

**Application of Pennsylvania-American Water Company for Acquisition of
the Wastewater Assets of the Borough of Kane Authority
66 Pa. C.S. § 1329
Application Filing Checklist – Water/Wastewater
Docket No. A-2019-3014248**

13. Seller Testimony:
- a. Provide seller direct testimony supporting the application, if any.
 - b. Provide seller UVE direct testimony.

RESPONSE:

- a. See enclosed the Direct Testimony of Donald E. Payne on behalf of the Borough of Kane Authority, **BA Statement No. 1.**
- b. See enclosed the direct Testimony of Harold Walker III, Manager – Financial Studies for Gannett Fleming Valuation and Rate on behalf of the Borough of Kane Authority, **BA Statement No. 2.**

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water Company :
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 Borough of Kane Authority's assets, :
properties and rights related to its wastewater collection and : Docket No. A-2019-3014248
treatment system to Pennsylvania-American Water Company, and :
(2) the rights of Pennsylvania-American Water Company to begin :
to offer or furnish wastewater service to the public in the Borough :
of Kane, and in portions of Wetmore Township, McKean County, :
Pennsylvania. :

BOROUGH OF KANE AUTHORITY

STATEMENT NO. 1

**DIRECT TESTIMONY OF
DONALD E. PAYNE**

December 2, 2019

1 **DIRECT TESTIMONY OF**
2 **DONALD E. PAYNE**
3

4 **I. INTRODUCTION AND BACKGROUND**

5 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

6 **A.** My name is Donald E. Payne. My business address is 112 Bayard Street, Kane, PA 16735.
7

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

9 **A.** I am the Borough Manager of the Borough of Kane (“Borough”) and have been employed
10 in this position since 2014. As Borough Manager, I am an *ex officio* member of the Board
11 of the Borough of Kane Authority (“Authority”).
12

13 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
14 **EMPLOYMENT EXPERIENCE.**

15 **A.** I graduated high school in 1966 and within six months, was self-employed. As a business
16 man of 45 years, my timber company dealt in domestic and international markets shipping
17 products mainly to Europe and Asian markets. My skill set includes organizational
18 structure, finance, financial analysis, and dealing with legal issues.
19

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

22 **A.** No.
23

24 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

1 A. I am appearing on behalf of the Authority in this proceeding. I was intimately involved in
2 the decision to sell the wastewater system currently owned by the Authority and the
3 negotiations that resulted in the Asset Purchase Agreement (“APA”).
4

5 **II. BACKGROUND**

6 **Q. WHAT DOES THE APPLICATION SEEK FROM THE COMMISSION?**

7 A. This proceeding concerns the application (“Application”) of Pennsylvania-American
8 Water Company (“PAWC”), seeking PUC approval of PAWC’s acquisition of the System
9 (the “Transaction”). The Authority has a vested interest in seeing the Application promptly
10 approved by the Commission.
11

12 **Q. PLEASE DESCRIBE THE SYSTEM.**

13 A. The System provides wastewater collection and treatment service to customers in the
14 Borough and in portions of Wetmore Township (the “Township”). The System is owned
15 by the Authority, but is operated by the Borough pursuant to the Management Agreement
16 from Borough of Kane Authority to Borough of Kane dated as of September 21, 1994.
17

18 **Q. PLEASE DESCRIBE THE AUTHORITY.**

19 A. The Authority is a municipal authority formed under the Municipality Authorities Act of
20 1945. It is governed by a board composed of representatives of the Borough and the
21 Township.

1 **Q. ARE THE AUTHORITY, THE TOWNSHIP AND THE BOROUGH PARTIES TO**
2 **THE APA?**

3 **A.** Yes. They are parties to the APA because, following closing on the Transaction, the
4 Authority will be dissolved and the Borough and the Township will assume responsibility
5 for certain representations and warranties under the APA.
6

7 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY AND**
8 **SUMMARIZE THE KEY POINTS.**

9 **A.** I will focus on the benefits of the Transaction that are most important to the Authority, the
10 Borough and the Township, including:

- 11 • Stabilizing the real estate tax base;
- 12 • Defeating all sewer debt;
- 13 • Fully funding pension plans;
- 14 • Fully funding other post-employment benefits (“OPEB”) requirements;
- 15 • Funding storm sewer improvements;
- 16 • Funding an equipment replacement program;
- 17 • Providing matching funds for State and Federal grants to meet other capital needs;
- 18 and,
- 19 • Removing Authority responsibility for compliance with increasing environmental
- 20 requirements.

21 The democratically-elected members of the Borough Council (“Council”), and the
22 democratically-elected members of the Township Board of Supervisors (“Supervisors”),
23 together with the appointed members of the board (“Board”) of the Borough of Kane
24 Authority have voluntarily agreed to enter into this Transaction because it is in the best
25 interests of the citizens of the Borough and the Township. The Authority will receive
26 \$17,560,000 from the sale of the System. As described in detail later in this testimony, this
27 money will subsequently be paid to the Township and the Borough, and the Authority will
28 be dissolved. The Borough and the Township will use this money for public purposes. For

1 example, the Borough will use the funds for such purposes as: eliminating the unfunded
2 liability in the Borough pension plans, eliminating the unfunded liability in the OPEB plan,
3 fully funding equipment purchases, and eliminating the General Fund debt. This will
4 greatly benefit the Borough citizens' future.

5
6 **III. DESCRIPTION OF THE BOROUGH AND REASONS FOR THE**
7 **TRANSACTION**
8

9 **Q. PLEASE DESCRIBE THE BOROUGH GENERALLY.**

10 **A.** Kane Borough is a borough in McKean County, Pennsylvania, consisting of 1.6 square
11 miles, with a population of approximately 3,500.

12
13 **Q. DESCRIBE THE FINANCIAL CHALLENGES OF THE BOROUGH OVER THE**
14 **PAST 25 YEARS.**

15 **A.** The Borough of Kane has experienced a decline in manufacturing industry due to it moving
16 offshore. This has also caused a decline in population effecting our tax base. However,
17 we still have the same infrastructure to financially support with limited resources.

