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 Royersford Borough's assets, properties and rights related to its wastewater treatment, transportation and collection system facilities 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 Royersford Borough and a portion of the Township of Upper Providence, Montgomery County, Pennsylvania.	:	Docket No. A-2020-3014248 *et al.*

DIRECT TESTIMONY OF
MICHAEL SALVO ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY

Date: July 14, 2020

PAWC Statement No. 1

DIRECT TESTIMONY OF
MICHAEL SALVO

INTRODUCTION

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

A. My name is Michael Salvo and my business address is 852 Wesley Drive, Mechanicsburg, PA 17011.

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

A. I am employed by Pennsylvania-American Water Company ("PAWC") as Senior Manager of Business Development.

Q. WHAT ARE YOUR RESPONSIBILITIES AS SENIOR MANAGER OF BUSINESS DEVELOPMENT?

A. I develop and maintain contacts to stay abreast of new business opportunities. I also manage acquisitions from initial contact, perform due diligence of an opportunity, prepare and submit proposals, develop strategies for acquisitions, participate in agreement negotiations, prepare applications for submission to the Pennsylvania Public Utility Commission ("Commission") and oversee all activities required to close an acquisition. These responsibilities necessitate that I maintain a working knowledge of regulatory and legislative developments, new technologies and current trends as they affect the water and wastewater utility industry, and that I be generally familiar with legislation, regulation and public policy affecting business opportunities.

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

2 **A.** I received a Bachelor of Science (B.S.) degree in Mechanical Engineering Technology
3 from Pennsylvania State University in 1987 and a Master of Business Administration
4 (MBA) from Lebanon Valley College in 1996. My experience in the waterworks industry
5 began in September 1987 when I was employed as an Engineer for Western Pennsylvania
6 Water Company, predecessor to PAWC's Pittsburgh Operations. As an Engineer, I was
7 responsible for certain capital investment projects and oversaw the Pittsburgh Operation's
8 Non Revenue Water Program. On August 1, 1991, I was promoted to Distribution
9 Superintendent in our Hershey/Palmyra Operations. On July 1, 1997, I was promoted to
10 Operations Superintendent in PAWC's Southcentral Region encompassing all East and
11 West Shore PAWC water operations. My principle duties included overseeing all
12 distribution and customer field service operations. On December 1, 1997, I was promoted
13 to Operations Manager for PAWC's North and Southcentral Operations expanding my
14 responsibilities to include all production and treatment processes. My duties also included
15 the preparation and implementation of capital and operating budgets, labor oversight and
16 contract negotiations, managing and strengthening municipal, civic and key stakeholder
17 relationships, and direct interface with regulatory entities. On July 19, 2004, I was
18 promoted to General Manager of Network Operations for American Water Works Service
19 Company ("AWWSC") overseeing the water distribution and wastewater and collections
20 systems and field services in all PAWC's Eastern Operation as well as water distribution
21 and field service operations in AWWSC's Virginia and Maryland Operations known as the
22 Southeast Region. On April 1, 2006, by way of AWWSC's organizational State centric
23 restructuring, my responsibilities reverted back to just include PAWC's Eastern PA

Operations. On January 28, 2008, I was promoted to Senior Director of Field Operations for all PAWC's Eastern PA Operations. In this role, I directed the development, management, and operation of facilities and personnel of PAWC engaged in the operations functional areas of water distribution, wastewater collection, customer field services, and back office administration functions as well as directed the implementation of Company standards, targets, policies and plans. As PAWC's growth opportunities expanded, coupled with my various leadership roles and extensive water and wastewater systems experience, I was asked to support our Business Development team and became a Senior Manager of Business Development on January 4, 2016 and have been in this position since then.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. No.

DESCRIPTION OF THE APPLICATION

Q. HAS PAWC FILED AN APPLICATION WITH THE COMMISSION FOR REGULATORY APPROVAL TO ACQUIRE THE WASTEWATER SYSTEM OF THE ROYERSFORD BOROUGH ("ROYERSFORD" or "BOROUGH") AND RELATED APPROVALS?

