

**Application of SUEZ Water Pennsylvania Inc. for the Acquisition of Wastewater Assets of
the Township of Mahoning Pursuant to 66 Pa. C.S. §1329
Application Filing Checklist – Wastewater
Docket No. A-2018-_____**

14. Provide direct testimony for the application.

RESPONSE: See enclosed direct testimony of the following:

Direct Testimony of John Hollenbach, Vice President and General Manager of SUEZ Water Pennsylvania Inc., SWPA Statement No. 1.

Direct Testimony of Michael Watkin, Director of Finance, SUEZ Water Pennsylvania Inc., SWPA Statement No. 2.

Direct Testimony of Harold Walker III, Manager, Financial Studies, Gannett Fleming Valuation and Rate Consultants, LLC, on behalf of SUEZ Water Pennsylvania Inc., SWPA Statement No. 3.

In addition, as a courtesy, **Appendix A-14** includes the Direct Testimony of Dylan D'Ascendis, Director, ScottMadden, Inc., the UVE for Mahoning. It is expected that Mahoning will intervene in this proceeding and sponsor the testimony of its UVE.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of SUEZ Water Pennsylvania Inc. under Section 1102(a) of the Pennsylvania Public Utility Code, 66 Pa C.S. § 1102(a), for approval of (1) the transfer, by sale, of substantially all of the Township of Mahoning's assets, properties and rights related to its water distribution system to SUEZ Water Pennsylvania Inc., and (2) the rights of SUEZ Water Pennsylvania Inc. to begin to offer or furnish water distribution service to the public in portions of the Townships of Mahoning, Cooper and Valley, Montour County, Pennsylvania :

Docket No. A-2018-_____

and

In re: Application of SUEZ Water Pennsylvania Inc. under Section 1102(a) of the Pennsylvania Public Utility Code, 66 Pa. C.S. § 1102(a), for approval of (1) the transfer, by sale, of substantially all of the Township of Mahoning's assets, properties and rights related to its wastewater collection and conveyance system to SUEZ Water Pennsylvania Inc., and (2) the rights of SUEZ Water Pennsylvania Inc. to begin to offer or furnish wastewater collection and conveyance service to the public in portions of the Townships of Mahoning, Cooper and Valley, Montour County, Pennsylvania :

Docket No. A-2018-_____

**DIRECT TESTIMONY OF
JOHN D. HOLLENBACH ON BEHALF OF
SUEZ WATER PENNSYLVANIA INC.**

Date: July 20, 2018

SWPA Statement No. 1

1 **DIRECT TESTIMONY OF**
2 **JOHN D. HOLLENBACH**
3

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

5 A. John D. Hollenbach, 4211 East Park Circle, Harrisburg PA 17111.
6

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

8 A. I am employed by SUEZ Water Pennsylvania Inc. ("SWPA" or the "Company") as Vice
9 President and General Manager.
10

11 **Q. WHAT ARE YOUR RESPONSIBILITIES AS SWPA'S VICE PRESIDENT AND**
12 **GENERAL MANAGER?**

13 A. I have responsibility for the Company's overall operations which includes its growth
14 initiatives.
15

16 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EDUCATION AND EXPERIENCE.**

17 I have a Bachelor of Science Degree in Environmental Engineering from Pennsylvania
18 State University. I have over thirty-nine years of experience in the private water utility
19 sector, starting in 1979 with the former General Waterworks Company as a Staff Engineer
20 and holding multiple positions in Arkansas, Delaware, Missouri and Pennsylvania. I have
21 a Professional Engineer's License in Pennsylvania, Delaware, and Arkansas. The
22 Arkansas and PA licenses are in an inactive status.
23

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
2 **PUBLIC UTILITY COMMISSION (“COMMISSION” OR “PUC”) OR ANY**
3 **OTHER STATE REGULATORY COMMISSION?**

4 A. Yes, I have testified before the Pennsylvania, Missouri and Delaware Commissions in
5 formal service complaints, certification hearings, and rate filings.

6
7 **Q. HAS SWPA FILED APPLICATIONS WITH THE COMMISSION FOR**
8 **REGULATORY APPROVAL TO ACQUIRE THE WATER AND WASTEWATER**
9 **SYSTEMS OF MAHONING TOWNSHIP AND RELATED APPROVALS?**

10 A. Yes. SWPA filed its Applications on July 20, 2018 for approval of SWPA’s acquisition of
11 the water distribution system (“Water System”) and the wastewater collection and
12 conveyance system (“Wastewater System”) (together with the Water System, the
13 “Systems”) currently owned by Mahoning Township (Mahoning” or the “Township”). I
14 will refer to the acquisition in my testimony as the “Transaction.”

15 The Applications were prepared and filed under my direct supervision. As
16 indicated in my Verifications attached to the Applications, the Applications and there
17 numerous appendices are true and correct to the best of my knowledge, information, and
18 belief. We used SWPA’s records, as well as Mahoning’s records made available to SWPA,
19 to prepare the Applications. For purposes of having a complete evidentiary record in this
20 proceeding upon which the Commission can base its decision, I submit the Applications
21 and all of their appendices (Appendices A through H of each) as **SWPA Exhibit No. JDH-**
22 **1 (Water and Wastewater).**

23

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

2 A. My testimony will: describe the Applications; describe SWPA and the Systems; describe
3 the transaction by which SWPA is acquiring the Systems; explain why the Transaction is
4 in the public interest; explain SWPA's legal, financial and technical fitness; describe the
5 service territory SWPA is requesting; and describe several municipal contracts that SWPA
6 seeks to assume as part of the Transaction.

7

8 **THE APPLICATIONS**

9 **Q. WHAT IS SWPA SEEKING IN ITS APPLICATIONS?**

10 A. There are four basic requests. First, SWPA is requesting approval of the acquisition under
11 Section 1102, 66 Pa. C.S. § 1102, similar to many requests that come before the
12 Commission. Specifically, SWPA seeks approval to acquire the Systems and for the right
13 to begin service in the areas currently served by Mahoning ("Service Area"). The
14 Applications contain *pro forma* tariff supplements under which Mahoning's current rates
15 would be initially adopted. After Closing, however, residential wastewater customers will
16 be billed monthly rather than quarterly, but the monthly rate charged by SWPA will be 1/3
17 of the amount that residential customers are currently charged by Mahoning.

18 Second, pursuant to Act 12 of 2016, 66 Pa. C.S. § 1329 ("Section 1329"), SWPA
19 is seeking to utilize fair market value for the ratemaking rate base of Mahoning's Systems.
20 As explained more-fully below, fair market value under Section 1329 is the lesser of the
21 stated purchase price in the Asset Purchase Agreement, dated April 20, 2018 ("APA") or
22 the average of the appraisal of Mahoning's Utility Valuation Expert ("UVE") and the

1 appraisal of SWPA's UVE. Separate rate bases will be established for the acquired water
2 assets and the acquired wastewater assets.

3 Third, SWPA is also seeking confirmation of its right under Section 1329 to collect
4 a water distribution system improvement charge ("DISC") for the new service area and
5 seeking the accrual and deferral of certain post-acquisition improvement costs.
6 Specifically, SWPA is seeking the accrual of Allowance for Funds Used During
7 Construction ("AFUDC") for post-acquisition improvements not recovered through its
8 DSIC for book and ratemaking purposes and the deferral of depreciation related to post-
9 acquisition improvements not recovered through the DSIC for book and ratemaking
10 purposes.

11 Fourth, SWPA is seeking Certificates of Filing or approvals under Code Section
12 507 for the APA and municipal agreements to be assumed by SWPA as a result of the
13 Transaction.

14
15 **Q. WHAT DOES SECTION 1329 REQUIRE TO BE INCLUDED IN THE**
16 **APPLICATIONS?**

17 **A.** Section 1329 requires that the Applications include (1) copies of the two UVE appraisals,
18 (2) the purchase price, (3) ratemaking rate base, (4) transaction and closing costs, and (5)
19 the proposed tariff. However, as will be explained later in my testimony, the Commission
20 has expanded the filing requirements beyond those specifically required by the statute.

21

1 **Q. WHAT DOES THE COMMISSION REQUIRE FOR THE APPROVAL OF THE**
2 **FAIR MARKET VALUE RATEMAKING TREATMENT PERMITTED UNDER**
3 **SECTION 1329?**

4 **A.** In its Final Implementation Order entered October 27, 2016, at Docket No. M-2016-
5 2543193 (“*Final Implementation Order*”), the Commission referenced the checklist in the
6 Tentative Implementation Order entered July 21, 2016, at the same docket for items to
7 include with an application for it to be processed in a six-month time frame. The
8 Commission’s Bureau of Technical Utility Services has prepared an extensive list of
9 specific Section 1329 “Filing Requirements.” The most-recent version of the Filing
10 Requirements, as of the date of Applications’ filing, was dated March 17, 2017. SWPA’s
11 Applications are structured around those Filing Requirements. Appendix A to each
12 Application and its sub-appendices directly address each of the Filing Requirements.

13
14 **Q. IS SWPA PROPOSING THAT ITS APPLICATIONS BE EVALUATED USING**
15 **THE FAIR MARKET VALUE PROVISION OF CODE SECTION 1329?**

16 **A.** Yes. SWPA’s Applications have been prepared in accordance with the fair market value
17 provision of Code Section 1329. Specifically, SWPA is requesting that the ratemaking rate
18 base related to the Water System and the Wastewater System be based on the lesser of the
19 average of the UVE fair market value appraisals included in the respective Applications or
20 the APA purchase price. I note however that SWPA reserves its right to make alternative
21 ratemaking proposals in future proceedings as may be permitted under the Code.

22

1 **Q. PLEASE IDENTIFY THE OTHER SWPA WITNESSES WHO WILL BE**
2 **PROVIDING WRITTEN DIRECT TESTIMONY AND THEIR SUBJECT**
3 **MATTER AREAS.**

4 **A.** In addition to my direct testimony, SWPA will submit the written direct testimony of:
5 Michael Watkin, Director of Finance for SWPA, who will address the initial rates, rules,
6 and regulations for the Mahoning customers as well as the impact of the Transaction on
7 SWPA's existing customers. Michael Watkin's testimony will also discuss the financing
8 of the Transaction and the overall financial fitness of SWPA.

9 SWPA is also sponsoring direct testimony by its selected UVE, Mr. Harold Walker
10 III, Manager, Financial Studies, Gannett Fleming Valuation and Rate Consultants, LLC
11 ("Gannett Fleming"). Mr. Walker's testimony will explain his fair market valuation report.

12 Finally, as a courtesy, SWPA included the direct testimony of Mahoning's UVE in
13 **Appendix A-14.** SWPA, however, expects that Mahoning will intervene in these
14 proceedings and will sponsor the testimony of its UVE.

15

16 **DESCRIPTION OF THE SYSTEMS**

17 **Q. PLEASE DESCRIBE THE MAHONING WATER DISTRIBUTION SYSTEM AND**
18 **THE MAHONING WASTEWATER COLLECTION AND CONVEYANCE**
19 **SYSTEM.**

20 **A.** Mahoning's water distribution system includes approximately twenty-three miles of water
21 distribution piping, three water storage tanks and four water booster/pumping stations.
22 Mahoning obtains potable water from Danville Borough ("Danville") via two

1 interconnections. Mahoning's permit authorizes it to purchase up to 765,000 gallons of
2 water per day from Danville.

3 Mahoning's wastewater collection and conveyance system includes approximately
4 twenty-six miles of vitrified clay and PVC gravity sewer mains and three pumping stations.
5 This system collects wastewater from residences in Mahoning. In addition, this system
6 collects wastewater directly from several residences in Cooper Township and from an
7 interconnection with the Cooper Township Municipal Authority. Mahoning's wastewater
8 system also collects wastewater from certain residences in Valley Township. The
9 wastewater thus collected is conveyed to the Danville Municipal Authority for treatment
10 and disposal.

11 12 **DESCRIPTION OF SWPA**

13 **Q. PLEASE DESCRIBE SWPA.**

14 A. SWPA provides water service to approximately 60,400 customers with
15 approximately 90 percent being residential, eight percent commercial and the remaining
16 two percent industrial, public and private fire.

17 The Company's service territory includes eight counties and 39 municipalities
18 throughout Pennsylvania. It operates five surface water treatment plants ranging in size
19 from three quarters to twelve million gallons per day. It also operates 29 wells with varying
20 degrees of treatment, 30 booster stations and 36 storage facilities. Its infrastructure
21 includes over 800 miles of main, 12,500 valves and 4,000 hydrants.