18
19 **Q. DESCRIBE THE RATIONALE FOR THE DECISION TO EXPLORE THE SALE**
20 **OF THE SEWER SYSTEM.**

21 **A.** The Council has a strong belief that the operation of the wastewater treatment system is no
22 longer a core function of government. It is the Council's opinion that the economies of
23 scale and the professional expertise exhibited in the private sector far surpasses the ability
24 of the Borough to operate a wastewater treatment system, particularly with regard to ever-
25 increasing environmental and regulatory compliance matters. The Council feels very

1 strongly that the sale of the System would provide the Council and the Administration of
2 the Borough sufficient time and resources to more effectively manage the delivery of the
3 core services to the Borough which are police, fire, streets, code enforcement and parks
4 and recreation.

5
6 **Q. HAS THE TRANSACTION BEEN APPROVED BY THE BOROUGH?**

7 **A.** Yes. After two years of due diligence, on September 26, 2019, the Council authorized the
8 approval of the sale. After undergoing a thorough financial analysis by staff and the
9 Borough Solicitor, the Council concluded that the sale of the System was in the best interest
10 of the Borough and, on November 4, 2019, signed the APA.

11
12 **Q. HAS THE TRANSACTION BEEN APPROVED BY THE AUTHORITY?**

13 **A.** Yes. The Board approved the transaction at its September 17, 2019 meeting.
14

15 **Q. HAS THE TRANSACTION BEEN APPROVED BY THE TOWNSHIP?**

16 **A.** Yes. The Supervisors approved the transaction at their October 1, 2019 meeting.
17

18 **IV. PROJECT DESCRIPTION AND TRANSACTION BENEFITS**

19 **Q. PLEASE SUMMARIZE THE TRANSACTION.**

20 **A.** The Borough of Kane Authority will sell substantially all of the assets of the System to
21 PAWC. In return, PAWC will pay the Authority \$17,560,000. The Authority will
22 distribute 80% of the proceeds to the Borough and 20% to the Township, but will retain
23 \$1,000,000 to secure missing easements for up to one year following the Closing Date.

1 **Q. PLEASE DESCRIBE THE LIKELY IMPACT OF THE TRANSACTION ON THE**
2 **BOROUGH, ITS RESIDENTS AND THE REGIONAL ECONOMY.**

3 **A.** As stated above, the analysis prepared by the Administration and supported by Council
4 concludes that the Borough will be in a position to maintain real estate taxes at current
5 levels for the foreseeable future should the sale of the System be finalized. Eliminating the
6 unfunded liability in the Borough's pension plans and OPEB plan, as well as funding storm
7 sewer improvements and equipment replacement expenses, will have a significant positive
8 impact on the General Fund. This will enable the Borough to stabilize its expenses and
9 enhance its revenues such that real estate taxes will not be required to be increased in the
10 foreseeable future.

11
12 The proceeds from the sale will enable the Borough to submit applications for
13 infrastructure improvements that are needed to support the Borough's economic
14 development strategy as well as provide improvements to the Borough's park system and
15 stormwater system.

16
17 **Q. ASIDE FROM THE USE OF THE TRANSACTION PROCEEDS TO ADDRESS**
18 **CERTAIN PARTS OF THE BOROUGH'S FINANCIAL CHALLENGES, ARE**
19 **THERE ADDITIONAL BENEFITS OF THE TRANSACTION FROM THE**
20 **BOROUGH'S PERSPECTIVE?**

21 **A.** Absolutely, the use of the proceeds is only one of the benefits. The Transaction has several
22 additional benefits that justify Commission approval. From my perspective, these further
23 benefits include but are not limited to:

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- Because the System would be owned by a public utility rather than a municipal authority, the System’s assets would become taxable.
- Because PAWC has greater financial resources than does the Authority, PAWC is in a better position to replace aging infrastructure and make upgrades in the System to address increasingly stringent environmental regulations.
- Because the System would be owned by a public utility regulated by the Commission, customers of the System would be protected by the Commission’s rate-making process and its complaint process. They would also be able to seek assistance from the Office of Consumer Advocate, the Office of Small Business Advocate, and the Bureau of Investigation and Enforcement.
- Customers of the System will have access to PAWC’s customer assistance programs.
- Because PAWC is a large and experienced public utility, it has greater expertise in the operation of a wastewater system than does the Authority or the Borough, ensuring that customers of the System will receive adequate and efficient wastewater service in the future.
- In the APA, PAWC has committed to offer employment to each of the current treatment plant operator employees, subject to certain conditions. This provision of the agreement was important to the Borough.
- PAWC currently provides water service in the Borough. Having the same provider of water and wastewater service would make things simpler for Borough residents.

32 **Q. TO THE BEST OF YOUR KNOWLEDGE, DOES THE TRANSACTION**
33 **ADVERSELY IMPACT ANY SEGMENT OF THE PUBLIC IN ANY MATERIAL**
34 **WAY?**

35 **A.** No. To the contrary, the Transaction will have positive impacts on the Borough and the
36 Township, on their citizens, and on the customers of the System as noted above.

37

1 The Council discussed the proposed sale at five (5) regular monthly meetings and two (2)
2 publicly advertised special meetings. The Borough of Kane Authority worked with
3 Council regarding these meetings at their regular bimonthly meetings. The public was
4 invited to speak on the proposed Transaction at each of these public meetings.

5
6 **Q. ARE YOU AWARE OF ANY UNDEDICATED ASSETS THAT WERE INCLUDED**
7 **IN THE ENGINEER'S INVENTORY UPON WHICH THE UTILITY**
8 **VALUATION EXPERTS BASED THEIR APPRAISALS?**

9 **A.** No. To the best of my knowledge, information and belief, all assets included in the
10 engineer's inventory are owned by the Borough of Kane Authority.


11
12 **V. CONCLUSION**

13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

14 **A.** Yes. However, I reserve the right to supplement my testimony as additional issues arise
15 during the course of this proceeding.

VERIFICATION

I, Donald E. Payne hereby state that the facts above set forth above are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements made herein are made subject to the penalties of 18 Pa. Cons. Stat. §4904 relating to unsworn falsification to authorities.



