stations located within the Township.

For this service, the Township is paying the Pennsylvania-American Water Company's standard, published rates for sewage conveyance on a monthly basis.

In addition, the Township has reimbursed the Pennsylvania-American Water Company its pro rata share of capacity fees and conveyance costs associated with the Township's connection to the system. The Township will also reimburse the Pennsylvania-American Water Company for the pro rata share of the Pennsylvania-American Water Company's bond interest directly attributable to the construction of facilities related to the additional system. These charges are being paid on a per connection basis. At December 31, 2016, prepaid expense was \$40,063 for conveyance costs and \$26,775 for capacity fees.

Under an agreement dated September 16, 2003, two developments located in West Caln Township agreed to connect to the Sadsbury Township system to have their sewage conveyed to the facility owned by the Pennsylvania-American Water Company. Pennsylvania-American Water Company has agreed to construct a force main to carry flows of 110,000 gallons per day from these two developments to the Township's sewage conveyance system. For this service, the two developments agree to pay to the Township connection fees of \$2,319 per equivalent dwelling unit of which the Township will reimburse \$1,178 per equivalent dwelling unit to Sadsbury Sewer Corporation, as discussed below. In addition, the two developments agreed to pay in advance \$26,000 as a sewage conveyance fee for the period beginning September 16, 2003, and ending December 31, 2006. Beginning January 1, 2007, the Township will charge for sewage conveyance on a quarterly basis on a formula contained in the agreement. Sewage fees were \$14,501 for the year ended December 31, 2016. The two developments and Pennsylvania-American Water Company agreed to reimburse the Township for all expenses incurred relating to this agreement.

66 Pa. C.S. Section 1329 Application Completeness Review
Pennsylvania-American Water Company – Wastewater Division
Sadsbury Township Wastewater Acquisition at Docket No. A-2018-3002437

10. Checklist Item No. 22.e – The Application provides statements in the direct testimony and a letter from Sadsbury Township indicating the Application is consistent with the Chester County Comprehensive Plan but does not provide evidence from the Chester County Planning Commission indicating the filing is consistent with the Chester County Comprehensive Plan. Please provide evidence the Application is consistent with the Chester County Comprehensive Plan.

RESPONSE: See enclosed letter from the Chester County Planning Commission.

Response(s) provided by: Keith Gabage, Senior Manager, Business Development, for Pennsylvania-American Water Company.



THE COUNTY OF CHESTER



COMMISSIONERS

Michelle Kichline
Kathi Cozzone
Terence Farrell

Brian N. O'Leary, AICP
Executive Director

PLANNING COMMISSION

Government Services Center, Suite 270
601 Westtown Road
P. O. Box 2747
West Chester, PA 19380-0990
(610) 344-6285 Fax (610) 344-6515

June 12, 2018

Keith Gabage
Pennsylvania American Water
100 Cheshire Court, Suite 104
Coatesville, PA 19320

Re: Application of Pennsylvania American Water Company to purchase the wastewater collection and conveyance system of Sadsbury Township

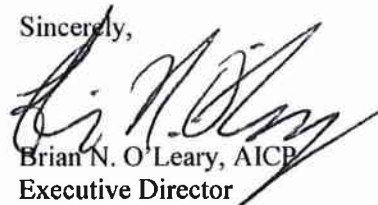
Dear Mr. Gabage:

The Chester County Planning Commission is the designated planning agency for the County of Chester. A representative of Lamb McErlane requested information regarding this application on June 11, 2018. Section 619.2 of Act 247 as amended states, "Commonwealth agencies shall consider and may rely upon comprehensive plans and zoning ordinances when reviewing applications for the funding or permitting of infrastructure or facilities." To assist in your consideration of this application in concurrence with Act 247, the Planning Commission is providing you with comments on this application as they relate to land use issues. This letter should not be considered a protest.

We acknowledge that Pennsylvania American Water Company is seeking to purchase the collection and conveyance system of Sadsbury Township, Chester County. The 2009 Chester County Comprehensive Plan, *Landscapes2*, designates the area of the public sewer service area in Sadsbury Township as primarily a Suburban Landscape, with a small portion of the existing service area along Route 372/Valley Road/Strasburg Road, located in the Rural Landscape. *Landscapes2* Policy UI 2.5 states: "Maintain upgrade or expand existing sewer and water facilities to support redevelopment and new development in designated growth areas, where consistent with local land use planning, while discouraging the extension of those facilities in the rural, agricultural and natural landscapes." Therefore, in reviewing this application, the Planning Commission finds that the acquisition of the Sadsbury Township wastewater collection and conveyance system by Pennsylvania American Water Company is generally consistent with the goals and objectives of *Landscapes2* that relate to utilities and infrastructure in the Suburban Landscape. The Planning Commission does not encourage further expansion of the service area in the Rural Landscape or other areas designated for preservation within the Township.

Thank you for the opportunity to provide comment on this application. If you have any questions regarding these comments, please do not hesitate to call me.