22 23 **DESCRIPTION OF THE TRANSACTION**

1 **Q. PLEASE PROVIDE A DESCRIPTION OF THE TRANSACTION NEGOTIATION**
2 **PROCESS.**

3 A. The following is a chronological sequence of events regarding the process by which the
4 Company was successful in winning the bid:

- 5 • A Request for Proposal (“RFP”) was issued by Mahoning Township on August 7, 2017.
6 The RFP is Exhibit 9.1 A to the APA, which is attached to the Applications as **Appendix**
7 **A-24-a (CONFIDENTIAL).**
- 8 • A meeting and tour for prospective bidders was held at the Township on August 14, 2017.
- 9 • An addendum to the RFP was issued. *See* Exhibit 9.1 A to **Appendix A-24-a**
10 **(CONFIDENTIAL).**
- 11 • A meeting was held with executives from SWPA’s corporate parent on September 26, 2017
12 to gain approval to bid on the Mahoning RFP. Approval to bid was granted to SWPA.
- 13 • On October 5, 2017 SWPA submitted a bid of \$9.5 million for the purchase of both the
14 Mahoning Water System and Wastewater System.
- 15 • Mahoning Township held a public meeting with prospective bidders at the Township
16 building on October 9, 2017.
- 17 • SUEZ was notified by Mahoning that it was selected as the successful bidder and a draft
18 asset purchase agreement was received for review and comment.
- 19 • SWPA retained Gannett Fleming Valuation and Rate Consultants, LLC (“Gannett
20 Fleming”) to conduct the Act 12 fair market evaluation.
- 21 • The final APA was signed on April 20, 2018. A copy is attached to the Applications as
22 **Appendix A-24-a (CONFIDENTIAL).**

23

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

2 **A.** Yes. The APA is attached as **Appendix A-24-a (CONFIDENTIAL)** to the Applications
3 **(SWPA Exhibit JDH-1)**. The APA sets forth the terms and conditions pursuant to which
4 Mahoning will sell, and SWPA will purchase, the Systems, as well as substantially all
5 assets, properties and rights that Mahoning owns and uses in connection with the Systems.
6 The APA sets forth the entire understanding of the parties with respect to the Transaction.
7 Under the APA, the closing of the Transaction will occur after the receipt of all applicable
8 governmental approvals, including approvals from this Commission, and after all
9 applicable conditions have been met (or waived) by the parties.

10 Upon closing of the Transaction, SWPA will take ownership of the Systems and
11 begin rendering water distribution and wastewater collection and conveyance services to
12 Mahoning's current customers and Mahoning will permanently discontinue providing or
13 furnishing water distribution and wastewater collection and conveyance service to the
14 public within Mahoning and a portion of Cooper Township and Valley Township, Montour
15 County, Pennsylvania.

16
17 **Q. CAN YOU PLEASE PROVIDE A SUMMARY OF THE APA'S PROVISIONS**
18 **GOVERNING THE TRANSFER OF ASSETS?**

19 **A.** The specific properties, assets and rights to be transferred to SWPA are defined and
20 described in the APA's Section 1.1, while the excluded assets are defined in Section 1.3 of
21 the APA. Generally, the APA states that every asset, property and right owned by
22 Mahoning and used in connection with the Systems, except excluded assets, shall be
23 conveyed to SWPA. The APA's Exhibit 1.1 contains a non-exclusive list of assets being

1 transferred in connection with the Transaction. All interests in real estate, including leases,
2 easements and rights-of-way, owned by Mahoning and relating to the Systems, as well as
3 all assigned contracts, Exhibit 1.5, also will be conveyed to SWPA.

4 Excluded assets, as set forth in the APA's Section 1.3, specifically exclude
5 customer service lines and customer-owned grinder pumps. Other items that will not be
6 transferred include all contracts and leases that are not "Assigned Contracts" and
7 Mahoning's cash and cash equivalents, including revenue relating to the Systems prior to
8 closing.

9
10 **Q. CAN YOU PLEASE SUMMARIZE THE APA'S PROVISIONS GOVERNING THE**
11 **NEGOTIATED PURCHASE PRICE OF THE TRANSACTION?**

12 **A.** The consideration for the purchase of the Systems is set forth in Section 1.4 of the APA.
13 The negotiated purchase price is \$9,500,000 for both the Water System and the Wastewater
14 System. SWPA has allocated \$4,734,800 of the negotiated purchase price to the Water
15 System and \$4,765,200 of the negotiated purchase price to the Wastewater System. The
16 basis for that allocation is as follows: Gannett Fleming valued the Water System at
17 \$5,688,000 (rounded) and the Wastewater System at \$5,414,200 (rounded), for a total value
18 for both Systems of \$11,102,000.¹ ScottMadden, Inc. found that the Water System was
19 valued at \$5,384,879 and the Wastewater System was valued at \$5,731,341 for a total value
20 of both Systems of \$11,116,220. The average of these two valuations was a total of
21 \$11,109,110 for both Systems, with the Water System valued at an average of \$5,536,440

¹ As noted in the direct testimony of Harold Walker III, both the Water System and the Wastewater System were valued independently. Additionally, the Water and Wastewater Systems were valued together at \$11,046,000 (rounded).

1 (or 49.84% of the total value of both Systems) and the Wastewater System was valued at
2 an average of \$5,572,770 (or 50.16% of the total value of both Systems). The negotiated
3 purchase price was allocated based on those same percentages; 49.84% of the purchase
4 price was allocated to the Water System and 50.16% of the purchase price was allocated
5 to the Wastewater System.

6
7 **Q. PLEASE EXPLAIN THE RATES THAT WILL APPLY TO MAHONING'S**
8 **CUSTOMERS FOLLOWING THE CLOSING OF THE TRANSACTION.**

9 **A.** As set forth in Section 2.4 of the APA and as will be explained more fully in the Direct
10 Testimony of Michael Watkin, SWPA Statement No. 2, SWPA will initially begin charging
11 Mahoning's then-current rates as SWPA's base rates within Mahoning's service territory.
12 After closing, SWPA may also impose any fee or surcharge permitted by its PUC-approved
13 tariff, including but not limited to tap-in fees, contributions in aid of construction,
14 Distribution System Improvement Charge, and State Tax Adjustment Surcharge. All other
15 rules and regulations of SWPA's PUC-approved tariff will also be applicable immediately
16 after closing. SWPA may subsequently seek approval from the Commission to alter or
17 increase base rates.

18 I note that SWPA has included a rate base claim for the fair market value of the
19 Water System in its rate case at Docket No. R-2018-3000834. If the closing occurs on the
20 Transaction prior to entry of the Commission's Order in the rate case, the rates charged to
21 Mahoning's current customers will be modified by that rate case.

22
23 **OPERATION OF THE SYSTEMS AFTER CLOSING**

1 **Q. PLEASE DESCRIBE THE OPERATION OF THE SYSTEMS AFTER CLOSING.**

2 A. The Systems will be operated as stand-alone systems, but they will be operated as part of
3 the Company's Bloomsburg Operations. SWPA will offer employment to the existing
4 employee of Mahoning, who will continue to operate the Systems. He will be supported
5 by professionals from throughout SWPA's system.

6
7 **Q. IS SWPA OBLIGATED BY THE APA TO IMPROVE OR UPGRADE THE
8 SYSTEMS AFTER CLOSING?**

9 A. No. At this time, SWPA does not anticipate making any significant changes to the Systems
10 after closing. Of course, SWPA will make improvements and upgrades as necessary over
11 time to provide safe, adequate and reasonable service to its customers as it is obligated to
12 do under the Pennsylvania Public Utility Code.

13

14 **SWPA'S LEGAL, FINANCIAL AND TECHNICAL FITNESS**

15 **Q. PLEASE TELL US WHY SWPA IS LEGALLY FIT TO ACQUIRE AND OPERATE
16 THE SYSTEMS.**

17 A. SWPA is a Commission-regulated public utility with a good compliance history. There
18 are no pending legal proceedings that would suggest that SWPA is not legally fit to provide
19 service to customers on Mahoning's Systems.

20

21 **Q. PLEASE EXPLAIN WHY SWPA IS FINANCIALLY FIT TO ACQUIRE AND
22 OPERATE THE SYSTEMS.**

1 A. SWPA has a long-demonstrated history with the Commission of financial stability. As part
2 of the Applications, SWPA provided its balance sheet, as of December 31, 2017,
3 (**Appendix D**), as well as its income statement, as of December 31, 2017, (**Appendix E**).
4 Those documents show that SWPA (water operations) had total assets of approximately
5 \$291,217,000 as of December 31, 2017 and net income of approximately \$9,524,000 for
6 the 12 months ending December 31, 2017. Those documents also show that SWPA
7 (wastewater operations) had total assets of approximately \$(32,308) as of December 31,
8 2017 and a net income of \$57,500. These figures are further demonstration that SWPA
9 has the financial stability and wherewithal to acquire the Systems and operate them in the
10 public interest.

11

12 **Q. PLEASE EXPLAIN WHY SWPA IS TECHNICALLY FIT TO OPERATE THE**
13 **SYSTEMS.**

14 A. As I discussed earlier, SWPA is engaged in the business of treating, storing and distributing
15 water to the public, and collecting, treating, transporting and disposing of wastewater for
16 the public. We already have significant water operations, as well as a smaller wastewater
17 operation, in Pennsylvania. SWPA is experienced in undertaking and completing water
18 and wastewater system acquisitions with public and private sector owners and successfully
19 integrating those assets into our business operations.

20

21 **THE TRANSACTION IS IN THE PUBLIC INTEREST**

22 **Q. CAN YOU PLEASE EXPLAIN WHY THE PROPOSED TRANSACTION IS IN**
23 **THE PUBLIC INTEREST?**

1 A. Yes. The Transaction will result in affirmative public benefits of a substantial nature. First,
2 SWPA, as a large and long-established public utility, has the managerial, technical, and
3 financial fitness to operate the Systems in a safe and efficient manner in compliance with
4 the Pennsylvania Public Utility Code, the Pennsylvania Clean Streams Law, and all other
5 applicable statutory and regulatory requirements. SWPA has extensive experience in the
6 operation of water distribution and wastewater collection and conveyance systems. The
7 acquisition fosters the Commission's stated goal of regionalizing water and wastewater
8 systems to provide greater environmental and economic benefits to customers.

9 Second, Mahoning's current customers will benefit in several ways from becoming
10 SWPA customers. SWPA is a large, financially-sound company that has the capacity to
11 finance capital additions and improvements that will benefit its customers. In addition,
12 given its size, its access to capital, and its recognized strengths in system planning, capital
13 budgeting, and construction management, SWPA is well-positioned to ensure that high
14 quality water and wastewater service meeting all applicable state and federal regulatory
15 requirements is provided to Mahoning's customers. Additionally, since SWPA is a public
16 utility, unlike Mahoning, SWPA is regulated by the Commission, which means that its
17 rates must be just and reasonable, and service and facilities must be adequate and efficient.
18 Customers also will have access to the Commission's complaint process, which they do
19 not currently enjoy.

20 Third, Mahoning's current customers will benefit from the enhanced and proven
21 customer service that SWPA provides. This includes, but is not limited to, additional bill
22 payment options, extended customer service and call center hours, enhanced customer

1 information and education programs, and access to SWPA's customer assistance program
2 (SUEZ Cares).

3 Finally, the Transaction will benefit SWPA's existing customers and Mahoning's
4 current customers in the long-term by expanding SWPA's customer base. We expect that
5 the Transaction will help SWPA maintain reasonable rates for all its customers going
6 forward. Moreover, by adding additional connections to the entire SWPA system, there
7 are more customers to share future infrastructure investment costs, which promotes stable
8 rates across the entire SWPA system. Customers who benefit from near-term
9 improvements will one day help pay for improvements on behalf of other customers on
10 other parts of the SWPA system. Being able to spread the costs of investing in and
11 maintaining public water and wastewater systems over a growing customer base,
12 particularly in a time of increased environmental requirements, is essential to the continued
13 success of water and wastewater systems and maintaining reasonable rates for customers.
14 Indeed, the Pennsylvania Legislature recognized, as a matter of public policy, the
15 importance of consolidation and cost sharing in the passage of Act 11 of 2012. There is
16 also a clear legislative intent associated with Section 1329 and its allowance of fair market
17 valuation for ratemaking purposes. The General Assembly intended to facilitate the
18 acquisition of municipal water and wastewater systems by investor-owned utilities for the
19 benefit of municipal corporations and their customers.

20
21 **Q. IN YOUR OPINION IS SWPA BETTER EQUIPPED THAN MAHONING TO**
22 **OPERATE THE WATER AND WASTEWATER SYSTEMS? IF YES, WHY?**

1 A. Yes. In addition to the reasons discussed above, SWPA brings the technical expertise and
2 resources required to meet the increasing demand facing both water and wastewater
3 utilities today. These increasing demands include but are not limited to complying with
4 new and emerging water quality regulations, accessing capital for replacement of aging
5 infrastructure, implementing new technologies to promote efficiencies, maintaining a
6 culture that promotes employee safety, and recruiting and keeping the technical expertise
7 needed to protect against cyber-attacks.

8 In addition SWPA has a commitment to making the Systems Smart Utilities within
9 six months of taking over the Systems. It will accomplish this by having all equipment
10 included in its INFOR asset management program, including all of the underground assets
11 of the Systems in the Company's GIS system, implementing monthly billing, commencing
12 an AMI strategy, and developing computerized models of its distribution and collection
13 systems.

14

15

SERVICE TERRITORY

16

Q. PLEASE EXPLAIN THE SERVICE TERRITORY SOUGHT BY SWPA IN THE APPLICATIONS.

17

18 A. As part of its Applications, SWPA is seeking the right to provide service to the water and
19 wastewater customers currently served by Mahoning in the service area served by
20 Mahoning, as shown in the maps and descriptions attached as **Appendix A-16-h to SWPA**
21 **Exhibit JDH-1**. No municipal authority, corporation, partnership or individual other than
22 Mahoning is now furnishing or has corporate or franchise rights to furnish service similar
23 to that to be rendered by SWPA in the Service Area covered by the Applications, and no

1 competitive condition will be created. As discussed above, upon closing of the
2 Transaction, Mahoning will permanently discontinue all water and wastewater service to
3 the public.

4
5 **APPROVAL OF CONTRACTS WITH MUNICIPAL CORPORATIONS**

6 **Q. HAS SWPA REQUESTED CODE SECTION 507 CERTIFICATES OF FILING OR**
7 **APPROVALS AS PART OF ITS APPLICATIONS?**

8 **A.** Yes. In addition to the approvals sought under Code Sections 1102(a) and 1329, 66 Pa.
9 C.S. §§ 1102(a), 1329, the APA and any contract with a municipal corporation that will be
10 assumed by SWPA must, according to SWPA's counsel, be filed with the Commission
11 pursuant to Code Section 507. Aside from the APA, SWPA has identified two water and
12 four wastewater contracts requiring Certificates of Filing or approvals under Section 507
13 (see Exhibit 1.5 of the APA, attached to the Applications at **Appendix A-24-a**
14 **(CONFIDENTIAL)**)).