Donald E. Payne, Borough of Kane Authority

Dated: 11/25/19

APPENDIX A-13-b
SELLER UVE TESTIMONY

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water Company :
under Section 1102(a) of the Pennsylvania Public Utility Code, 66 :
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substantially all of the Borough of Kane Authority's assets, :
properties and rights related to its wastewater collection and : Docket No. A-2019-3014248
treatment system to Pennsylvania-American Water Company, and :
(2) the rights of Pennsylvania-American Water Company to begin :
to offer or furnish wastewater service to the public in the Borough :
of Kane, and in portions of Wetmore Township, McKean County, :
Pennsylvania. :

BOROUGH OF KANE AUTHORITY

STATEMENT NO. 2

DIRECT TESTIMONY

OF

HAROLD WALKER, III

FAIR MARKET VALUE APPRAISAL

December 2, 2019

Prepared by:
GANNETT FLEMING
VALUATION AND RATE CONSULTANTS, LLC



Valley Forge, Pennsylvania

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1 **INTRODUCTION**

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

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

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

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

8 **Q. WOULD YOU DESCRIBE BRIEFLY GANNETT FLEMING?**

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

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

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

1 **Q. PLEASE DESCRIBE YOUR QUALIFICATIONS AND YOUR EDUCATIONAL**
2 **BACKGROUND AND EMPLOYMENT EXPERIENCE?**

3 A. My educational background, business experience and qualifications are provided in a
4 Curriculum Vitae included as Appendix A.

5 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
6 **PUBLIC UTILITY COMMISSION?**

7 A. Yes. I have testified before the Pennsylvania Public Utility Commission (“Commission”
8 or “PUC”), as well as other state regulatory commissions, on many occasions, as shown on
9 Appendix A.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 A. My testimony describes and explains the fair market value appraisal of the Kane Borough
12 Authority’s wastewater system assets (“Wastewater System”) that I and staff, working
13 under my direction, performed. Gannett Fleming was engaged by Kane Borough Authority
14 (“Authority”) to perform this appraisal. Our report is entitled “Kane Borough Authority
15 Wastewater System Assets Fair Market Value Appraisal at June 30, 2019.” The appraisal
16 and its report was developed to meet the criteria established in Section 1329 of the
17 Pennsylvania Public Utility Code (“Code”), 66 Pa. C.S. § 1329 (“Determination of the fair
18 market value of water and wastewater assets”).

19 In its 2015-2016 legislative session, the Pennsylvania Legislature passed Act 12 of
20 2016 and Governor Wolf signed Act 12 into law adding Section 1329 of the Code which
21 established the legislative requirements facilitating the acquisition of municipal and
22 regional water and wastewater systems by private investor-owned utilities and other
23 entities which are rate-regulated by the Commission. This legislation was intended to

1 facilitate the acquisition of water and wastewater systems in order to facilitate capital
2 improvements to the water and or wastewater properties.

3 **QUALIFICATION AS UTILITY VALUATION EXPERT**

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

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

8 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH GANNETT FLEMING WAS**
9 **PLACED ON THE COMMISSION’S REGISTRY OF UTILITY VALUATION**
10 **EXPERTS.**

11 A. After passage of Section 1329 of the Code, the Commission established an application
12 process by which the Commission would approve and designate firms to be placed on the
13 Commission’s “Registry of Utility Valuation Experts.” To be included on the registry, the
14 UVEs must establish their qualifications. Gannett Fleming submitted its original
15 application and the required proof of experience in September of 2016 and received
16 confirmation and approval from the Commission of Gannett Fleming’s placement on the
17 Commission’s UVE Registry in December of 2016. Renewal of Commission’s UVE
18 Registry must be done annually. Gannett Fleming submitted its 2018 renewal application
19 and the required proof of experience in December of 2017 and received confirmation and
20 approval from the Commission of Gannett Fleming’s placement on the Commission’s
21 UVE Registry in January of 2018. Again in 2018, Gannett Fleming submitted its 2019
22 renewal application and the required proof of experience in December of 2018 and received

1 confirmation and approval from the Commission of Gannett Fleming's placement on the
2 Commission's UVE Registry in January of 2019.

3 **Q. HAVE YOU EVER HAD YOUR PROFESSIONAL CREDENTIALS REVOKED**
4 **OR SUSPENDED?**

5 A. No.

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

8 A. Yes. In addition to serving as an expert witness on various financial and economic matters
9 before utility regulatory commissions for over 30 years, I have also provided valuation of
10 utility assets services for more than 20 years. In that capacity I have testified on valuation
11 matters before the Commission and sponsored or adopted Gannett Fleming's UVE
12 appraisals in Section 1329 of the Public Utility Code in the New Garden Township
13 proceeding, the Limerick Township proceeding, the East Bradford Township proceeding,
14 the Mahoning Township proceeding, the Exeter Township proceeding, the Cheltenham
15 Township proceeding and the East Norriton Township proceeding. In addition to testifying
16 in 1329 proceedings, I have also testified and filed reports on valuation matters in
17 California, Illinois, New Hampshire and Pennsylvania in courts of law and regulatory
18 commissions.¹

19 **Q. HAVE YOU OR GANNETT FLEMING OR ANY OF ITS STAFF DERIVED ANY**
20 **MATERIAL FINANCIAL BENEFIT FROM THE SALE OF WASTEWATER**
21 **SYSTEM'S ASSETS OTHER THAN FEES FOR YOUR SERVICES RENDERED?**

¹ An electronic link to the PA PUC Dockets where I have testified in the last two years is provided in response to Section 1329 Application Standard Data Requests 15-d. All other testimony relating to valuation is more than two years old and therefore, is not provided.

