

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
800-684-6560

FAX (717) 783-7152
consumer@paoca.org

July 24, 2018

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17101

Re: Application of Pennsylvania-American Water
Company Pursuant to Sections 1102 and 1329
of the Public Utility Code for Approval of its
Acquisition of the Wastewater System Assets
of the Township of Sadsbury
Docket No. A-2018-3002437

Dear Secretary Chiavetta:

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

Copies have been served as indicated on the enclosed Certificate of Service.

Respectfully Submitted,

A handwritten signature in blue ink that reads "Christine Maloni Hoover".

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

Enclosures:

cc: Honorable Darlene D. Heep
Certificate of Service
*254780

CERTIFICATE OF SERVICE

Re: Application of Pennsylvania-American Water :
Company Pursuant to Sections 1102 and :
1329 of the Public Utility Code for Approval : Docket No. A-2018-3002437
of its Acquisition of the Wastewater System :
Assets of the Township of Sadsbury :

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

Dated this 24th day of July 2018.

SERVICE BY E-MAIL and INTER-OFFICE MAIL

Gina L. Miller, Esquire
Erika McLain, Esquire
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

SERVICE BY E-MAIL and FIRST CLASS MAIL, POSTAGE PREPAID

Susan Simms Marsh, Esquire
Pennsylvania American Water Company
800 Hersheypark Drive
Hershey, PA 17033

Office of Small Business Advocate
300 North Second Street
Suite 202
Harrisburg, PA 17101

David P. Zambito, Esquire
Jonathan Nase, Esquire
George A. Bibikos, Esquire
Cozen O' Connor
17 North Second Street
Suite 1410
Harrisburg, PA 17101

T. Maxwell O'Keefe
Lamb McFarlane, PC
24 East Market Street
West Chester, PA 19381

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

Counsel for Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152
*254781

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of Pennsylvania American :
Water Company - Wastewater Pursuant to :
Sections 1102 and 1329 of the Public Utility : Docket No. A-2018-3002437
Code for Approval of its Acquisition of the :
Wastewater System Assets of Sadsbury :
Township :

PREHEARING MEMORANDUM
OF THE
OFFICE OF CONSUMER ADVOCATE

Pursuant to Section 333 of the Public Utility Code, 66 Pa. C.S. § 333 and the Prehearing Order issued by Administrative Law Judge Heep (ALJ) on June 27, 2018, the Office of Consumer Advocate (OCA) provides the following:

I. INTRODUCTION

On June 1 2018, Pennsylvania American Water Company - Wastewater (PAWC or Company) filed an Application pursuant to Sections 1102 and 1329 of the Public Utility Code for Approval of its Acquisition of the Wastewater System Assets of Sadsbury Township, Chester County. The Commission acknowledged receipt of the Application by Secretarial Letter dated June 19 2018. On June 20, 2018, the Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance. On June 20, 2018 the Office of Consumer Advocate (OCA) filed a protest. On June 27, 2018, the presiding Administrative Law Judge issued a Prehearing Order directing the parties to provide prehearing memoranda by July 24, 2018. Also on June 27, 2018, Sadsbury Township filed a Petition to Intervene. On July 10, 2018, PAWC, OCA, I&E, and

Sadsbury Township executed a Stipulation regarding discovery rule modifications and a Stipulation regarding objections and preserving issues.

II. SERVICE ON THE OCA

The OCA will be represented in this proceeding by Senior Assistant Consumer Advocate Christine Maloni Hoover. Two copies of all documents should be served on the OCA as follows:

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

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

III. DISCOVERY

The OCA has served initial discovery and has received responses to its formal discovery. The OCA has propounded informal discovery and is awaiting the scheduling of a conference call to address the informal discovery.