15
16 **Q. PLEASE DESCRIBE THE MUNICIPAL CONTRACTS TO BE ASSUMED BY**
17 **SWPA.**

18 **A.** As noted, SWPA is assuming the contracts listed on Exhibit 1.5 of the APA and will enter
19 into an Assignment of Contracts Agreement with Mahoning to take assignment of such
20 contracts. The contracts are:

- 21 • The Water Service Agreement dated July 9, 2001 between Danville
22 Municipal Authority and Mahoning Township Authority (pertaining to the
23 Water System), attached to the Applications as **Appendix B-1**;
- 24 • The Connection and Conveyance Agreement dated October 16, 2017
25 between the Township of Mahoning and The Cooper Township Municipal

1 Authority (pertaining to the Wastewater System), attached to the
2 Applications as **Appendix B-2**;

- 3 • The Service Agreement dated October 17, 2005 between Valley Township
4 and Mahoning Sewer Authority (pertaining to the Wastewater System),
5 attached to the Applications as **Appendix B-3**;
- 6 • The Service Agreement dated October 17, 2005 between Valley Township
7 and Mahoning Water Authority (pertaining to the Water System), attached
8 to the Applications as **Appendix B-4**;
- 9 • The Agreement dated January 20, 1992 between Borough of Danville,
10 Mahoning Township and Mahoning Township Authority (pertaining to the
11 Wastewater System), attached to the Applications as **Appendix B-5**; and
- 12 • The Agreement dated January 23, 1968 between Danville Municipal
13 Authority, Borough of Danville and Mahoning Township Authority
14 (pertaining to the Wastewater System), as amended by:
 - 15 ○ An Amendment dated April 27, 1981;
 - 16 ○ An Amendment dated May 21, 1985;
 - 17 ○ An Amendment dated January 2012;
 - 18 ○ An Amendment dated January 18, 2013; and
 - 19 ○ A Settlement Agreement and Release.

20 The January 1968 Agreement, and all amendments thereto, are attached to the
21 Applications as **Appendix B-6**.

22 As the above list of contracts demonstrates, some of the contracts being assigned
23 are in the name of the Mahoning Township Authority, Mahoning Water Authority or the
24 Mahoning Sewer Authority. Mahoning Township terminated the Mahoning Township
25 Municipal Authority in 2017 and took over the ownership and operation of the Systems.
26 According to Mahoning personnel, the Mahoning Township Municipal Authority
27 sometimes used other names, including the Mahoning Water Authority and the Mahoning
28 Sewer Authority. Mahoning personnel have represented to SWPA that Mahoning has the
29 legal right and authority to assign all of the municipal contracts listed in Exhibit 1.5 of the
30 APA.

31 Additionally, although SWPA attached the best-available copies of the municipal
32 contracts to the Applications, some of those copies are not fully-executed versions of the

1 contracts. Mahoning personnel have represented to SWPA that the contracts have in fact
2 been fully executed, are valid, and are presently in effect. As stated above, Mahoning
3 personnel have represented to SWPA that Mahoning has the legal right and authority to
4 assign all of the municipal contracts listed in Exhibit 1.5 of the APA.

5
6 **Q. WHY SHOULD THE COMMISSION APPROVE THE ASSIGNMENT OF THESE**
7 **MUNICIPAL CONTRACTS?**

8 A. Commission approval of the continuation of these contracts is necessary in order for
9 SWPA, after closing on the Transaction, to continue to provide water and wastewater
10 service to the customers of the Systems. Approval is reasonable and serves an important
11 public purpose because the services provided under the contracts are essential to the
12 provision of water distribution and wastewater collection and conveyance service in
13 Mahoning Township, Cooper Township and Valley Township.

14
15 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

16 A. Yes. However, I reserve the right to supplement my testimony as additional issues and
17 facts arise during the course of the proceeding. Thank you.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of SUEZ Water Pennsylvania Inc. :
under Section 1102(a) of the Pennsylvania Public :
Utility Code, 66 Pa C.S. § 1102(a), for approval of (1) :
the transfer, by sale, of substantially all of the :
Township of Mahoning’s assets, properties and rights :
related to its water distribution system to SUEZ Water :
Pennsylvania Inc., and (2) the rights of SUEZ Water :
Pennsylvania Inc. to begin to offer or furnish water :
distribution service to the public in portions of the :
Townships of Mahoning, Cooper and Valley, Montour :
County, Pennsylvania :

Docket No. A-2018-_____

and

In re: Application of SUEZ Water Pennsylvania Inc. :
under Section 1102(a) of the Pennsylvania Public :
Utility Code, 66 Pa. C.S. § 1102(a), for approval of (1) :
the transfer, by sale, of substantially all of the :
Township of Mahoning’s assets, properties and rights :
related to its wastewater collection and conveyance :
system to SUEZ Water Pennsylvania Inc., and (2) the :
rights of SUEZ Water Pennsylvania Inc. to begin to :
offer or furnish wastewater collection and conveyance :
service to the public in portions of the Townships of :
Mahoning, Cooper and Valley, Montour County, :
Pennsylvania :

Docket No. A-2018-_____

**DIRECT TESTIMONY OF
MICHAEL WATKIN ON BEHALF OF
SUEZ WATER PENNSYLVANIA INC.**

Date: July 20, 2018

SWPA Statement No. 2

**DIRECT TESTIMONY OF
MICHAEL WATKIN**

INTRODUCTION

1

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

3 A. My name is Michael Watkin, and my business address is 4211 East Park Circle, Harrisburg,
4 PA 17111.

5

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

7 A. I am employed by SUEZ Water Pennsylvania Inc. ("SWPA") as the Director of Finance.

8

9 **Q. WHAT ARE YOUR RESPONSIBILITIES AS THE DIRECTOR OF FINANCE?**

10 A. My responsibilities as the Director of Finance primarily include budgeting and analyzing
11 financial statements for SWPA. Additionally, I assist the SUEZ North America rate
12 department on rate case filings and participate in financial analysis on proposed
13 acquisitions.

14

15 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS
16 EXPERIENCE.**

17 A. I earned my Bachelor degree in Finance from Shippensburg University in 1991 and I also
18 earned my Master of Business Administration degree from Lebanon Valley College in
19 2000. I have been budgeting and analyzing financial statements for over twenty years,
20 with ten plus of those years for SWPA. I have assisted on four rate case filings for SWPA
21 and have reviewed, in some part, multiple proposed acquisitions.

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

3 A. No, I have not.
4

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

6 A. I will address the financial fitness of SWPA to acquire and operate the water distribution
7 system (“Water System”) and the wastewater collection and conveyance system
8 (“Wastewater System”) (together with the Water System, the “Systems”) currently owned
9 and operated by Mahoning Township (“Mahoning”), which SWPA has agreed to purchase
10 (“Transaction”). I will also discuss the rates that SWPA will charge the customers of the
11 Systems after closing.
12

13 **SWPA’S FINANCIAL FITNESS**

14 **Q. PLEASE DISCUSS SWPA’S FINANCIAL FITNESS.**

15 A. SWPA is one of the Commonwealth’s largest water and wastewater providers, with total
16 assets of \$291,184,950 and annual revenues of \$44,803,459 for 2017. For 2017, SWPA
17 had operating income of approximately \$16,318,486 and net income of approximately
18 \$9,485,906.
19

20 **Q. DOES SWPA HAVE THE OVERALL FINANCIAL FITNESS AND ACCESS TO**
21 **CAPITAL TO ACQUIRE THE SYSTEMS?**

22 A. Yes. SWPA has strong operating income and net income and, therefore, a strong balance
23 sheet. SWPA’s strong operating and financial performance allows it to be an integral

1 component within SUEZ Water Resources Inc. (“SWR”) to obtain competitive interest
2 rates for long-term debt financing and access to equity investments from its parent
3 company. In my opinion, SWPA, as part of SWR, is a financially-sound business that can
4 financially support the acquisition of Mahoning’s assets as well as the ongoing operating
5 and investment commitments that will be required to operate, maintain and improve those
6 assets in serving the public.

7
8 **Q. PLEASE EXPLAIN HOW SWPA INTENDS TO FUND THE ACQUISITION.**

9 A. SWPA, as part of SWR, intends to fund the acquisition utilizing a combination of cash and
10 debt.

11
12 **Q. WHAT IMPACT, IF ANY, DO YOU ANTICIPATE THAT THE ACQUISITION OF
13 THE SYSTEMS WILL HAVE ON SWPA’S CORPORATE CREDIT RATINGS?**

14 A. SWPA, as part of SWR, does not anticipate any change to SWR’s credit ratings due to the
15 acquisition of the systems.

16
17 **Q. DO YOU ANTICIPATE THE TRANSACTION HARMING SWPA’S FINANCIAL
18 STATUS IN ANY MANNER?**

19 A. No. SWPA, as part of SWR, does not anticipate that the acquisition of Mahoning’s
20 Systems will have a negative impact on SWR’s operating income, credit ratings or access
21 to capital. Therefore, the Transaction will not deteriorate in any manner SWPA’s ability
22 to continue to provide safe, adequate, and reasonable service to its customers at just and
23 reasonable rates.

1
2 **FAIR MARKET VALUE RATE BASE**

3 **Q. PLEASE STATE THE RATE BASE REQUESTED IN THE APPLICATION**
4 **PURSUANT TO 66 PA. C.S § 1329.**

5 A. The negotiated purchase price for both the Water System and the Wastewater System is
6 \$9,500,000, which is allocated \$4,734,800 to the Water System and \$4,765,200 to the
7 Wastewater System. The basis for that allocation is as follows: Gannett Fleming valued
8 the Water System at \$5,688,000 (rounded) and the Wastewater System at \$5,414,200
9 (rounded), for a total value for both Systems of \$11,102,000.¹ ScottMadden, Inc., found
10 that the Water System was valued at \$5,384,879 and the Wastewater System was valued at
11 \$5,731,341 for a total value of both Systems of \$11,116,220. The average of these two
12 valuations was a total of \$11,109,110 for both Systems, with the Water System valued at
13 an average of \$5,536,440 (or 49.84% of the total value of both Systems) and the
14 Wastewater System was valued at an average of \$5,572,770 (or 50.16% of the total value
15 of both Systems). The negotiated purchase price was allocated based on those same
16 percentages: 49.84% of the purchase price was allocated to the Water System and 50.16%
17 of the purchase price was allocated to the Wastewater System.

18 The average of the two appraisals for the Water System is \$5,536,440 which is
19 greater than the allocated purchase price for the Water System of \$4,734,800. Similarly,
20 the average of the two appraisals for the Wastewater System is \$5,572,770, which is greater
21 than the allocated purchase price for the Wastewater System of \$4,765,200. Accordingly,

¹ As noted in the direct testimony of Harold Walker III, both the Water System and the Wastewater System were valued independently. Additionally, the Water and Wastewater Systems were valued together at \$11,046,000 (rounded).

1 the negotiated purchase price for both the Water and Wastewater Systems is the fair market
2 value for ratemaking purposes under Section 1329 (*i.e.* the lower of the negotiated purchase
3 price or the average of the UVEs' appraisals). The fair market value as determined by the
4 Section 1329 process, in addition to the transaction and closing costs described below,
5 becomes the rate base for ratemaking purposes. Note, however, that SWPA reserves its
6 right in future proceedings to make rate base claims related to the acquisition as may
7 otherwise be permitted under the Pennsylvania Public Utility Code.

8
9 **TRANSACTION AND CLOSING COSTS**

10 **Q. PLEASE DESCRIBE THE ESTIMATED TRANSACTION AND CLOSING COSTS**
11 **FOR THE TRANSACTION.**

12 A. As set forth in the Commission's *Final Implementation Order* at Docket No. M-2016-
13 2543193, transaction and closing costs include the UVE's appraisal fee and the buyer's
14 closing costs, including reasonable attorney fees. In accordance with the *Final*
15 *Implementation Order* and traditional ratemaking principles, reasonable transaction and
16 closing costs are not to be decided in this Application proceeding; instead, the Company
17 must justify the costs by a "preponderance of the evidence" in a future base rate proceeding.

18 As a practical manner, the exact extent of such costs cannot be known at the time
19 of filing the Application and will not be finally known until after closing of the Transaction.
20 The costs depend on a number of variables, including whether this Application is settled
21 or fully-litigated. SWPA will track such costs and incorporate them into rate base in a
22 future base rate proceeding as appropriate. Nevertheless, attached to the Application as
23 **Appendix A-12** is the Company's estimate of the transaction and closing costs. As stated

1 in the appendix, the anticipated transaction and closing costs are approximately
2 \$1,000,000, which will be allocated between the Water System and the Wastewater System
3 in the same manner that the purchase price was allocated between the Water System and
4 the Wastewater System.