1 A. No.

2 **Q. ARE YOU OR GANNETT FLEMING OR ANY OF ITS STAFF AN IMMEDIATE**
3 **FAMILY MEMBER OF A DIRECTOR, OFFICER, OR EMPLOYEE OF EITHER**
4 **PENNSYLVANIA AMERICAN WATER COMPANY, INC. (“PAWC”) OR THE**
5 **AUTHORITY?**

6 A. No.

7 **Q. IS GANNETT FLEMING IN COMPLIANCE WITH APPLICABLE**
8 **PENNSYLVANIA LAWS?**

9 A. Yes.

10 **Q. DOES GANNETT FLEMING HAVE THE FINANCIAL AND TECHNICAL**
11 **FITNESS, INCLUDING PROFESSIONAL LICENSES AND TECHNICAL**
12 **CERTIFICATIONS, TO PERFORM A FAIR MARKET VALUATION OF THE**
13 **ASSETS OF THE AUTHORITY?**

14 A. Yes, to be placed on the Commission’s “Registry of Utility Valuation Experts” Gannett
15 Fleming had to establish its qualifications.

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

20 A. No.

21 **Q. HAVE YOU CORRESPONDED WITH SELLER’S UVE WITH REGARD TO ITS**
22 **FAIR MARKET VALUE APPRAISAL OF THE ASSETS AT ISSUE IN THIS**
23 **CASE?**

1 A. No.

2 **Q. DO YOU HAVE ANY AFFILIATION WITH EITHER THE SELLING UTILITY**
3 **OR THE ACQUIRING PUBLIC UTILITY?**

4 A. No. Other than the current assignment to provide the subject appraisal, I have no business
5 or personal relationships with any party to the proposed acquisition.

6 **FEES PAID FOR UTILITY VALUATION EXPERT SERVICES**

7 **Q. WHAT IS THE GANNETT FLEMING FEE ARRANGEMENT TO DELIVER THE**
8 **APPRAISAL?**

9 A. Gannett Fleming is being compensated on an hourly basis. Our fee arrangement is included
10 as Appendix A-7.2 to Pennsylvania-American Water Company, Inc.'s ("PAWC")
11 Application. True, correct, and complete copies of Gannett Fleming's invoices to the
12 Authority for this matter, as of the date of PAWC's Application filing, are also included in
13 Appendix A-7.2.

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

16 A. The estimated total compensation that Gannett Fleming will receive for its services in this
17 matter as of the date of PAWC's Application filing is \$45,000, which represents
18 approximately 0.20% of the fair market valuation. I estimate our fee will total \$75,000 if
19 this proceeding is fully litigated, which represents approximately 0.37% of the fair market
20 valuation.

21 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH THIS COMPENSATION WAS**
22 **NEGOTIATED?**

1 A. Gannett Fleming submitted a proposal to provide the required services in February 2018,
2 which the Authority accepted.

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

5 A. Yes.

6 **Q. WILL GANNETT RECEIVE ITS FEE REGARDLESS OF WHETHER THE**
7 **COMMISSION APPROVES THE PROPOSED TRANSACTION OR WHETHER**
8 **IT CLOSES?**

9 A. Yes. 66 Pa. C.S. § 1329(a)(3) mandates that I comply with the Uniform Standards of
10 Professional Appraisal Practice (“USPAP”) when developing an appraisal. Under the
11 USPAP, I cannot perform the appraisal with bias and acceptance of a fee contingent on a
12 particular outcome like closing or Commission approval would violate the Ethics Rule.

13 **Q. ARE YOU ADVOCATING FOR ANY PARTY OR OUTCOME?**

14 A. No. The Ethics Rule of the USPAP, applicable here pursuant to 66 Pa. C.S. § 1329(a)(3),
15 requires that I perform the appraisal with impartiality, objectivity, and independence, and
16 without accommodation of personal interests. I have not performed this appraisal
17 assignment with bias and I am not advocating the cause or interest of any party or issue.
18 Further, I have not accepted this or any assignment that includes the reporting of
19 predetermined opinions and conclusions.

20 **FAIR MARKET VALUATION OF WASTEWATER SYSTEM’S ASSETS**

21 **Q. PLEASE IDENTIFY APPENDIX A-5.2 TO PAWC’S APPLICATION IN THIS**
22 **PROCEEDING?**

1 A. Appendix A-5.2 of PAWC’s application includes Gannett Fleming’s appraisal report dated
2 November 12, 2019.

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

4 A. I personally prepared, and also directed and supervised Gannett Fleming personnel in
5 preparing, the report, and recognize it as Gannett Fleming’s work product.

6 **Q. IS APPENDIX A-5.2 A TRUE, COMPLETE, AND ACCURATE COPY OF YOUR**
7 **VALUATION REPORT?**

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

9 **Q. PLEASE DESCRIBE THE PROCESS BY WHICH YOU PREPARED THE**
10 **VALUATION REPORT.**

11 A. In accordance with Section 1329 of the Code, the Authority engaged Gannett Fleming to
12 prepare the fair market valuation report of the Wastewater System. The Authority provided
13 financial statements regarding the Wastewater System and a copy of the Engineering
14 Assessment² as required by Section 1329(a)(4). In addition, Gannett Fleming and its parent
15 company (Gannett Fleming Inc.) reviewed the assets, reviewed additional information
16 provided by the Authority and conducted additional research regarding the Authority and
17 the Wastewater System, including a site visit. After those activities and data gathering, we
18 developed the appraisal.

19 The appraisal contains a letter of transmittal; a table of contents detailing all the
20 sections of the report and work papers; and a narrative report explaining our methodology
21 and conclusions.

² “Wastewater System Original Cost of Inventory/Assets” dated September 19, 2019 and related files prepared by Gannett Fleming Inc.

1 The intent of the valuation report is to provide the appraisal results, as well as the
2 entire appraisal work file, in sufficient detail to satisfy the parties' and Commission's
3 review requirements of Section 1329 and the Commission's Final Implementation Order,
4 *In re: Implementation of Section 1329 of the Public Utility Code*, Docket No. M-2016-
5 2543193 (Order Entered October 27, 2016) and Final Supplemental Implementation Order
6 *In re: Implementation of Section 1329 of the Public Utility Code*, Docket No. M-2016-
7 2543193 (Order Entered February 28, 2019). In addition to a copy of the appraisal report,
8 I have provided supporting work papers for the appraisal report in Appendix A-5.2 of
9 PAWC's Application. The relevant work papers have also been submitted to the
10 Commission and provided to the public advocates in CONFIDENTIAL live electronic
11 format.