A. Yes. PAWC filed an Application on July 14, 2020 for approval of PAWC's acquisition of the Borough's wastewater treatment, conveyance, and collection system facilities (the "System"). I will refer to the acquisition in my testimony as the "Transaction."

The Application was prepared and filed under my supervision. As indicated in my Verification attached to the Application, the Application and its numerous appendices are

true and correct to the best of my knowledge, information, and belief. We used PAWC's records, as well as the records made available by the Borough, to prepare the Application. For purposes of having a complete evidentiary record in this proceeding upon which the Commission can base its decision, I submit the Application and all its appendices (Appendices A through K) as **PAWC Exhibit MS-1**.

Q. WHAT IS PAWC SEEKING IN ITS APPLICATION?

A. There are four basic requests. First, PAWC is requesting approval of the acquisition under Section 1102, 66 Pa. C.S. § 1102, similar to many previous requests that have come before the Commission. Specifically, PAWC seeks approval to acquire the System and to obtain the right to begin service in the areas currently served by the Borough ("Service Area"). The Application contains a pro forma tariff supplement under which the Borough's rates would be initially adopted.

Second, pursuant to Act 12 of 2016, 66 C.S. § 1329 ("Section 1329"), PAWC is seeking to utilize the fair market value of the System for ratemaking rate base. As explained more fully below, fair market value under Section 1329 is the lesser of the stated purchase price in the Asset Purchase Agreement ("APA"), dated December 10, 2019, or the average of the appraisal of the Borough's Utility Valuation Expert ("UVE") and the appraisal of PAWC's UVE.

Third, PAWC is also seeking confirmation under Section 1329 to collect a distribution system improvement charge ("DSIC") for the new service area and seeking accrual and

deferral of certain post-acquisition improvement costs. Specifically, PAWC is seeking the accrual of Allowances for Funds Used During Construction ("AFUDC") for post-acquisition improvements not recovered through its DSIC for book and ratemaking purposes and the deferral of depreciation related to post-acquisition improvements not recovered through DSIC for book and ratemaking purposes. PAWC is also seeking to confirm that, in its next base rate case, it be permitted to include a claim for transaction and closing costs related to the Acquisition.

Fourth, PAWC is seeking a Certificate of Filing for approval under Section 507, 66 Pa. C.S. § 507, for the APA.

Q. IS PAWC PROPOSING THAT ITS APPLICATION BE EVALUATED USING THE FAIR MARKET VALUE PROVISION OF SECTION 1329?

A. Yes. PAWC's Application has been prepared in accordance with the fair market value provisions of Section 1329. Specifically, PAWC is requesting that the ratemaking rate base related to the System be based on the lesser of the average of the UVE fair market value appraisals included in the Application or the APA purchase price. I note, however, that PAWC reserves its right to make alternative ratemaking proposals in future proceedings as may be permitted under the Pennsylvania Public Utility Code ("Code") and regulations.

Q. WHAT DOES SECTION 1329 REQUIRE TO BE INCLUDED IN THE APPLICATION?

1 **A.** Section 1329 requires that the Application include: (1) copies of two UVE appraisals, (2)
2 the purchase price, (3) the ratemaking rate base, (4) the transaction and closing costs, and
3 (5) the proposed tariff. However, as will be explained later in my testimony, the
4 Commission has expanded the filing requirements beyond those specifically required by
5 the statute.
6
7 **Q. WHAT DOES THE COMMISSION REQUIRE FOR THE APPROVAL OF THE**
8 **FAIR MARKET VALUE RATEMAKING TREATMENT PERMITTED UNDER**
9 **SECTION 1329?**
10 **A.** In its Final Supplemental Implementation Order entered February 28, 2019, at Docket No.
11 M-2016-2543193 ("*Final Supplemental Implementation Order*"), the Commission
12 attached as Appendix A an extensive list of specific Section 1329 "Filing Requirements"
13 for items to include with an Application for it to be processed in a six-month time frame.
14 PAWC's Application is structured around those Filing Requirements. Appendix A to the
15 Application and its sub-appendices directly address each of the Filing Requirements.
16
17 **DESCRIPTION OF TESTIMONY FILED WITH THE APPLICATION**
18 **Q. IS PAWC FILING AS PART OF ITS APPLICATION TESTIMONY PREPARED**
19 **BY THE BOROUGH?**
20 **A.** Yes. PAWC's Application includes written direct testimony of the Borough's Manager,
21 Michael A. Leonard and written direct testimony of the Borough's selected UVE, Mr.
22 Harold Walker III, Manager for Gannett Fleming Valuation and Rate Consultants, LLC.
23 PAWC is not sponsoring the testimony of Mr. Leonard or Mr. Walker, but has included it