5
6 **APA RATE PROVISIONS**

7 **Q. PLEASE PROVIDE AN OVERVIEW OF THE RATE PROVISIONS OF THE APA.**

8 A. Section 2.4 of the APA contains provisions related to rates. SWPA has committed to adopt,
9 upon closing of the Transaction, Mahoning's rates in effect at the time of closing. The
10 initial rates to be applicable to the former Mahoning water and wastewater customers are
11 set forth in the *pro forma* tariff supplement attached as **Appendix A-13** to the Application
12 but water rates may be altered by the outcome of SWPA's pending base rate case at
13 Commission Docket No. R-2018-3000834. Water System customers will be governed by
14 rates for new Rate Zone W07 and Wastewater System customers will be governed by
15 Mahoning Township's existing rates until SWPA establishes new tariff rates. After SWPA
16 closes on the Transaction, former Mahoning customers will be subject to SWPA's
17 prevailing tariff on file with the Commission with respect to all rates other than the
18 customer charge and consumption charge, including capacity reservation fees,
19 reconnection fees and the like, as well as non-rate related terms and conditions of service.
20 Currently, Mahoning's water customers are billed quarterly, and will continue to be billed
21 quarterly after the Transaction is approved and closing occurs until after the first base rate
22 case in which the Water System is incorporated. Mahoning's wastewater customers are
23 currently billed quarterly. After closing, residential wastewater customers will be billed

1 monthly rather than quarterly, but the monthly rate charged by SWPA will be 1/3 of the
2 amount that residential customers are currently charged quarterly by Mahoning. All other
3 wastewater customers will continue to be billed quarterly after the Transaction is approved
4 and closing occurs, until the first base rate case in which the Wastewater System is
5 incorporated.

6
7 **Q. IS THE TRANSACTION REFLECTED IN SWPA'S BASE RATE CASE AT**
8 **DOCKET NO. R-2018-3000834?**

9 A Yes. However, the base rate case covers only water operations. Accordingly, only the fair
10 market value of the water system has been incorporated into the rate case. The *pro forma*
11 tariff supplement at **Appendix A-13** of the water Application will be implemented only if
12 closing on the Transaction occurs prior to the effective date of a rate case compliance tariff
13 supplement which reflects the Mahoning water system acquisition.

14
15 **Q. DO THE RATE PROVISIONS OF THE APA INCLUDE A RATE**
16 **STABILIZATION PLAN AS DEFINED BY SECTION 1329?**

17 A. No, the APA does not set forth or require a "rate stabilization plan" as defined by Section
18 1329(g). Therefore, SWPA is not required under the *Final Implementation Order* at
19 Docket No. M-2016-2543193 to provide testimony, schedules, and work papers in support
20 of a plan.

21 Section 1329(g) defines a "rate stabilization plan" as "[a] plan that will hold rates
22 constant or phase rates in over a period of time after the next base rate case." Because
23 SWPA's rate commitments in the APA will not result in rates being held constant or phased

1 in over a period of time “after the next base rate case” (in which the Mahoning assets are
2 rate-based), the Company is not proposing a “rate stabilization plan” -- as defined by
3 Section 1329(g).

4
5 **BENEFITS OF TRANSACTION**

6 **Q. WHAT, IF ANY, RATE BENEFITS ARE ANTICIPATED TO BE REALIZED BY**
7 **MAHONING’S CUSTOMERS FROM THE TRANSACTION?**

8 A. In the long-term, the Transaction will help SWPA keep rates reasonable for all of its
9 customers -- including Water System and Wastewater System customers. Through its
10 expertise in water and wastewater management and the leveraging of economies of scale,
11 SWPA will -- over time -- be able to improve efficiencies and lower or slow the increase
12 in the cost of operating the Systems. These operational efficiencies -- while they cannot
13 be precisely quantified at this time -- will inevitably be realized because of the size of
14 SWPA’s water and wastewater operations. By adding more customers, SWPA will be able
15 to mitigate the level of net plant investment per customer.

16
17 **Q. WHAT IMPACT, IF ANY, WILL THERE BE ON THE RATES OF SWPA’S**
18 **CURRENT CUSTOMERS AS A RESULT OF THE ACQUISITION OF THE**
19 **SYSTEMS?**

20 A. The acquisition will have no immediate impact on SWPA’s wastewater customers. The
21 acquisition will impact SWPA’s existing water customers because the acquisition is
22 included in SWPA’s 2018 rate case. The existing water customer’s rates would initially
23 be impacted by approximately sixteen dollars per year due to the addition of Mahoning’s

1 current water assets being added to SWPA's existing rate base. In this regard however, it
2 should be noted that SWPA's existing customers may benefit over time through the sharing
3 of costs related to other parts of the system by Mahoning customers.

4
5 **POST-ACQUISITION IMPROVEMENTS**

6 **Q. PLEASE STATE YOUR UNDERSTANDING OF SECTION 1329 WITH RESPECT**
7 **TO POST-ACQUISITION IMPROVEMENTS.**

8 **A.** I am advised by counsel that Section 1329(f) allows "an acquiring public utility's post-
9 acquisition improvements that are not included in a distribution system improvement
10 charge [to] accrue allowance for funds used during construction ["AFUDC"] after the date
11 the cost was incurred until the asset has been in service for a period of four years or until
12 the asset is included in the acquiring public utility's next base rate case, whichever is
13 earlier." Section 1329(f) also provides that "[d]epreciation on an acquiring public utility's
14 postacquisition improvements that have not been included in the calculation of a
15 distribution system improvement charge shall be deferred for book and ratemaking
16 purposes."

17
18 **Q. DOES SWPA INTEND TO ACCRUE AFUDC FOR POST-ACQUISITION**
19 **IMPROVEMENTS?**

20 **A.** Yes. Although SWPA has not committed to making any significant post-closing upgrades
21 or improvements in the Systems, SWPA nevertheless may make some post-acquisition
22 improvements to the System. Some of the improvements may not be DSIC-eligible. As
23 such, SWPA will likely accrue AFUDC consistent with what is permitted under Section

1 1329. Rate claims related to AFUDC can then be adjudicated in the context of a future
2 SWPA base rate proceeding.

3
4 **Q. DOES SWPA INTEND TO DEFER DEPRECIATION ON NON-DSIC-ELIGIBLE**
5 **POST-ACQUISITION IMPROVEMENTS FOR BOOK AND RATEMAKING**
6 **PURPOSES?**

7 A. Yes. Section 1329(f) permits such deferral of depreciation. The statute appears to allow
8 deferral without specific Commission approval; however, out of an abundance of caution,
9 SWPA is specifically petitioning the Commission, as part of this Application proceeding,
10 for permission to defer the depreciation for book and ratemaking purposes.

11
12 **TRANSACTION IS IN THE PUBLIC INTEREST**

13 **Q. WHAT, IF ANY, BENEFIT DO YOU SEE TO MAHONING’S CUSTOMERS AS A**
14 **RESULT OF THE TRANSACTION?**

15 A. The Systems’ customers will be served by a large, financially sound company that has the
16 capability to finance necessary capital additions. Given its size, access to capital and its
17 recognized strengths in system planning, capital budgeting and construction management,
18 SWPA is well-positioned from a financial perspective to ensure that high quality water and
19 wastewater service meeting all federal and state requirements is provided to the Systems’
20 customers and maintained for SWPA’s existing customers.

21
22 **AUTHENTICATION OF APPLICATION APPENDICES**

1 Q. ARE YOU FAMILIAR WITH THE APPLICATION FILED BY SWPA IN THIS
2 PROCEEDING?

3 A. Yes, I helped to prepare several of the appendices in support of the Application and I have
4 reviewed the final version of the Application and the appendices.

5
6 Q. PLEASE IDENTIFY WHICH APPLICATION APPENDICES YOU PREPARED?

7 A. I prepared Appendices D through G.

8
9 Q. HOW DID YOU PREPARE APPENDICES D THROUGH G?

10 A. I reviewed the financial information of SWPA, to which I have direct access, and I
11 reviewed the financial information of Mahoning, to which I received access through the
12 Transaction due diligence process.

13
14 Q. ARE APPENDICES D THROUGH G COMPLETE AND ACCURATE COPIES OF
15 YOUR FINAL WORK PRODUCT?

16 A. Yes.

17
18 Q. ARE APPENDICES D THROUGH G TRUE AND CORRECT TO THE BEST OF
19 YOUR KNOWLEDGE, INFORMATION, AND BELIEF?

20 A. Yes.

21

22 CONCLUSION

23 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

1 A. Yes. However, I reserve the right to supplement my testimony as additional issues and
2 facts arise during the course of the proceeding.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of SUEZ Water Pennsylvania :
Inc. under Section 1102(a) of the Pennsylvania :
Public Utility Code, 66 Pa C.S. § 1102(a), for ;
approval of (1) the transfer, by sale, of :
substantially all of the Township of Mahoning’s :
assets, properties and rights related to its water :
distribution system to SUEZ Water Pennsylvania :
Inc., and (2) the rights of SUEZ Water : Docket No. A-2018-_____
Pennsylvania Inc. to begin to offer or furnish :
water distribution service to the public in portions :
of the Townships of Mahoning, Cooper and :
Valley, Montour County, Pennsylvania :

and

In re: Application of SUEZ Water Pennsylvania :
Inc. under Section 1102(a) of the Pennsylvania :
Public Utility Code, 66 Pa. C.S. § 1102(a), for ;
approval of (1) the transfer, by sale, of :
substantially all of the Township of Mahoning’s :
assets, properties and rights related to its : Docket No. A-2018-_____
wastewater collection and conveyance system to :
SUEZ Water Pennsylvania Inc., and (2) the rights :
of SUEZ Water Pennsylvania Inc. to begin to :
offer or furnish wastewater collection and :
conveyance service to the public in portions of the :
Townships of Mahoning, Cooper and Valley, :
Montour County, Pennsylvania :

**DIRECT TESTIMONY OF
HAROLD WALKER III ON BEHALF OF
SUEZ WATER PENNSYLVANIA INC.**

Date: July 20, 2018

SWPA Statement No. 3

**DIRECT TESTIMONY OF
HAROLD WALKER III**

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22

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

A. My name is Harold Walker III and my business address is P.O. Box 80794, Valley Forge, Pennsylvania.

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

A. I am employed by Gannett Fleming Valuation and Rate Consultants, LLC (“Gannett Fleming”) as Manager, Financial Studies.

Q. WOULD YOU BRIEFLY DESCRIBE GANNETT FLEMING?

A. Yes. Since 1915, Gannett Fleming and its predecessors have been helping clients in public pricing policy and related financial matters for managerial purposes, before regulatory commissions and courts of law. Gannett Fleming is registered as a Utility Valuation Expert (“UVE”) in the Commonwealth of Pennsylvania. Gannett Fleming is also a registered Municipal Advisor with the SEC and I am a licensed Municipal Advisor Representative (Series 50) with the Municipal Securities Rulemaking Board (“MSRB”) and the Financial Industry Regulatory Authority (“FINRA”).

Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGER, FINANCIAL STUDIES OF GANNETT FLEMING?

1 A. I supervise and develop financial and economic studies on behalf of investor-owned and
2 municipally-owned water, wastewater, electric, natural gas distribution and transmission,
3 oil pipeline, and telephone utilities, as well as resource-recovery companies.
4

5 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND EMPLOYMENT**
6 **EXPERIENCE?**

7 A. My educational background, business experience and qualifications are provided in
8 **Appendix A.**
9

10 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
11 **PUBLIC UTILITY COMMISSION?**

12 A. Yes. I have testified before the Pennsylvania Public Utility Commission (“Commission”
13 or “PUC”), as well as other state regulatory commissions, on many occasions, as shown on
14 **Appendix A.**
15

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

17 A. The purpose of my testimony is to describe the fair market value appraisal of the water
18 distribution system (“Water System”) and the wastewater collection and conveyance
19 system (“Wastewater System”) (together, the “Systems”) of Mahoning Township
20 (“Mahoning”) that I and my staff performed. Gannett Fleming was engaged by SUEZ
21 Mid-Atlantic Division (“SUEZ”) to perform this appraisal. In this transaction, Mahoning
22 is selling the Systems to SUEZ Water Pennsylvania Inc. (“SWPA”). Our report is entitled
23 “Township of Mahoning Sewer and Water Assets Fair Market Value Appraisal as of April

1 30, 2018.” The appraisal and its report was developed to meet the criteria established in
2 Section 1329 of the Pennsylvania Public Utility Code (“Code”), 66 Pa. C.S. § 1329
3 (“Determination of the fair market value of water and wastewater assets”).

4 In its 2015-2016 legislative session, the Pennsylvania Legislature passed Act 12 of
5 2016 and Governor Wolf signed into law Section 1329 of the Code establishing the
6 legislative guidelines facilitating the acquisition of municipal and regional water and
7 wastewater systems by private investor-owned utilities and other entities which are rate-
8 regulated by the PUC. This legislation was intended to facilitate the acquisition of water
9 and wastewater systems in order to facilitate capital improvements to the water and/or
10 wastewater properties.

11
12 **QUALIFICATION AS UTILITY VALUATION EXPERT**

13 **Q. IS GANNETT FLEMING ON THE COMMISSION’S REGISTRY OF UTILITY**
14 **VALUATION EXPERTS?**

15 **A.** Yes. Gannett Fleming is a UVE in the Commonwealth of Pennsylvania approved by the
16 PUC (Utility Code 9919244).

17
18 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH GANNETT FLEMING WAS**
19 **PLACED ON THE COMMISSION’S REGISTRY OF UTILITY VALUATION**
20 **EXPERTS.**

21 **A.** After passage of Section 1329 of the Code, the Commission established an application
22 process by which the Commission would approve and designate firms to be placed on the
23 Commission’s “Registry of Utility Valuation Experts.” To be included on the registry, the

1 UVEs must establish their qualifications. Gannett Fleming submitted its original
2 application and the required proof of experience in September of 2016 and received
3 confirmation and approval from the Commission of Gannett Fleming's placement on the
4 Commission's UVE Registry in December of 2016. Renewal of the Commission's UVE
5 Registry must be done annually. Gannett Fleming submitted its 2018 renewal application
6 and the required proof of experience in December of 2017 and received confirmation and
7 approval from the Commission of Gannett Fleming's placement on the Commission's
8 UVE Registry in January of 2018.