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

14 A. No.

15 **Q. WAS THE FAIR MARKET VALUATION OF THE WASTEWATER SYSTEM**
16 **ASSETS DETERMINED IN COMPLIANCE WITH USPAP?**

17 A. Yes. Our fair market valuation was determined in compliance with USPAP 2018-2019
18 Edition.

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

21 A. Yes.

22 **Q. DID YOU INCLUDE ANY EXTRAORDINARY ASSUMPTIONS OR**
23 **HYPOTHETICAL CONDITIONS IN DEVELOPING YOUR APPRAISAL?**

1 A. No.

2 **Q. DID YOU INCLUDE ANY LIMITING CONDITIONS IN DEVELOPING YOUR**
3 **APPRAISAL?**

4 A. Yes. We accepted all information and data provided by the Authority and PAWC as it
5 pertains to this assignment “as is” after a limited review. That is, we neither audited nor
6 verified any data, engineering assessment, financial record or operating data provided for
7 this assignment. We assumed all title to all assets included in the appraisal is good and
8 marketable and no hazardous conditions or materials exist which could affect the assets.

9 **Q. PLEASE SUMMARIZE YOUR RESULTS OF THE APPLICATION OF THE**
10 **COST, MARKET AND INCOME APPROACHES.**

11 A. Please see the below table:

Approach	Indicated Value	Weight	Weighted Value
Cost Approach	\$33,693,500	33.00%	\$11,118,855
Market Approach	19,926,962	34.00%	6,775,167
Income Approach	15,125,204	33.00%	4,991,317
		100%	\$22,885,339
Conclusion			\$22,885,000

12

13 **Q. PLEASE FURTHER DESCRIBE EACH APPROACH IN THE DEVELOPMENT**
14 **OF YOUR APPRAISAL**

15 A. We developed our appraisal utilizing the cost, income, and market approaches as required
16 by USPAP and Section 1329 of the Code. We used six methods under the Cost, Market
17 and Income Approaches to valuation: Original Cost Method, Replacement Cost Method,
18 Capitalization of Earnings Method, Discounted Cash Flow Method (market multiple

1 discounted cash flow method and the capitalization discounted cash flow method), and the
2 Selected Transactions Method.

3 The results from the capitalization of earnings method, discounted cash flow
4 method (market multiple discounted cash flow method and the capitalization discounted
5 cash flow method) form the basis for our Income Approach. Our Market Approach is
6 supported by the market multiples method and selected transactions method. The results
7 from the original cost method form the basis for our replacement cost method, and both
8 methods form the basis for our Cost Approach. These approaches are summarized below.

9 *Cost Approach.* The cost approach utilized the original cost method and
10 replacement cost method. The replacement cost method was calculated by trending
11 (trended cost method) the asset inventory from the original cost new method. The original
12 cost method determined the original cost new measure of the cost of the assets when first
13 constructed based on the information contained in the Engineering Assessment. The
14 original cost new inventory was trended using the Handy Whitman Index of Public Utility
15 Construction Costs for the water industry to produce the replacement cost new. The
16 calculated accrued depreciation was determined for the original cost new and for the
17 replacement cost new as of June 30, 2019. The calculated accrued depreciation was based
18 on the assets' attained ages, and the service life of the assets. The cost basis of depreciable
19 assets was reduced annually by the accumulated depreciation to reflect the loss in the
20 service value of the assets since being constructed. All land and land rights were valued at
21 original cost.

22 *Income Approach.* The income approach utilized the capitalization of earning (cash
23 flow) method and the discounted cash flow method. The capitalization of earning method

1 converted a single base economic income number to a value by dividing it by a
2 capitalization rate. The discounted cash flow method used estimates of future debt free net
3 cash flow and discounted them to arrive at a present value or price of the cash flows. The
4 capitalization rate and the discount rate were developed based on market debt and equity
5 rates at the appraisal date. The discounted cash flow method reflected two types of
6 discounted cash flow analyses, the EBIT and EBITDA terminal value model and a
7 capitalization of terminal value model.³

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

20 **Q. PLEASE STATE THE NUMBER OF CUSTOMERS YOU USED IN DEVELOPING**
21 **YOUR APPRAISAL AND THE SOURCE OF THAT NUMBER.**

³ EBIT is earnings before interest and taxes and EBITDA is earnings before interest, tax, depreciation and amortization.

1 A. The number of customers I used was 2,026. This customer count number was provided by
2 the Authority.

3 **Q. DID YOU MAKE ANY UPDATES TO YOUR APPRAISAL AFTER IT WAS**
4 **SUBMITTED TO THE SELLER, AND IF SO, WHAT WAS THE UPDATE, WHEN**
5 **WAS IT MADE, AND WHY WAS IT NECESSARY?**

6 A. I updated my appraisal based on an updated engineering assessment.

7 **Q. DID YOU PERFORM AN ON-SITE INSPECTION OF THE WASTEWATER**
8 **SYSTEM?**

9 A. Wastewater engineers from our parent company viewed or observed the Wastewater
10 System's facilities on December 21, 2017, January 31, 2018 and February 15, 2018.

11 **Q. DID YOU RELY UPON A LICENSED ENGINEER'S ASSESSMENT OF THE**
12 **TANGIBLE ASSETS OF THE WASTEWATER SYSTEM IN PERFORMING**
13 **YOUR VALUATION?**

14 A. Yes. The Authority provided a copy of the Engineering Assessment and this information
15 was incorporated into our Cost Approach in our appraisal.

16 **Cost Approach**

17 **Q. DID YOU USE THE REPRODUCTION COST OR THE REPLACEMENT COST**
18 **IN YOUR COST APPROACH?**

19 A. We utilized the original cost new ("OCN") to calculate the trended original cost ("TOC")
20 measures, or the replacement cost of the depreciable assets by multiplying the OCN by
21 specific cost indices. We used the TOC method because the mandated use of the
22 Engineering Assessment's original cost essentially dictates the use of TOC over the
23 reproduction cost or the replacement cost methods.

1 **Q. WHAT INDEX, IF ANY, DID YOU USE FOR THAT METHOD?**

2 A. The original cost new inventory was trended using the Handy Whitman Index of Public
3 Utility Construction Costs for the water industry to produce the replacement cost new.