IV. WITNESSES

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

Ashley E. Everette
Office of Consumer Advocate
555 Walnut Street, 5th Floor, Forum Place
Harrisburg, PA 17101-1923

Telephone: (717) 783-5048
E-mail: aeverette@paoca.org

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

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

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

V. ISSUES

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

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

A. Provision of Safe, Adequate and Reasonable Service at Just and Reasonable Rates:

Valuation: The Asset Purchase Agreement (APA) provides that PAWC will pay \$9.25 million for the Township's sewer assets. APA, Appendix A-6. PAWC seeks to have the purchase price approved for inclusion in rate base under Section 1329 as part of this proceeding. The purchase price is the average of the fair market value appraisals of

\$9,590,000 (Seller UVE-HRG) and \$8,910,000 (Buyer UVE-AUS). See PAWC St. 3 at 6; PAWC St. 4 at 19. The original cost (without subtracting any contributions) of the assets is \$7,480,601, and the original cost less depreciation claimed by AUS (without subtracting any contributions) is \$6,128,876. See APA, Appendix A-5; AUS Valuation Summary at 3.

PAWC estimates that it will incur transaction and closing costs of approximately \$275,000-\$450,000 which it will include in rate base. APA, Appendix A-12. The valuation experts were paid \$26,638 plus expenses (HRG) and \$22,564 to date (AUS) for the Fair Market Value Appraisals. APA, Appendix A-8.

The valuation information provided with the Application is not sufficient to determine whether PAWC's ratemaking proposals are reasonable. The OCA will review the data and information provided in support of each valuation. The OCA will examine the ratemaking rate base claims to determine if the claims are reasonable and appropriate for ratemaking purposes.

Proposed Rates: PAWC proposes to charge Sadsbury Township customers the current Sadsbury customer charge (currently \$25 per month) and wastewater consumption rates (currently \$1.418 per 100 gallons of water) in effect at the time of closing. Application at 10. PAWC testimony indicates that Sadsbury Township customers will be subject to PAWC's prevailing wastewater tariff on file with the Commission with respect to all rates other than the customer charge and consumption charge, including capacity reservation fees, reconnection fees, as well as non-rate related terms and conditions of service. PAWC St. 3 at 7. The OCA will examine the current rates and the proposed tariff.

PAWC states that it is not proposing a rate stabilization plan; however, it provides testimony in support of its “rate commitments.” Application at 6, footnote 2. The OCA will examine the proposal to determine whether it is a rate stabilization plan and whether it is adequately supported and reasonable or alternatively whether the rate commitments are reasonable.

B. Substantial affirmative benefits:

Efficiencies: PAWC states that there are “opportunities for functional and operational consolidation, and associated efficiencies and cost savings. Application at 9-10. The OCA will investigate the statement and the impact on the current customers as well as on Sadsbury customers of the various assumptions and proposals.

Investment in the acquired system: Information is provided regarding the estimated costs of planned investment in the system. PAWC estimates that the capital costs for the 5-year capital plan for the Sadsbury system will be \$541,200. PAWC St. 2 at 6; PAWC Exh. MJG-2. The OCA will examine the information to determine what impact the capital improvements will have on the cost of service. The OCA will also examine the impact that the costs will have on the rates of existing and acquired customers.

C. Conditions: Whether any conditions, should be imposed upon the proposed transfer to ensure that PAWC’s customers are treated in a fair and just manner in accord with Pennsylvania law and Commission rules and regulations.

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

VI. PUBLIC INPUT HEARINGS

PAWC's existing wastewater customers are located in portions of Adams County, Allegheny County, Beaver County, Chester County, Clarion County, Cumberland County, Lackawanna County, Monroe County, Northumberland County, Pike County, Washington County and York County. They have not received direct notice of the proposed transaction and the impact on those customers has not been determined. The OCA is unaware of any specific consumer requests for public input hearings in this matter to date. However, if the OCA becomes aware of substantial consumer interest, the OCA will promptly notify the Administrative Law Judge and parties to request a public input hearing.

VII. SCHEDULE

The following schedule has been agreed to by the parties:

OCA/I&E Direct Testimony	July 27, 2018
Rebuttal Testimony	August 8, 2018
Surrebuttal Testimony	August 17, 2018
Outline of Oral Rejoinder	August 20, 2018
Hearing (with Oral Rejoinder)	August 22-23, 2018
Main Briefs	September 6, 2018
Reply Briefs	September 14, 2018

VIII. SETTLEMENT

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

Respectfully submitted,



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

Tanya J. McCloskey
Acting Consumer Advocate

Office of Consumer Advocate
555 Walnut Street, Forum Place 5th Floor
Harrisburg PA 17101-1923
(717) 783-5048
(717) 783-7152 (fax)

DATED: July 24, 2018
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