9
10 **Q. DO YOU HAVE SPECIFIC EXPERIENCE WITH THE VALUATION AND**
11 **APPRAISAL OF UTILITY ASSETS?**

12 A. Yes. In addition to serving as an expert witness on various financial and economic matters
13 before utility regulatory commissions for over 30 years, I have also provided valuations of
14 utility assets services for more than 20 years. In that capacity, I have testified on valuation
15 matters before the PUC and sponsored or adopted Gannett Fleming's UVE appraisals in
16 Section 1329 of the Public Utility Code in the New Garden Township proceeding, Docket
17 No. A-2016-2580061, the Limerick Township proceeding, Docket No. A-2017-2605434,
18 and the East Bradford Township proceeding, Docket No. A-2018-3001582. In addition to
19 testifying in 1329 proceedings, I have also testified and filed reports on valuation matters
20 in California, Illinois, New Hampshire and Pennsylvania in courts of law and regulatory
21 commissions.

1 Q. HAVE YOU OR GANNETT FLEMING OR ANY OF ITS STAFF DERIVED ANY
2 MATERIAL FINANCIAL BENEFIT FROM THE SALE OF MAHONING'S
3 ASSETS OTHER THAN FEES FOR YOUR SERVICES RENDERED?

4 A. No.

5

6 Q. ARE YOU OR GANNETT FLEMING OR ANY OF ITS STAFF AN IMMEDIATE
7 FAMILY MEMBER OF A DIRECTOR, OFFICER, OR EMPLOYEE OF EITHER
8 SWPA OR MAHONING?

9 A. No.

10

11 Q. IS GANNETT FLEMING IN COMPLIANCE WITH APPLICABLE
12 PENNSYLVANIA LAWS?

13 A. Yes.

14

15 Q. DOES GANNETT FLEMING HAVE THE FINANCIAL AND TECHNICAL
16 FITNESS, INCLUDING PROFESSIONAL LICENSES AND TECHNICAL
17 CERTIFICATIONS, TO PERFORM A FAIR MARKET VALUATION OF THE
18 ASSETS OF MAHONING?

19 A. Yes, to be placed on the Commission's "Registry of Utility Valuation Experts" Gannett
20 Fleming had to establish its qualifications.

21

22 Q. ARE YOU AWARE OF ANY FACT, INCLUDING BUT NOT LIMITED TO ANY
23 POTENTIAL CONFLICT OF INTEREST THAT WOULD CAST DOUBT UPON

1 **YOUR ABILITY TO PROVIDE A THOROUGH, OBJECTIVE, UNBIASED, AND**
2 **FAIR VALUATION IN THIS PROCEEDING?**

3 A. No.

4
5 **FEES PAID FOR UTILITY VALUATION EXPERT SERVICES**

6 **Q. HOW IS GANNETT FLEMING BEING COMPENSATED FOR ITS SERVICES IN**
7 **THIS MATTER?**

8 A. Gannett Fleming is being compensated on an hourly basis. True, correct, and complete
9 copies of Gannett Fleming's invoices to SWPA for this matter, as of the date of Application
10 filing, are attached to SWPA's Application as **Appendix A-8** and I incorporate those
11 invoices in my direct testimony as if set forth in their entirety.

12
13 **Q. WHAT IS THE ESTIMATED TOTAL COMPENSATION THAT GANNETT**
14 **FLEMING WILL RECEIVE FOR ITS SERVICES IN THIS MATTER?**

15 A. The estimated total compensation that Gannett Fleming will receive for its services in this
16 matter is \$45,000.

17
18 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH THIS COMPENSATION WAS**
19 **NEGOTIATED?**

20 A. Gannett Fleming submitted a proposal to provide the required services in October 2017.

21
22 **Q. ARE THESE FEES CONSISTENT WITH COMPENSATION RECEIVED FOR**
23 **SIMILAR SERVICES PROVIDED TO OTHER CLIENTS?**

1 A. Yes.

2

3

FAIR MARKET VALUATION OF MAHONING'S ASSETS

4 **Q. PLEASE IDENTIFY APPENDIX A-5 TO THE APPLICATION IN THIS**
5 **PROCEEDING?**

6 A. **Appendix A-5** of SWPA's Application includes Gannett Fleming's appraisal report dated
7 June 19, 2018, which was prepared under my supervision to be filed with its Application.

8

9 **Q. HOW DO YOU RECOGNIZE IT?**

10 A. I personally prepared and supervised Gannett Fleming personnel in preparing the report,
11 and recognize it as Gannett Fleming's work product.

12

13 **Q. IS APPENDIX A-5 A TRUE, COMPLETE, AND ACCURATE COPY OF YOUR**
14 **VALUATION REPORT?**

15 A. Yes, and I incorporate it into my direct testimony as if set forth in its entirety.

16

17 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH YOU PREPARED THE**
18 **VALUATION REPORT.**

19 A. In accordance with Section 1329 of the Code, SWPA and Mahoning engaged Larson
20 Design Group as the licensed engineer to conduct an assessment of the tangible assets of
21 Mahoning. SWPA engaged Gannett Fleming to prepare the fair market valuation report
22 for the Systems. SWPA provided financial statements from Mahoning regarding the
23 Systems and a copy of the Engineering Assessment development by Larson Design Group

1 as required by Section 1329(a)(4). In addition, Gannett Fleming reviewed the assets,
2 reviewed additional information provided by SWPA or the Township and conducted
3 additional research regarding the Township and the Systems. After those activities and
4 data gathering, we developed the appraisal.

5 The appraisal contains a letter of transmittal; a table of contents detailing all the
6 sections of the report and work papers; a narrative report explaining our methodology and
7 conclusions; a certification describing that the appraisal was prepared in conjunction with
8 the Uniform Standards of Professional Appraisal Practice (“USPAP”); a statement of
9 qualifications; and various exhibits.

10 The intent of the valuation report is to provide the appraisal results, as well as the
11 entire appraisal work file, in sufficient detail to satisfy the parties’ and Commission’s
12 review requirements of Section 1329 and the Commission’s Final Implementation Order,
13 *In re: Implementation of Section 1329 of the Public Utility Code*, Docket No. M-2016-
14 2543193 (Order Entered October 27, 2016). In addition to a copy of the appraisal report,
15 I have provided supporting work papers for the appraisal report in **Appendix A-5** to
16 SWPA’s Application. The relevant work papers have also been submitted to the
17 Commission and provided to the public advocates in live electronic format.

18
19 **Q. IS THERE ANYTHING THAT YOU WOULD CHANGE IN THE VALUATION**
20 **REPORT SINCE ITS PREPARATION?**

21 A. No.

1 **Q. WAS THE FAIR MARKET VALUATION OF THE MAHONING ASSETS**
2 **DETERMINED IN COMPLIANCE WITH USPAP?**

3 A. Yes. Included in my appraisal report is a document entitled “APPRAISAL
4 CERTIFICATION Mahoning Township, Pennsylvania, Township of Mahoning, Sewer
5 and Water System Assets, Fair Market Value Appraisal Report as of April 30, 2018,” which
6 describes our report’s compliance with USPAP.

7
8 **Q. DID YOU EMPLOY THE COST, MARKET AND INCOME APPROACHES IN**
9 **PREPARING YOUR VALUATION?**

10 A. Yes. We developed our appraisal utilizing the cost, income, and market approaches as
11 required by USPAP and Section 1329 of the Code. These approaches are summarized
12 below.

13 *Cost Approach.* The cost approach utilized the original cost method and
14 reproduction cost method. The reproduction cost method was calculated by trending
15 (trended cost method) the asset inventory developed by Gannett Fleming from its original
16 cost new method. The original cost method determined the original cost new measure of
17 the cost of the assets when first constructed. The original cost new inventory was trended
18 using the Handy Whitman Index of Public Utility Construction Costs for the water industry
19 to produce the reproduction cost new. The calculated accrued depreciation was determined
20 for the original cost new and for the reproduction cost new. The calculated accrued
21 depreciation was based on the assets’ attained ages, and the service life of the assets. The
22 cost basis of depreciable assets was reduced annually by the accumulated depreciation to

1 reflect the loss in the service value of the assets since being constructed. All land and land
2 rights were valued at original cost.

3 *Income Approach.* The income approach utilized the discounted cash flow method.
4 The discounted cash flow method used estimates of future debt free net cash flow and
5 discounted them to arrive at a present value or price of the cash flows. The capitalization
6 rate and the discount rate were developed based on market debt and equity rates at the
7 appraisal date. The discounted cash flow method reflected two types of discounted cash
8 flow analyses, the EBIT and EBITDA terminal value model and a capitalization of terminal
9 value model.

10 *Market Approach.* The market approach was developed based on the market
11 multiples method and the selected transaction method. The market multiples method was
12 based on the market price data of publicly traded corporations engaged in the same or a
13 similar line of business as the Systems. The market price data of these comparable publicly
14 traded corporations was used to calculate the market multiples for the comparable publicly
15 traded corporations at the appraisal date. The selected transactions method used certain
16 public information relating to the purchase or sales of businesses involved in the same or a
17 similar business line as the Systems to calculated market multiples at the time of transaction
18 (sale/purchase). The calculated market multiples determined by the market multiples
19 method and the selected transaction method were then multiplied by the corresponding
20 Systems financial and operating statistic to produce an indicated value for the Systems.

21
22 **Q. DID YOU RELY UPON A LICENSED ENGINEER'S ASSESSMENT OF THE**
23 **TANGIBLE ASSETS OF MAHONING IN PERFORMING YOUR VALUATION?**

1 A. Yes. SWPA and Mahoning engaged Larson Design Group as the licensed engineer to
2 conduct an assessment of the tangible assets of the Systems. SWPA provided a copy of
3 the Engineering Assessment developed by Larson Design Group as required by Section
4 1329(a)(4). A copy of the Engineering Assessment is attached to the Application as
5 **Appendix A-15-a.**

6
7 **Q. DID THE LICENSED ENGINEER'S ASSESSMENT INCLUDE AN INVENTORY**
8 **OF THE USED AND USEFUL UTILITY PLANT ASSETS TO BE TRANSFERRED**
9 **COMPILED BY YEAR AND ACCOUNT?**

10 A. Yes. This information was used as the basis for our Cost Approach.

11
12 **Q. DID THE LICENSED ENGINEER'S ASSESSMENT IDENTIFY SEPARATELY**
13 **ANY UTILITY PLANT THAT IS BEING HELD FOR FUTURE USE?**

14 A. Yes. There is no utility plant that is being held for future use.

15
16 **Q. DID THE LICENSED ENGINEER'S ASSESSMENT LIST ALL NON-**
17 **DEPRECIABLE PROPERTY SUCH AS LAND AND RIGHTS-OF-WAY?**

18 A. Yes. We valued all land and land rights at original cost.

19
20 **Q. TO THE BEST OF YOUR KNOWLEDGE, WAS THE LICENSED ENGINEER'S**
21 **INVENTORY DEVELOPED FROM AVAILABLE RECORDS, MAPS, WORK**
22 **ORDERS, DEBT ISSUE CLOSING DOCUMENTS FUNDING CONSTRUCTION**

1 **PROJECTS, AND OTHER SOURCES TO ENSURE AN ACCURATE LISTING OF**
2 **UTILITY PLANT INVENTORY BY UTILITY ACCOUNT?**

3 A. Yes.

4
5 **Q. DO YOU HAVE ANY REASON TO DOUBT THE ACCURACY OF THE**
6 **LICENSED ENGINEER’S INVENTORY OF THE ASSETS?**

7 A. No.

8
9 **Q. DID YOU INCORPORATE THE LICENSED ENGINEER’S ASSESSMENT INTO**
10 **YOUR COST APPROACH IN DEVELOPING YOUR VALUATION?**

11 A. Yes. This information was used as the basis for our Cost Approach.

12
13 **Q. WHY DOES YOUR CONCLUSION OF FAIR MARKET VALUE OF THE**
14 **MAHONING SYSTEMS’ ASSETS AS A GROUP DIFFER FROM THE**
15 **COLLECTIVE VALUATION OF THE WATER SYSTEM AND THE**
16 **WASTEWATER SYSTEM?**

17 A. We appraised the Systems, the Water System and the Wastewater System assets separately
18 and generally independently. The independence of each appraisal was constrained to the
19 same methodologies and weightings used for the Systems’ appraisal because our
20 assignment was to value the Systems’ assets as a group, not as individual systems.

21 The largest difference in the indications of value suggested by the three approaches
22 used was found in the income approach which has many more variables being rounded
23 over numerous years than the other two approaches. However, our conclusion of value for

1 the Systems, the Water System and the Wastewater System reflects the identical weighting
2 of the results of the three approaches regardless of their indications of value. A 0.5%
3 difference in the conclusions of fair market value is *de minimis* and lends credence to the
4 independence of the results.

5
6 **CONCLUSION**

7 **Q. WHAT IS YOUR CONCLUSION REGARDING THE FAIR MARKET VALUE OF**
8 **THE MAHONING SYSTEMS' ASSETS TO BE PURCHASED BY SWPA?**

9 A. Fair market value is defined as “the price, expressed in terms of cash equivalents, at which
10 property would change hands between a hypothetical willing and able buyer and a
11 hypothetical willing and able seller, acting at arm’s length in an open and unrestricted
12 market, when neither is under compulsion to buy or sell and when both have reasonable
13 knowledge of the relevant facts.”