4 **Q. UNDER YOUR APPLICATION OF THE COST APPROACH WHAT ASSETS DID**
5 **YOU VALUE OR TREND DIFFERENTLY FROM OTHER ASSETS AND WHY**
6 **WAS THAT NECESSARY?**

7 A. Handy Whitman does not publish indices for all plant accounts. Accordingly, in limited
8 instances when Handy Whitman plant account indices were not available we used the U.S.
9 Bureau of Labor Statistics, Producer Price Index which best matches the assets being
10 trended.⁴

11 **Q. UNDER YOUR APPLICATION OF THE COST APPROACH, WHAT YEAR-END**
12 **DATE DID YOU USE FOR CALCULATING THE DEPRECIATION RESERVE?**

13 A. We used the date of June 30, 2019.

14 **Q. HOW DID YOU DETERMINE THE DEPRECIATION PARAMETERS OF**
15 **SURVIVAL/RETIREMENT CHARACTERISTICS AND SERVICE LIVES FOR**
16 **THE UTILITY PROPERTY UNDER THE COST APPROACH?**

17 A. We determined the average service lives of depreciable assets based on the materials used
18 for construction and how long the depreciable assets are likely to meet service demands.

19 **Q. WHY ARE THOSE PARAMETERS APPROPRIATE?**

20 A. We believe our average service lives of depreciable assets are appropriate based on our
21 experience of having determined average service lives for numerous other water and

⁴ The plant accounts which Handy Whitman indices were not available included: 390.70 Office Furniture and Equipment; 391.70 Transportation Equipment; 392.70 Stores Equipment; 393.70 Tools, Shop and Garage Equipment; 394.70 Laboratory Equipment; 395.70 Power Operated Equipment; and 396.70 Communication Equipment.

1 wastewater utilities and given the fact they resemble those used by other Pennsylvania
2 wastewater companies.

3 **Income Approach**

4 **Q. REGARDING YOUR APPLICATION OF THE INCOME APPROACH, WHAT**
5 **METHOD DID YOU USE TO DETERMINE THE INCOME APPROACH**
6 **RESULT?**

7 A. I used the Capitalization of Earnings Method, Market Multiple Discounted Cash Flow
8 Method (“Market Multiple DCF”), and Capitalization Discounted Cash Flow Method
9 (“Capitalization DCF”). I refer to the Market Multiple DCF and the Capitalization DCF
10 collectively as the DCF method.

11 **Q. WHAT ASSUMPTIONS DID YOU EMPLOY TO DEVELOP YOUR INCOME**
12 **APPROACH RESULT?**

13 A. All general assumptions are listed on page 3 of Exhibit 12, page 5 of Exhibit 13 and page
14 5 of Exhibit 14.

15 **Q. DID YOU USE PAWC’S CAPITALIZATION RATE OR ITS DISCOUNT RATE IN**
16 **YOUR INCOME APPROACH TO VALUATION?**

17 A. No. Use of PAWC’s capitalization rate or its discount rate in an income approach to
18 valuation is not consistent with the standard of value of fair market value because the
19 “buyer” under the standard of value of fair market value is not a specific entity (i.e.,
20 PAWC), but rather a hypothetical buyer. Use of PAWC’s capitalization rate or its discount
21 rate in an income approach to valuation is only used under the standard of value of

1 investment value.⁵ In accordance with Section 1329 of the Code, the standard of value is
2 fair market value, not investment value.

3 **Q. PLEASE EXPLAIN THE CAPITALIZATION RATE AND THE DISCOUNT RATE**
4 **USED IN YOUR INCOME APPROACH TO VALUATION.**

5 A. The capitalization rate used in the capitalization of earnings method and the discount rate
6 used in the DCF method are related. The discount rate is the opportunity cost rate related
7 to the risk of the cash flows. The capitalization rate is simply the discount rate minus the
8 expected growth rate. If no growth is assumed, the capitalization rate is equal to the
9 discount rate.

10 As explained previously, under the standard of value of fair market value the
11 “buyer” is not a specific entity (i.e., Pennsylvania-American Water Company), but rather
12 a hypothetical buyer. Accordingly, the hypothetical bidder/buyer may range from large
13 regional municipal authorities (“MUNI”) to investor owned utilities (“IOU”). For a MUNI,
14 the appropriate discount rate is the current municipal revenue bond yield on June 30, 2019
15 of 3.62%. The appropriate IOU discount rate is the current net of tax overall cost of capital
16 (weighted average cost of capital) on June 30, 2019 and ranges from 6.41% to 7.70%.⁶

17 For a MUNI, the appropriate discount rate is the current municipal revenue bond,
18 3.62%, because debt is the only major source of capital available to finance an acquisition
19 (developed on Exhibit 18, pages 2-5). Although a MUNI likely carries equity on their

⁵ Pratt, Shannon P. “Defining Standards of Value.” Valuation 34, no. 2, June 1989.
<http://www.appraisers.org/docs/default-source/college-of-fellows-articles/defining-standards-of-value.pdf>.

⁶ Both the American Society of Appraisers, ASA Business Valuation Standards, 2009, and the National Association of Certified Valuation Analysts, Professional Standards, 2007, use the same definition: “Weighted Average Cost of Capital (WACC). The cost of capital (discount rate) determined by the weighted average, at market values, of the cost of all financing sources in the business enterprise’s capital structure.”

1 books (balance sheet), all existing equity is already invested in other assets and therefore,
2 cannot be used to finance an acquisition.⁷ For valuation purposes, an embedded cost of
3 debt, or the historical cost of all debt issuances outstanding is not used because this capital
4 is already invested in assets. Whereas the marginal cost of debt, 3.62%, at the valuation
5 date is used in accordance with accepted valuation practice and used for market valuation
6 purposes.