Sincerely,



Brian N. O'Leary, AICP
Executive Director

cc: Max O'Keefe, Lamb McErlane
Sadsbury Township

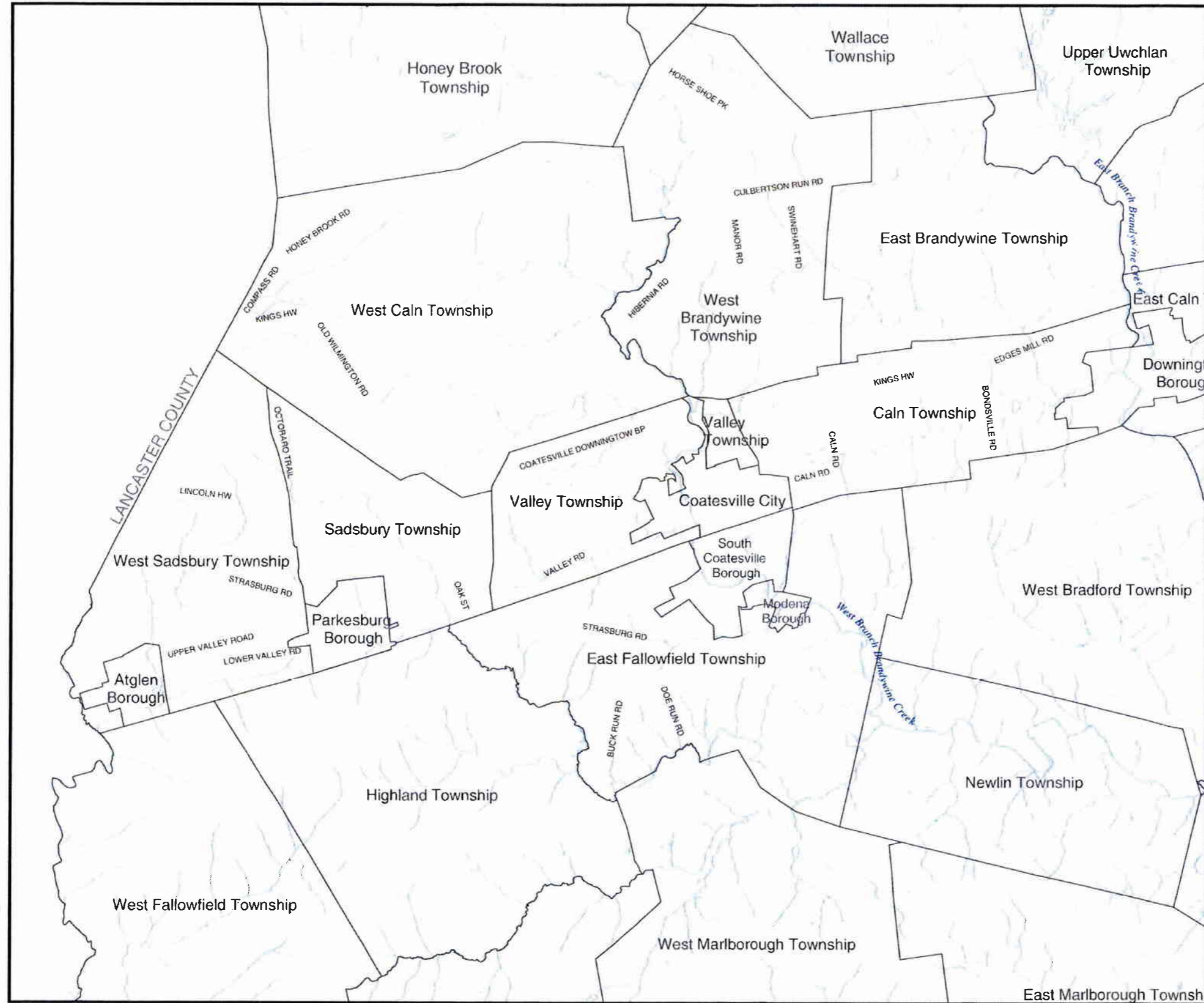
66 Pa. C.S. Section 1329 Application Completeness Review
Pennsylvania-American Water Company – Wastewater Division
Sadsbury Township Wastewater Acquisition at Docket No. A-2018-3002437

11. Checklist Item No. 22.e – Map II-1, provided as part of Appendix A-22b-1 appears to have been folded over when it was scanned and is not legible. Please provide a legible copy of Map II-1.

RESPONSE: See enclosed map.

Response(s) provided by: Michael J. Guntrum, Senior Project Engineer for Pennsylvania-American Water Company.

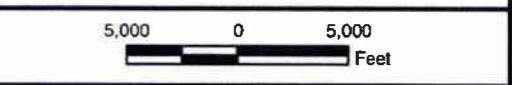
Please mark the materials “CONFIDENTIAL” in bold or highlighted manner if any of the requested information is deemed to be of a confidential nature.



**Tributary Municipalities of
PAWC WWTP
Act 537 Plan**

Legend

- Water
- Municipal Boundary
- Tributary Municipalities



URS
 1200 Philadelphia Pike
 Wilmington, DE 19809
 Tel: 302.791.0700
 Fax: 302.791.0708

Map II-1

Tributary Municipalities

Date: August 17, 2006
 R:\PA_PAWC\20592991\GIS\job\Mapping\Map II-1 11x17.mxd