14 Based on our analysis, as described in the attached appraisal report, the estimate of
15 the fair market value of the Systems as of April 30, 2018 is \$11,046,000 (rounded). The
16 results of the analyses and calculations are summarized in Table 1 for the Systems as
17 follows:

| <u>Valuation Approach</u> | <u>Indicated Value</u> |
|---------------------------|------------------------|
| Cost Approach | \$14,353,427 |
| Income Approach | 7,575,609 |
| Market Approach | 11,207,656 |

18 **Table 1**
19

1 We were advised that the Commission required a separate water application and a
2 separate wastewater application. Accordingly, the Gannett Fleming appraisal report also
3 provides separate estimates of the fair market value of the Water System and the
4 Wastewater System as of April 30, 2018. Based on our analysis, as described in the
5 Gannett Fleming appraisal report, the separate estimate of the fair market value of the
6 Water System and the Wastewater System as of April 30, 2018 is \$5,688,000 (rounded)
7 and \$5,414,000 (rounded), respectively. The results of the analyses and calculations are
8 summarized in Table 2 shown below.

| <u>Valuation Approach</u> | <u>Water Indicated Value</u> | <u>Wastewater Indicated Value</u> |
|---------------------------|------------------------------|-----------------------------------|
| Cost Approach | \$7,551,287 | \$6,802,140 |
| Income Approach | 3,997,024 | 3,748,940 |
| Market Approach | 5,515,955 | 5,691,702 |

9 **Table 2**

10
11 **Q. GENERALLY SPEAKING, IS IT COMMON FOR DIFFERENT APPRAISERS TO**
12 **REACH VARYING OPINIONS OF FAIR MARKET VALUE?**

13 A. Yes. I do not think the underlying results of the models employed for valuation purposes
14 are ever the same from one appraiser to another appraiser. Further, the conclusion of value
15 from one appraiser to another appraiser usually differs as well. I believe these are some of
16 the reasons the results of the conclusion of value from two different UVEs are averaged
17 under Section 1329, 66 Pa. C.S. § 1329.

1 Q. **DOES THIS CONCLUDE YOUR TESTIMONY?**

2 A. Yes. However, I reserve the right to supplement my testimony as additional issues and
3 facts arise during the course of the proceeding. Thank you.

APPENDIX A
Professional Qualifications
of
Harold Walker, III
Manager, Financial Studies
Gannett Fleming Valuation and Rate Consultants, LLC.

EDUCATION

Mr. Walker graduated from Pennsylvania State University in 1984 with a Bachelor of Science Degree in Finance. His studies concentrated on securities analysis and portfolio management with an emphasis on economics and quantitative business analysis. He has also completed the regulation and the rate-making process courses presented by the College of Business Administration and Economics Center for Public Utilities at New Mexico State University. Additionally, he has attended programs presented by The Institute of Chartered Financial Analysts (CFA).

Mr. Walker was awarded the professional designation "Certified Rate of Return Analyst" (CRRRA) by the Society of Utility and Regulatory Financial Analysts. This designation is based upon education, experience and the successful completion of a comprehensive examination. He is also a member of the Society of Utility and Regulatory Financial Analysts (SURFA) and has attended numerous financial forums sponsored by the Society. The SURFA forums are recognized by the Association for Investment Management and Research (AIMR) and the National Association of State Boards of Accountancy for continuing education credits.

Mr. Walker is also a licensed Municipal Advisor Representative (Series 50) by Municipal Securities Rulemaking Board (MSRB) and Financial Industry Regulatory Authority (FINRA).

BUSINESS EXPERIENCE

Prior to joining Gannett Fleming Valuation and Rate Consultants, LLC., Mr. Walker was employed by AUS Consultants - Utility Services. He held various positions during his eleven years with AUS, concluding his employment there as a Vice President. His duties included providing and supervising financial and economic studies on behalf of investor owned and municipally owned water, waste water, electric, natural gas distribution and transmission, oil pipeline and telephone utilities as well as resource recovery companies.

In 1996, Mr. Walker joined Gannett Fleming Valuation and Rate Consultants, LLC. In his capacity as Manager, Financial Studies and for the past twenty years, he has continuously studied rates of return requirements for regulated firms. In this regard, he supervised the preparation of rate of return studies in connection with his testimony and in the past, for other individuals. He also assisted and/or developed dividend policy studies, nuclear prudence studies, calculated fixed charge rates for avoided costs involving cogeneration projects, financial decision studies for capital budgeting purposes and developed financial models for determining future capital requirements and the effect of those requirements on investors and ratepayers, valued utility property and common stock for acquisition and divestiture, and assisted in the private placement of fixed capital securities for public utilities.

Head, Gannett Fleming GASB 34 Task Force responsible for developing Governmental Accounting Standards Board (GASB) 34 services, and educating Gannett Fleming personnel and Gannett Fleming clients on GASB 34 and how it may affect them. The GASB 34 related services include inventory of assets, valuation of assets, salvage estimation, annual depreciation rate determination, estimation of depreciation reserve, asset service life determination, asset condition assessment, condition assessment documentation, maintenance estimate for asset preservation, establishment of condition level index, geographic information system (GIS) and data management services, management discussion and analysis (MD&A) reporting, required supplemental information (RSI) reporting, auditor interface, and GASB 34 compliance review.

Mr. Walker was also the Publisher of C.A. Turner Utility Reports from 1988 to 1996. C.A. Turner Utility Reports is a financial publication which provides financial data and related ratios and forecasts covering the utility industry. From 1993 to 1994, he became a contributing author for the Fortnightly, a utility trade journal. His column was the Financial News column and focused mainly on the natural gas industry.

In 2004, Mr. Walker was elected to serve on the Board of Directors of SURFA. Previously, he served as an ex-officio directors as an advisor to SURFA's existing President. In 2000, Mr. Walker was elected President of SURFA for the 2001-2002 term. Prior to that, he was elected to serve on the Board of Directors of SURFA during the period 1997-1998 and 1999-2000. Currently, he also serves on the Pennsylvania Municipal Authorities Association, Electric Deregulation Committee.

EXPERT TESTIMONY

Mr. Walker has submitted testimony or been deposed on various topics before regulatory commissions and courts in 21 states including: Arizona, California, Colorado, Connecticut, Delaware, Illinois, Indiana, Kentucky, Maryland, Massachusetts, Michigan, Missouri, New Hampshire, New Jersey, New York, North Carolina, Oklahoma, Pennsylvania, Vermont, Virginia, and West Virginia. His testimonies covered various subjects including: fair market value, the taking of natural resources, appropriate capital structure and fixed capital cost rates, depreciation, fair rate of return, purchased water adjustments, synchronization of interest charges for income tax purposes, valuation, cash working capital, lead-lag studies, financial analyses of investment alternatives, and fair value. The following tabulation provides a listing of the electric power, natural gas distribution, telephone, wastewater, and water service utility cases in which he has been

involved as a witness. Additionally, he has been involved in a number of rate proceedings involving small public utilities which were resolved by Option Orders and therefore, are not listed below.

| <u>Client</u> | <u>Docket No.</u> |
|--|-------------------------|
| Alpena Power Company | U-10020 |
| Armstrong Telephone Company - Northern Division | 92-0884-T-42T |
| Armstrong Telephone Company - Northern Division | 95-0571-T-42T |
| Artesian Water Company, Inc. | 90 10 |
| Artesian Water Company, Inc. | 06 158 |
| Aqua Illinois Consolidated Water Divisions and Consolidated Sewer Divisions | 11-0436 |
| Aqua Illinois Hawthorn Woods Wastewater Division | 07 0620/07 0621/08 0067 |
| Aqua Illinois Hawthorn Woods Water Division | 07 0620/07 0621/08 0067 |
| Aqua Illinois Kankakee Water Division | 10-0194 |
| Aqua Illinois Kankakee Water Division | 14-0419 |
| Aqua Illinois Vermilion Division | 07 0620/07 0621/08 0067 |
| Aqua Illinois Willowbrook Wastewater Division | 07 0620/07 0621/08 0067 |
| Aqua Illinois Willowbrook Water Division | 07 0620/07 0621/08 0067 |
| Aqua Pennsylvania Wastewater Inc | A-2016-2580061 |
| Aqua Pennsylvania Wastewater Inc | A-2017-2605434 |
| Aqua Pennsylvania Wastewater Inc | A-2018-3001582 |
| Aqua Virginia - Alpha Water Corporation | Pue-2009-00059 |
| Aqua Virginia - Blue Ridge Utility Company, Inc. | Pue-2009-00059 |
| Aqua Virginia - Caroline Utilities, Inc. (Wastewater) | Pue-2009-00059 |
| Aqua Virginia - Caroline Utilities, Inc. (Water) | Pue-2009-00059 |
| Aqua Virginia - Earlysville Forest Water Company | Pue-2009-00059 |
| Aqua Virginia - Heritage Homes of Virginia | Pue-2009-00059 |
| Aqua Virginia - Indian River Water Company | Pue-2009-00059 |
| Aqua Virginia - James River Service Corp. | Pue-2009-00059 |
| Aqua Virginia - Lake Holiday Utilities, Inc. (Wastewater) | Pue-2009-00059 |

| | |
|--|------------------|
| Aqua Virginia - Lake Holiday Utilities, Inc. (Water) | Pue-2009-00059 |
| Aqua Virginia - Lake Monticello Services Co. (Wastewater) | Pue-2009-00059 |
| Aqua Virginia - Lake Monticello Services Co. (Water) | Pue-2009-00059 |
| Aqua Virginia - Lake Shawnee | Pue-2009-00059 |
| Aqua Virginia - Land'or Utility Company (Wastewater) | Pue-2009-00059 |
| Aqua Virginia - Land'or Utility Company (Water) | Pue-2009-00059 |
| Aqua Virginia - Mountainview Water Company, Inc. | Pue-2009-00059 |
| Aqua Virginia - Powhatan Water Works, Inc. | Pue-2009-00059 |
| Aqua Virginia - Rainbow Forest Water Corporation | Pue-2009-00059 |
| Aqua Virginia - Shawnee Land | Pue-2009-00059 |
| Aqua Virginia - Sydnor Water Corporation | Pue-2009-00059 |
| Aqua Virginia - Water Distributors, Inc. | Pue-2009-00059 |
| Berkshire Gas Company | 18-40 |
| Borough of Hanover | R-2009-2106908 |
| Borough of Hanover | R-2012-2311725 |
| Borough of Hanover | R-2014-242830 |
| Chaparral City Water Company | W 02113a 04 0616 |
| California-American Water Company | CIVCV156413 |
| Connecticut-American Water Company | 99-08-32 |
| Connecticut Water Company | 06 07 08 |
| Citizens Utilities Company Colorado Gas Division | - |
| Citizens Utilities Company Vermont Electric Division | 5426 |
| Citizens Utilities Home Water Company | R 901664 |
| Citizens Utilities Water Company of Pennsylvania | R 901663 |
| City of Bethlehem - Bureau of Water | R-00984375 |
| City of Bethlehem - Bureau of Water | R 00072492 |
| City of Bethlehem - Bureau of Water | R-2013-2390244 |
| City of Dubois – Bureau of Water | R-2013-2350509 |
| City of Dubois – Bureau of Water | R-2016-2554150 |
| City of Lancaster Sewer Fund | R-00005109 |

| | |
|--|----------------|
| City of Lancaster Sewer Fund | R-00049862 |
| City of Lancaster Sewer Fund | R-2012-2310366 |
| City of Lancaster Water Fund | R-00984567 |
| City of Lancaster Water Fund | R-00016114 |
| City of Lancaster Water Fund | R 00051167 |
| City of Lancaster Water Fund | R-2010-2179103 |
| City of Lancaster Water Fund | R-2014-2418872 |
| Coastland Corporation | 15-cvs-216 |
| Consumers Pennsylvania Water Company Roaring Creek Division | R-00973869 |
| Consumers Pennsylvania Water Company Shenango Valley Division | R-00973972 |
| Country Knolls Water Works, Inc. | 90 W 0458 |
| East Resources, Inc. - West Virginia Utility | 06 0445 G 42T |
| Elizabethtown Water Company | WR06030257 |
| Hampton Water Works Company | DW 99-057 |
| Illinois American Water Company | 16-0093 |
| Indian Rock Water Company | R-911971 |
| Indiana Natural Gas Corporation | 38891 |
| Jamaica Water Supply Company | - |
| Kentucky American Water Company, Inc. | 2007 00134 |
| Middlesex Water Company | WR 89030266J |
| Missouri-American Water Company | WR 2000-281 |
| Missouri-American Water Company | SR 2000-282 |
| Mount Holly Water Company | WR06030257 |
| New Jersey American Water Company | WR 89080702J |
| New Jersey American Water Company | WR 90090950J |
| New Jersey American Water Company | WR 03070511 |
| New Jersey American Water Company | WR-06030257 |
| New Jersey American Water Company | WR08010020 |
| New Jersey American Water Company | WR10040260 |
| New Jersey American Water Company | WR11070460 |
| New Jersey American Water Company | WR15010035 |
| New Jersey American Water Company | WR17090985 |
| Newtown Artesian Water Company | R-911977 |
| Newtown Artesian Water Company | R-00943157 |
| Newtown Artesian Water Company | R-2009-2117550 |

| | |
|--|------------------|
| Newtown Artesian Water Company | R-2011-2230259 |
| Newtown Artesian Water Company | R-2017-2624240 |
| North Maine Utilities | 14-0396 |
| Northern Indiana Fuel & Light Company | 38770 |
| Oklahoma Natural Gas Company | PUD-940000477 |
| Pennichuck Water Works, Inc. | DW 04 048 |
| Pennichuck Water Works, Inc. | DW 06 073 |
| Pennichuck Water Works, Inc. | DW 08 073 |
| Pennsylvania Gas & Water Company (Gas) | R-891261 |
| Pennsylvania Gas & Water Co. (Water) | R 901726 |
| Pennsylvania Gas & Water Co. (Water) | R-911966 |
| Pennsylvania Gas & Water Co. (Water) | R-22404 |
| Pennsylvania Gas & Water Co. (Water) | R-00922482 |
| Pennsylvania Gas & Water Co. (Water) | R-00932667 |
| Public Service Company of North Carolina, Inc. | G-5, Sub 565 |
| Public Service Electric and Gas Company | ER181010029 |
| Public Service Electric and Gas Company | GR18010030 |
| Presque Isle Harbor Water Company | U-9702 |
| St. Louis County Water Company | WR-2000-844 |
| Suez Water New Jersey, Inc. | WR18050593 |
| Suez Water Owego-Nichols, Inc. | 17-W-0528 |
| Suez Water Pennsylvania, Inc. | . R-2018-3000834 |
| Suez Water Rhode Island, Inc. | Docket No. 4800 |
| Town of North East Water Fund | 9190 |
| United Water New Rochelle | W-95-W-1168 |
| United Water Toms River | WR-95050219 |
| Valley Water Systems, Inc. | 06 10 07 |
| West Virginia-American Water Company | 15-0676-W-42T |
| West Virginia-American Water Company | 15-0675-S-42T |
| Wilmington Suburban Water Corporation | 94-149 |
| York Water Company | R-901813 |
| York Water Company | R-922168 |
| York Water Company | R-943053 |
| York Water Company | R-963619 |
| York Water Company | R-994605 |
| York Water Company | R-00016236 |