7 As discussed previously, for an IOU, the appropriate discount rate is the net of tax
8 overall cost of capital (weighted average cost of capital), 6.41% to 7.70% (developed on
9 Exhibit 18, pages 2-7). In this instance, the net of tax overall cost of capital (weighted
10 average cost of capital) is based on the Comparable Group's market value capital structure
11 of 19.9% debt and 80.1% equity, a market cost of debt of 3.63% and a range of market cost
12 of equity of 7.36% to 8.96% based on the Comparable Group's market value CAPM on
13 June 30, 2019.⁸ The Comparable Group's net of tax overall cost of capital (weighted
14 average cost of capital) is used as a proxy to conform to the "hypothetical buyer" or
15 "hypothetical seller" of fair market valuation. Use of the buyer's net of tax overall cost of
16 capital (weighted average cost of capital) would produce an investment valuation, not a
17 fair market valuation. The supporting documentation for the development of the MUNI
18 and IOU discount rates are shown on pages 2 to 8 of Exhibit 18.

19 **Q. WHY IS THE NET OF TAX OVERALL COST OF CAPITAL APPROPRIATE TO**
20 **USE?**

⁷ For example, when a municipal or government entity, such as the Commonwealth of Pennsylvania, finances construction of a road or bridge, they only consider the marginal debt cost despite having "equity" reflected on their books (balance sheet).

⁸ For example of the net of tax overall cost of capital, see <http://www.investinganswers.com/financial-dictionary/financial-statement-analysis/weighted-average-cost-capital-wacc-2905>. Also see <http://www.wallstreetmojo.com/weighted-average-cost-capital-wacc/>, or <http://accountingexplained.com/misc/corporate-finance/wacc>.

1 A. The net of tax overall cost of capital is appropriate because the cash flows being discounted
2 are after tax, or net of tax. The income approach uses estimates of future free cash flow and
3 discounts them to arrive at a present value or price of the cash flows. Generally, this
4 analysis begins with an estimate of the Debt Free Net Cash Flow over the next five to
5 twenty years along with a terminal value. In each year, the Debt Free Net Cash Flow is
6 comprised of projected EBIT, minus income taxes, plus projected depreciation and
7 amortization, plus or minus projected changes in net cash working capital, less projected
8 capital expenditures.

9 **Q. WHAT IS THE BASIS FOR THE GROWTH RATE USED TO CALCULATE THE**
10 **CAPITALIZATION RATE USED IN THE INCOME APPROACH?**

11 A. The growth rate used to calculate the capitalization rate reflects the growth in the Debt Free
12 Net Cash Flow subsequent to the terminal value year. For the Authority, no growth rate is
13 used. Under both MUNI and IOU ownership a growth rate of 0.3% was used based on the
14 projected inflation (2.5%) and the actual growth in the Debt Free Net Cash Flow in the
15 years prior to the terminal value year. Under MUNI ownership the average growth in the
16 Debt Free Net Cash Flow for the last two years prior to the terminal value year was 0.3%
17 and 0.4% under IOU ownership. A growth of 0.3% was deemed reasonable based on the
18 aforesaid.

19 **Q. WHAT UTILITY EARNINGS REPORT WAS USED TO CREATE THE CAPITAL**
20 **STRUCTURE USED IN YOUR APPRAISAL?**

21 A. As documented previously in footnotes 5 and 7, book value capitalization is not used in
22 fair market valuation determination. Therefore, we did not use the 6.81% Comparable
23 Group's DSIC (distribution system improvement charge) related net of tax overall cost of

1 capital in our valuation because a “hypothetical buyer” cannot finance an acquisition at
2 such a rate and therefore, its use would provide a meaningless result. The aforementioned
3 6.81% DSIC related cost was determined based on the Comparable Group’s book value
4 capital structure of 42.8% debt and 57.2% equity, a cost of debt of 3.63% and a DSIC cost
5 of equity of 9.95% based on the March 2019 Earnings Report.

6 If we used the 6.81% Comparable Group’s DSIC related net of tax overall cost of
7 capital in our valuation shown on Exhibit 14, the results of the Capitalization DCF would
8 show a range of value for Wastewater System of \$11.1 million to \$11.3 million. Further,
9 the results of the Market Multiple DCF would show a value of \$14.8 million and
10 collectively, the DCF method based on the IOU ownership scenario and a 0.3% growth
11 assumption would indicate a value of \$13.1 million for the Wastewater System. The DCF
12 method based on the MUNI ownership scenario indicates a value of \$17.4 million and the
13 DCF method based on the IOU ownership scenario using DSIC indicates a value of \$13.1
14 million. Collectively, the DCF method indicates a value of \$15.2 million when DSIC is
15 considered.

16 **Q. IF YOU USED A TERMINAL VALUE IN YOUR DISCOUNTED CASH FLOW**
17 **ANALYSIS WHAT IS THE NUMBER OF YEARS OVER WHICH THE CASH**
18 **FLOWS ARE CONSIDERED?**

19 A. The use of a “terminal value” in a Discounted Cash Flow analysis is reasonable and is in
20 accordance with accepted valuation practice. Simply put, the “terminal value” is a
21 mathematical shortcut to avoid having to show and/or calculate annual Debt Free Net Cash
22 Flows for hundreds of time periods, or hundreds of years. Within the Discounted Cash
23 Flow analysis, the “terminal value” is simply a point in time in which the growth in annual

1 Debt Free Net Cash Flows changes from multiple growth rates to a constant growth rate.
2 For example, in our Discounted Cash Flow analyses, the growth rate of annual Debt Free
3 Net Cash Flows during time periods 1 through 13 changes multiple times due to the various
4 general assumptions listed in the Fair Market Value appraisal report. Subsequent to time
5 period 13, the growth in annual Debt Free Net Cash Flows is a constant growth rate.
6 Accordingly, period 13, or year 13, is the “terminal value” year in our DCF method.

7 **Market Approach**

8 **Q. REGARDING YOUR APPLICATION OF THE MARKET APPROACH, WHAT**
9 **METHODS DID YOU USE TO DETERMINE THE MARKET APPROACH**
10 **RESULT?**

11 A. I used the market multiples method and the selected transaction method.

12 **Q. WHAT ASSUMPTIONS, ANALYSES, AND/OR ADJUSTMENTS DID YOU**
13 **MAKE UNDER EACH METHOD?**

14 A. The general assumptions used for the market multiples method are listed on page 1 of
15 Exhibit 15. No assumptions were made under the selected transaction method.