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of SUEZ Water Pennsylvania :
Inc. under Section 1102(a) of the Pennsylvania :
Public Utility Code, 66 Pa C.S. § 1102(a), for ;
approval of (1) the transfer, by sale, of :
substantially all of the Township of Mahoning’s :
assets, properties and rights related to its water :
distribution system to SUEZ Water Pennsylvania :
Inc., and (2) the rights of SUEZ Water : Docket No. A-2018-_____
Pennsylvania Inc. to begin to offer or furnish :
water distribution service to the public in portions :
of the Townships of Mahoning, Cooper and :
Valley, Montour County, Pennsylvania :

and

In re: Application of SUEZ Water Pennsylvania :
Inc. under Section 1102(a) of the Pennsylvania :
Public Utility Code, 66 Pa. C.S. § 1102(a), for :
approval of (1) the transfer, by sale, of :
substantially all of the Township of Mahoning’s :
assets, properties and rights related to its : Docket No. A-2018-_____
wastewater collection and conveyance system to :
SUEZ Water Pennsylvania Inc., and (2) the rights :
of SUEZ Water Pennsylvania Inc. to begin to :
offer or furnish wastewater collection and :
conveyance service to the public in portions of the :
Townships of Mahoning, Cooper and Valley, :
Montour County, Pennsylvania :

**DIRECT TESTIMONY OF
DYLAN W. D’ASCENDIS, CVA, CRRA**

Date: July 20, 2018

Mahoning Statement No. 1

**DIRECT TESTIMONY OF
DYLAN D'ASCENDIS**

1
2
3

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

5 A. My name is Dylan W. D'Ascendis. My business address is 3000 Atrium Way, Suite 241,
6 Mount Laurel, NJ 08054.

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

8 A. I am employed by ScottMadden, Inc. ("ScottMadden") as Director.

9 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EDUCATION AND EXPERIENCE.**

10 A. I offer expert testimony on behalf of investor-owned utilities on rate of return issues and
11 class cost of service issues. I am a Utility Valuation Expert ("UVE") in the Commonwealth
12 of Pennsylvania approved by the PUC (Utility Code 9919278). I also assist in preparing
13 rate filings, including, but not limited to, revenue requirements and original cost and
14 lead/lag studies. I am a graduate of the University of Pennsylvania, where I received a
15 Bachelor of Arts degree in Economic History. I also hold a Masters of Business
16 Administration from Rutgers University with a concentration in Finance and International
17 Business, which was conferred with high honors. I am a Certified Rate of Return Analyst
18 ("CRRA") and a Certified Valuation Analyst ("CVA"). My full professional
19 qualifications, including my expert witness appearances, are provided in Appendix A.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
2 **PUBLIC UTILITY COMMISSION?**

3 A. Yes. I have testified before the Pennsylvania Public Utility Commission (“Commission”
4 or “PUC”) on several occasions.¹

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

6 A. The purpose of my testimony is to describe the fair market value appraisal of the water
7 distribution system (“Water System”) and the wastewater collection and conveyance
8 system (“Wastewater System”) (together, the “Systems”) of Mahoning Township
9 (“Mahoning”) that I and my staff performed on behalf of Mahoning. Mahoning is selling
10 the Systems to SUEZ Water Pennsylvania Inc. (“SWPA”). Our report is entitled
11 “Valuation Report Mahoning Township Water and Sewer Department June 26, 2018.” The
12 appraisal and its report were developed to meet the criteria established in Section 1329 of
13 the Pennsylvania Public Utility Code (“Code”), 66 Pa. C.S. § 1329 (“Determination of the
14 fair market value of water and wastewater assets”).

15 In its 2015-2016 legislative session, the Pennsylvania Legislature passed Act 12 of
16 2016 and Governor Wolf signed into law Section 1329 of the Code establishing the
17 legislative guidelines facilitating the acquisition of municipal and regional water and
18 wastewater systems by private investor-owned utilities and other entities which are rate-
19 regulated by the Pennsylvania Public Utility Commission (“PUC”). This legislation was
20 intended to facilitate the acquisition of water and wastewater systems in order to facilitate
21 capital improvements to the water and or wastewater properties.

¹ Docket Nos. R-2011-2255159 (Penn Estates Utilities, Inc.), R-2013-2360798 (Columbia Water Company), R-2014-2402324 (Emporium Water Company), R-2017-2593142 (Veolia Energy Philadelphia, Inc.), R-2017-2598203 (Columbia Water Company), and R-2018-3000834 (SUEZ Water Pennsylvania Inc.).

1 **QUALIFICATION AS UTILITY VALUATION EXPERT**

2 **Q. IS SCOTTMADDEN, AND SPECIFICALLY YOURSELF, ON THE**
3 **COMMISSION'S REGISTRY OF UTILITY VALUATION EXPERTS?**

4 A. Yes. ScottMadden and I are considered UVEs in the Commonwealth of Pennsylvania
5 approved by the PUC (Utility Code 9919278).

6 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH SCOTTMADDEN WAS**
7 **PLACED ON THE COMMISSION'S REGISTRY OF UTILITY VALUATION**
8 **EXPERTS.**

9 A. After passage of Section 1329 of the Code, the Commission established an application
10 process by which the Commission would approve and designate firms to be placed on the
11 Commission's "Registry of Utility Valuation Experts." ScottMadden submitted its
12 application and the required proof of experience on October 13, 2016 and received
13 confirmation and approval from the Commission of ScottMadden's placement on the
14 Commission's UVE Registry on December 7, 2016.

15 **Q. HAVE YOU EVER HAD YOUR PROFESSIONAL CREDENTIALS REVOKED**
16 **OR SUSPENDED?**

17 A. No.

18 **Q. DO YOU HAVE SPECIFIC EXPERIENCE WITH THE VALUATION AND**
19 **APPRAISAL OF UTILITY ASSETS?**

20 A. Yes. Please see Appendix A for the details of my valuation assignments.

1 **Q. HAVE YOU, SCOTTMADDEN, OR ANY OF ITS STAFF DERIVED ANY**
2 **MATERIAL FINANCIAL BENEFIT FROM THE SALE OF MAHONING'S**
3 **ASSETS OTHER THAN FEES FOR YOUR SERVICES RENDERED?**

4 **A. No.**

5 **Q. ARE YOU, SCOTTMADDEN, OR ANY OF ITS STAFF AN IMMEDIATE**
6 **FAMILY MEMBER OF A DIRECTOR, OFFICER, OR EMPLOYEE OF EITHER**
7 **SWPA OR MAHONING?**

8 **A. No.**

9 **Q. IS SCOTTMADDEN IN COMPLIANCE WITH APPLICABLE PENNSYLVANIA**
10 **LAWS?**

11 **A. Yes.**

12 **Q. DOES SCOTTMADDEN HAVE THE FINANCIAL AND TECHNICAL FITNESS,**
13 **INCLUDING PROFESSIONAL LICENSES AND TECHNICAL**
14 **CERTIFICATIONS, TO PERFORM A FAIR MARKET VALUATION OF THE**
15 **ASSETS OF MAHONING?**

16 **A. Yes.**

17 **Q. ARE YOU AWARE OF ANY FACT, INCLUDING BUT NOT LIMITED TO ANY**
18 **POTENTIAL CONFLICT OF INTEREST, THAT WOULD CAST DOUBT UPON**
19 **YOUR ABILITY TO PROVIDE A THOROUGH, OBJECTIVE, UNBIASED, AND**
20 **FAIR VALUATION IN THIS PROCEEDING?**

21 **A. No.**

1 **FEEES PAID FOR UTILITY VALUATION EXPERT SERVICES**

2 **Q. HOW IS SCOTTMADDEN BEING COMPENSATED FOR ITS SERVICES IN**
3 **THIS MATTER?**

4 A. ScottMadden is being compensated on a fee basis, which includes a fixed fee upon delivery
5 of the initial valuation report, and hourly rates for any services rendered thereafter. True,
6 correct, and complete copies of ScottMadden’s invoices to Mahoning for this matter, as of
7 the date of Application filing, are attached to SWPA’s Application as **Appendix A-8** and
8 I incorporate those invoices in my direct testimony as if set forth in their entirety.

9 **Q. ARE THESE FEES CONSISTENT WITH COMPENSATION RECEIVED FOR**
10 **SIMILAR SERVICES PROVIDED TO OTHER CLIENTS?**

11 A. Yes.

12 **FAIR MARKET VALUATION OF MAHONING’S ASSETS**

13 **Q. PLEASE IDENTIFY APPENDIX A-5 TO THE APPLICATION IN THIS**
14 **PROCEEDING?**

15 A. **Appendix A-5** of SWPA’s Application includes my appraisal report dated June 26, 2018,
16 which I prepared for Mahoning to be filed in this proceeding.

17 **Q. HOW DO YOU RECOGNIZE IT?**

18 A. I personally prepared and supervised ScottMadden personnel in preparing the report, and
19 recognize it as ScottMadden’s work product.

20 **Q. IS APPENDIX A-5 A TRUE, COMPLETE, AND ACCURATE COPY OF YOUR**
21 **VALUATION REPORT?**

22 A. Yes, and I incorporate it into my direct testimony as if set forth in its entirety.

1 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH YOU PREPARED THE**
2 **VALUATION REPORT.**

3 A. In accordance with Section 1329 of the Code, SWPA and Mahoning engaged Larson
4 Design Group as the licensed engineer to conduct an assessment of the tangible assets of
5 Mahoning. Mahoning engaged ScottMadden to prepare the fair market valuation report
6 for the Systems. Mahoning provided financial statements regarding the Systems and a
7 copy of the Engineering Assessment development by Larson Design Group as required by
8 Section 1329(a)(4). In addition, ScottMadden performed an on-site visit of the above
9 ground facilities and conducted intensive interviews of Mahoning staff on August 9, 2017.
10 After those activities and data gathering, we developed the appraisal.

11 The appraisal contains a letter of transmittal; a narrative report explaining our
12 methodology and conclusions; a statement of assumptions and limiting conditions; a
13 statement of the Valuation Analyst's Representations; a statement of the professional
14 qualifications of Dylan W. D'Ascendis, CVA, CRRA; and various exhibits.

15 The intent of the valuation report is to provide the appraisal results, as well as the
16 entire appraisal work file, in sufficient detail to satisfy the parties' and Commission's
17 review requirements of Section 1329 and the Commission's Final Implementation Order,
18 *In re: Implementation of Section 1329 of the Public Utility Code*, Docket No. M-2016-
19 2543193 (Order entered October 27, 2016). In addition to a copy of my appraisal report, I
20 have provided supporting work papers for the appraisal report in **Appendix A-5** to SWPA's
21 Application. The relevant work papers have also been submitted to the Commission and
22 provided to the public advocates in live electronic format.