16 **Q. REGARDING YOUR APPLICATION OF THE MARKET MULTIPLES**
17 **METHOD, DID YOU LIMIT YOUR PROXY GROUP USED FOR CALCULATING**
18 **MARKET VALUE TO ONLY COMPANIES WHICH ENGAGE IN**
19 **PENNSYLVANIA FAIR MARKET VALUE ACQUISITIONS?**

20 A. No.

21 **Q. REGARDING YOUR APPLICATION OF THE COMPARABLE SALES USED TO**
22 **ESTABLISH THE VALUATION, DID YOU LIMIT THE TRANSACTIONS**
23 **SELECTED TO THOSE THAT YOU PREVIOUSLY APPRAISED?**

1 A. No.

2 **Q. PLEASE STATE THE COMPARABLE TRANSACTIONS YOU USED IN**
3 **DEVELOPING YOUR MARKET APPROACH.**

4 A. Please see PAWC's Application Appendix A-5.2 (the Gannett Fleming appraisal), Exhibit
5 16, pages 2 and 3, which shows that I reviewed the following transactions⁹ in developing
6 the selected transactions method:

- 7 • Sale of the Municipal Authority of the City of McKeesport wastewater system
8 to Pennsylvania-American Water Company in 2017.
- 9 • Sale of New Garden Township Sewer Authority to Aqua Pennsylvania in 2017.
- 10 • Sale of Limerick Township Wastewater to Aqua Pennsylvania in 2017.
- 11 • Sale of East Bradford Township Wastewater to Aqua Pennsylvania in 2018.
- 12 • Sale of Mahoning Township Water system to Suez Water Pennsylvania Inc. in
13 2018.
- 14 • Sale of Mahoning Township Wastewater system to Suez Water Pennsylvania
15 Inc. in 2018.
- 16 • Sale of Sadsbury Township Wastewater system to Pennsylvania-American
17 Water Company in 2018.
- 18 • Sale of Exeter Township Wastewater system to Pennsylvania-American Water
19 Company in 2019.
- 20 • Sale of Steelton Borough Authority Water system to Pennsylvania-American
21 Water Company in 2019.
- 22 • Sale of Cheltenham Township Wastewater to Aqua Pennsylvania in 2019.

⁹ The years listed indicate when the Commission approved each of the transactions.

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As a check on the transactions I studied, that are listed above, I also reviewed the recently completed purchase of Connecticut Water Service, Inc. by SJW Group (Exhibit 16 page 4) which was originally announced in 2018 and was completed this fall.

Q. WHAT WERE THE RESULTS OF THE MARKET APPROACH ANALYSIS YOU PERFORMED?

A. The results of the market multiples method are shown on page 1 of Exhibit 15 and the results of the selected transactions method are shown on page 1 of Exhibit 16. The conclusion regarding the Market Approach analysis is explained on page 42 of our appraisal.

CONCLUSION

Q. WHAT IS YOUR CONCLUSION REGARDING THE FAIR MARKET VALUE OF THE WASTEWATER SYSTEM’S ASSETS TO BE PURCHASED BY PAWC?

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

Based on our analysis, as described in our appraisal report, the estimate of the fair market value of the Wastewater System as of June 30, 2019 is \$22,885,000 (rounded). The results of the analyses and calculations are summarized in Table 1 for the Systems as follows:

<u>Valuation Approach</u>	<u>Indicated Value</u>
Cost Approach	\$33,693,500
Income Approach	15,125,204
Market Approach	19,926,962

Table 1

We used six methods under the Cost, Market and Income Approaches to valuation: Original Cost Method, Replacement Cost Method, Capitalization of Earnings Method, Discounted Cash Flow Method (market multiple discounted cash flow method and the capitalization discounted cash flow method), Market Multiples Method, and the Selected Transactions Method.

The results from the capitalization of earnings method, market multiple discounted cash flow method and the capitalization discounted cash flow method form the basis for our Income Approach. Our Market Approach is supported by the market multiples method and selected transactions method. The results from the original cost method form the basis for our replacement cost method, and both methods form the basis for our Cost Approach.

We considered the results of each approach as an indicator of value individually, or as independent indicators of value. Therefore, all three approaches to valuation were given consideration in arriving at our estimate of the fair market value conclusion. In our opinion, each of the valuation approaches utilized in our appraisal is equally relevant. Accordingly, we assign an equal weight to the result of each approach. Our conclusion regarding the fair market value can be described by the weightings given the specific results of the three

1 approaches to valuation. The results of our analyses indicate a range of value for the
2 Wastewater System of \$15.1 million to \$33.7 million and collectively indicate a fair market
3 value of \$22.9 million for the Wastewater System.

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

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

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

12 A. Yes. However, I reserve the right to supplement my testimony as additional issues arise
13 during the course of this proceeding.

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 23 states including: Arizona, California, Colorado, Connecticut, Delaware, Illinois, Indiana, Kentucky, Maryland, Massachusetts, Michigan, Missouri, New Hampshire, New Jersey, New York, North Carolina, Oklahoma, Pennsylvania, Rhode Island, South Carolina, 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 Pennsylvania Wastewater Inc	A-2019-3008491	*
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	
Exeter Township	A-2018-3004933	*
Hampton Water Works Company	DW 99-057	
Hidden Valley Utility Services, LP	R-2018-3001306	
Hidden Valley Utility Services, LP	R-2018-3001307	
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	
Millcreek Township Water Authority	55 198 Y 00021 11	*
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 Pennsylvania, Inc.	A-2018-3003519	*
Suez Water Pennsylvania, Inc.	A-2018-3003517	*
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	
Virginia American Water Company	PUR-2018-00175	
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

* - Testimony related to valuation

VERIFICATION

I, Harold Walker, III hereby state that the facts above set forth above are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements made herein are made subject to the penalties of 18 Pa. Cons. Stat. §4904 relating to unsworn falsification to authorities.



Harold Walker III, Manager, Financial Services
Gannett Fleming

Dated: NOVEMBER 25, 2019