1 **Q. IS THERE ANYTHING THAT YOU WOULD CHANGE IN THE VALUATION**
2 **REPORT SINCE ITS PREPARATION?**

3 A. No.

4 **Q. WAS THE FAIR MARKET VALUATION OF THE MAHONING ASSETS**
5 **DETERMINED IN COMPLIANCE WITH THE UNIFORM STANDARDS OF**
6 **PROFESSIONAL APPRAISAL PRACTICE (“USPAP”)?**

7 A. Yes. Included in my cover letter is a statement of our report’s compliance with USPAP.

8 **Q. DID YOU EMPLOY THE COST, MARKET AND INCOME APPROACHES IN**
9 **PREPARING YOUR VALUATION?**

10 A. Yes. We developed our appraisal utilizing the cost, income, and market approaches as
11 required by USPAP and Section 1329 of the Code. These approaches are summarized
12 below.

| <u>Valuation Approach</u> | <u>Water Operations</u> | <u>Wastewater Operations</u> |
|---------------------------|-------------------------|------------------------------|
| Cost Approach | \$6,308,598 | \$6,221,550 |
| Income Approach | \$3,183,583 | \$3,139,655 |
| Market Approach | \$7,124,315 | \$8,077,922 |

13 **Q. DID YOU RELY UPON A LICENSED ENGINEER’S ASSESSMENT OF THE**
14 **TANGIBLE ASSETS OF MAHONING IN PERFORMING YOUR VALUATION?**

15 A. Yes. SWPA and Mahoning engaged Larson Design Group as the licensed engineer to
16 conduct an assessment of the tangible assets of the Systems. Mahoning provided a copy
17 of the Engineering Assessment developed by Larson Design Group as required by Section
18 1329(a)(4). A copy of the Engineering Assessment is attached to the Application as
19 **Appendix A-15a.**

1 **Q. DID THE LICENSED ENGINEER'S ASSESSMENT INCLUDE AN INVENTORY**
2 **OF THE USED AND USEFUL UTILITY PLANT ASSETS TO BE TRANSFERRED**
3 **COMPILED BY YEAR AND ACCOUNT?**

4 A. Yes.

5 **Q. DID THE LICENSED ENGINEER'S ASSESSMENT IDENTIFY SEPARATELY**
6 **ANY UTILITY PLANT THAT IS BEING HELD FOR FUTURE USE?**

7 A. Yes.

8 **Q. DID THE LICENSED ENGINEER'S ASSESSMENT LIST ALL NON-**
9 **DEPRECIABLE PROPERTY SUCH AS LAND AND RIGHTS-OF-WAY?**

10 A. Yes.

11 **Q. TO THE BEST OF YOUR KNOWLEDGE, WAS THE LICENSED ENGINEER'S**
12 **INVENTORY DEVELOPED FROM AVAILABLE RECORDS, MAPS, WORK**
13 **ORDERS, DEBT ISSUE CLOSING DOCUMENTS FUNDING CONSTRUCTION**
14 **PROJECTS, AND OTHER SOURCES TO ENSURE AN ACCURATE LISTING OF**
15 **UTILITY PLANT INVENTORY BY UTILITY ACCOUNT?**

16 A. Yes.

17 **Q. DO YOU HAVE ANY REASON TO DOUBT THE ACCURACY OF THE**
18 **LICENSED ENGINEER'S INVENTORY OF THE ASSETS?**

19 A. No.

20 **Q. DID YOU INCORPORATE THE LICENSED ENGINEER'S ASSESSMENT INTO**
21 **YOUR COST APPROACH IN DEVELOPING YOUR VALUATION?**

22 A. Yes.

1 **Q. DID YOU HAVE TO EXERCISE PROFESSIONAL DISCRETION IN**
2 **DEVELOPING ANY ASPECT OF YOUR VALUATION?**

3 A. Yes. The use of professional discretion is detailed throughout **Appendix A-5**, where
4 applicable.

5 **CONCLUSION**

6 **Q. WHAT IS YOUR CONCLUSION REGARDING THE FAIR MARKET VALUE OF**
7 **THE MAHONING SYSTEMS' ASSETS TO BE PURCHASED BY SWPA?**

8 A. The fair market value of the Water System together with the Wastewater System is
9 \$11,116,220. I understand that the Commission is requiring a separate Application be filed
10 for the Water System and for the Wastewater System. ScottMadden therefore prepared
11 separate estimates of the fair market value of the water system and the wastewater system.
12 Based on our analysis, described in the appraisal report, the estimate of the fair market
13 value of the Water System as of June 26, 2018 is \$5,384,879 and the estimate of the fair
14 market value of the Wastewater System as of June 26, 2018 is \$5,731,341. The results of
15 our appraisals and our conclusions are summarized in the following table:

| <u>Valuation Approach</u> | <u>Water Indicated Value</u> | <u>Sewer Indicated Value</u> |
|---------------------------|------------------------------|------------------------------|
| 17 Cost | \$6,308,598 | \$6,221,550 |
| 18 Income | \$3,183,583 | \$3,139,655 |
| 19 Market | \$7,124,315 | \$8,077,922 |

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

21 A. Yes. However, I reserve the right to supplement my testimony as additional issues and
22 facts arise during the course of the proceeding.

Summary

Dylan is an experienced consultant and a Certified Rate of Return Analyst (CRRA) and Certified Valuation Analyst (CVA). He has served as a consultant for investor-owned and municipal utilities and authorities for 9 years. Dylan has extensive experience in rate of return analyses, class cost of service, rate design, and valuation for regulated public utilities. He has testified as an expert witness in the subjects of rate of return, cost of service, rate design, and valuation before 13 regulatory commissions in the U.S. and an American Arbitration Association panel.

He also maintains the benchmark index against which the Hennessy Gas Utility Mutual Fund performance is measured. He serves on the Rates and Regulatory Committee of the National Association of Water Companies (NAWC).

Areas of Specialization

- Regulation and Rates
- Utilities
- Mutual Fund Benchmarking
- Capital Market Risk
- Capital Market Risk
- Financial Modeling
- Valuation
- Regulatory Strategy and Rate Case Support
- Rate of Return
- Cost of Service
- Rate Design

Recent Expert Testimony Submission/Appearances

| <i>Jurisdiction</i> | <i>Topic</i> |
|--|---|
| ■ Regulatory Commission of Alaska | Return on Common Equity & Capital Structure |
| ■ New Jersey Board of Public Utilities | Cost of Service, Rate Design |
| ■ Pennsylvania Public Utility Commission | Return on Common Equity |
| ■ South Carolina Public Service Commission | Return on Common Equity |
| ■ American Arbitration Association | Valuation |

Recent Assignments

- Provided expert testimony on the cost of capital for ratemaking purposes before numerous state utility regulatory agencies
- Maintains the benchmark index against which the Hennessy Gas Utility Mutual Fund performance is measured
- Sponsored valuation testimony for a large municipal water company in front of an American Arbitration Association Board to justify the reasonability of their lease payments to the City
- Co-authored a valuation report on behalf of a large investor-owned utility company in response to a new state regulation which allowed the appraised value of acquired assets into rate base

Recent Publications and Speeches

- Co-Author of: "The Impact of Decoupling on the Cost of Capital of Public Utilities", co-authored with Richard A. Michelfelder, Ph.D., Rutgers University and Pauline M. Ahern. (Forthcoming)
- "Past is Prologue: Future Test Year", Presentation before the National Association of Water Companies 2017 Southeast Water Infrastructure Summit, May 2, 2017, Savannah, GA.
- Co-author of: "Comparative Evaluation of the Predictive Risk Premium Model™, the Discounted Cash Flow Model and the Capital Asset Pricing Model", co-authored with Richard A. Michelfelder, Ph.D., Rutgers University, Pauline M. Ahern, and Frank J. Hanley, The Electricity Journal, May, 2013.
- "Decoupling: Impact on the Risk and Cost of Common Equity of Public Utility Stocks", before the Society of Utility and Regulatory Financial Analysts: 45th Financial Forum, April 17-18, 2013, Indianapolis, IN.



Appendix A
Professional Qualifications of
Dylan W. D'Ascendis, CRRA, CVA

| VALUATION ENGAGEMENTS | DATE | ASSETS VALUED | DESCRIPTION |
|---|-------|---------------------------------|--|
| Mahoning Township, PA | 9/17 | Water and Sewer Assets | Authored Valuation Report, which is part of Act 12 Filing. |
| Atmos Energy Corporation | 9/16 | Intrastate Natural Gas Pipeline | Authored Valuation for internal purposes. |
| Village of Glenview, IL (North Maine Utilities) | 7/14 | Water and Sewer Assets | Co-Authored Valuation Report, which was part of House Bill 1379 Filing (similar to PA Act 12). |
| Springfield Township, PA | 8/14 | Sewer Assets | Co-Authored Valuation report for internal purposes. |
| Erie City Water Authority, Erie, PA | 12/13 | Water Assets | Sponsored Valuation Testimony in Arbitration Hearing. |
| City of Allentown, PA | 12/12 | Water and Sewer Assets | Assisted in the generation of Valuation Report. |

| SPONSOR | DATE | CASE/APPLICANT | DOCKET NO. | SUBJECT |
|--|-------|---|-----------------------|-------------------------------|
| Regulatory Commission of Alaska | | | | |
| Alaska Power Company | 07/16 | Alaska Power Company | Docket No. TA857-2 | Rate of Return |
| Colorado Public Utilities Commission | | | | |
| Atmos Energy Corporation | 06/17 | Atmos Energy Corporation | Docket No. 17AL-0429G | Return on Equity |
| Delaware Public Service Commission | | | | |
| Tidewater Utilities, Inc. | 11/13 | Tidewater Utilities, Inc. | Docket No. 13-466 | Capital Structure |
| Hawaii Public Utilities Commission | | | | |
| Kaupulehu Water Company | 02/18 | Kaupulehu Water Company | Docket No. __ | Rate of Return |
| Aqua Engineers, LLC | 05/17 | Puhi Sewer & Water Company | Docket No. 2017-0118 | Cost of Service / Rate Design |
| Hawaii Resources, Inc. | 09/16 | Laie Water Company | Docket No. 2016-0229 | Cost of Service / Rate Design |
| Illinois Commerce Commission | | | | |
| Utility Services of Illinois, Inc. | 11/17 | Utility Services of Illinois, Inc. | Docket No. 17-1106 | Cost of Service / Rate Design |
| Aqua Illinois, Inc. | 04/17 | Aqua Illinois, Inc. | Docket No. 17-0259 | Rate of Return |
| Utility Services of Illinois, Inc. | 04/15 | Utility Services of Illinois, Inc. | Docket No. 14-0741 | Rate of Return |
| Indiana Utility Regulatory Commission | | | | |
| Aqua Indiana, Inc. | 03/16 | Aqua Indiana, Inc. Aboite Wastewater Division | Docket No. 44752 | Rate of Return |
| Twin Lakes, Utilities, Inc. | 08/13 | Twin Lakes, Utilities, Inc. | Docket No. 44388 | Rate of Return |

| SPONSOR | DATE | CASE/APPLICANT | DOCKET No. | SUBJECT |
|---|-------|---|---------------------------|--|
| Louisiana Public Service Commission | | | | |
| Louisiana Water Service, Inc. | 06/13 | Louisiana Water Service, Inc. | Docket No. U-32848 | Rate of Return |
| Massachusetts Department of Public Utilities | | | | |
| Liberty Utilities | 07/15 | Liberty Utilities d/b/a New England Natural Gas Company | Docket No. 15-75 | Rate of Return |
| Missouri Public Service Commission | | | | |
| Indian Hills Utility Operating Company, Inc. | 10/17 | Indian Hills Utility Operating Company, Inc. | Case No. SR-2017-0259 | Rate of Return |
| Raccoon Creek Utility Operating Company, Inc. | 09/16 | Raccoon Creek Utility Operating Company, Inc. | Docket No. SR-2016-0202 | Rate of Return |
| New Jersey Board of Public Utilities | | | | |
| Middlesex Water Company | 01/17 | Middlesex Water Company | Docket No. WR1710xxxx | Rate of Return |
| Middlesex Water Company | 03/15 | Middlesex Water Company | Docket No. WR15030391 | Rate of Return |
| The Atlantic City Sewerage Company | 10/14 | The Atlantic City Sewerage Company | Docket No. WR14101263 | Cost of Service / Rate Design |
| Middlesex Water Company | 11/13 | Middlesex Water Company | Docket No. WR1311059 | Capital Structure |
| Public Utilities Commission of Ohio | | | | |
| Aqua Ohio, Inc. | 05/16 | Aqua Ohio, Inc. | Docket No. 16-0907-WW-AIR | Rate of Return |
| Pennsylvania Public Utility Commission | | | | |
| Columbia Water Company | 09/17 | Columbia Water Company | Docket No. R-2017-2598203 | Rate of Return |
| Veolia Energy Philadelphia, Inc. | 06/17 | Veolia Energy Philadelphia, Inc. | Docket No. R-2017-2593142 | Rate of Return |
| Emporium Water Company | 07/14 | Emporium Water Company | Docket No. R-2014-2402324 | Rate of Return |
| Columbia Water Company | 07/13 | Columbia Water Company | Docket No. R-2013-2360798 | Rate of Return |
| Penn Estates Utilities, Inc. | 12/11 | Penn Estates, Utilities, Inc. | Docket No. R-2011-2255159 | Capital Structure / Long-Term Debt Cost Rate |
| South Carolina Public Service Commission | | | | |
| Carolina Water Service, Inc. | 06/15 | Carolina Water Service, Inc. | Docket No. 2015-199-WS | Rate of Return |
| Carolina Water Service, Inc. | 11/13 | Carolina Water Service, Inc. | Docket No. 2013-275-WS | Rate of Return |
| United Utility Companies, Inc. | 09/13 | United Utility Companies, Inc. | Docket No. 2013-199-WS | Rate of Return |
| Utility Services of South Carolina, Inc. | 09/13 | Utility Services of South Carolina, Inc. | Docket No. 2013-201-WS | Rate of Return |
| Tega Cay Water Services, Inc. | 11/12 | Tega Cay Water Services, Inc. | Docket No. 2012-177-WS | Capital Structure |



Appendix A
Professional Qualifications of
Dylan W. D'Ascendis, CRRA, CVA

| SPONSOR | DATE | CASE/APPLICANT | DOCKET No. | SUBJECT |
|--|-------------|----------------------------------|-------------------|------------------------------|
| Virginia State Corporation Commission | | | | |
| Aqua Virginia, Inc. | 7/17 | Aqua Virginia, Inc. | PUR-2017-00082 | Rate of Return |
| Massanutten Public Service Corp. | 08/14 | Massanutten Public Service Corp. | PUE-2014-00035 | Rate of Return / Rate Design |