in the Application as a courtesy in anticipation of the Borough's intervention and participation in the proceeding. PAWC reserves the right to submit rebuttal testimony regarding the Borough's testimony, as appropriate.

Q. PLEASE IDENTIFY THE OTHER PAWC WITNESSES WHO WILL BE PROVIDING WRITTEN DIRECT TESTIMONY AND THEIR SUBJECT MATTER AREAS.

A. In addition to my direct testimony, PAWC will submit the written direct testimony of Mr. Michael Guntrum, PAWC Senior Project Engineer (PAWC Statement No. 2) and Mr. Rod. P. Nevirauskas, AWWSC Senior Director of Rates and Regulations, Mid Atlantic Division (PAWC Statement No. 3). PAWC is also sponsoring direct testimony by its selected UVE, Mr. Jerome C. Weinert, Principal and Director of AUS Consultants (PAWC Statement No. 4).

Mr. Guntrum will describe engineering and environmental challenges associated with the System, support PAWC's technical fitness to operate the System, explain certain commitments and improvements to be made by PAWC and other matters. Mr. Guntrum will also address the anticipated day-to-day operation of the System once it is acquired by PAWC, including staffing and the customer service enhancements that PAWC intends to implement for the benefit of the Borough's customers. Mr. Nevirauskas will address the initial rates, rules, and regulations for the Borough's customers as well as the impact of the Transaction on PAWC's existing customers. Mr. Nevirauskas will also discuss the

financing of the Transaction and PAWC's overall financial fitness. Mr. Weinert will provide supporting testimony for his fair market valuation report.

Q. ASIDE FROM AUTHENTICATING THE APPLICATION FOR ITS ADMISSION INTO THE EVIDENTIARY RECORD AND IDENTIFYING ITS REQUEST FOR RELIEF, WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. My direct testimony describes the Transaction. I will explain why the Transaction is in the public interest and provides affirmative benefits of a substantial nature and should be promptly approved by the Commission. I will also discuss why PAWC is legally, financially, and technically fit to acquire and operate the System.

DESCRIPTION OF THE TRANSACTION

Q. PLEASE PROVIDE A DESCRIPTION OF THE TRANSACTION NEGOTIATION PROCESS.

A. On September 23, 2019, the Borough issued the Royersford Sewer System Request for Bids ("RFB") and on October 25, 2019 supplemented it with Addendum No.1 for the sale of the wastewater system assets. On November 1, 2019, PAWC submitted a proposal to acquire the wastewater system assets. After subsequent arms-length negotiations, on December 10, 2019, the Borough's Council approved the sale of the wastewater system assets and execution of the APA. On December 10, 2019, the Borough and PAWC entered into the APA for the sale of substantially all the assets, properties, and rights of Royersford's System at an agreed-upon price.

1 **Q. CAN YOU PROVIDE AN OVERVIEW OF THE ASSET PURCHASE**
2 **AGREEMENT?**
3 **A.** Yes. The APA is attached as **Appendix A-24-a (CONFIDENTIAL)** to the Application.
4 The APA sets forth the terms and conditions pursuant to which Royersford will sell,
5 transfer and convey all assets of the System, and PAWC will purchase, the System, as well
6 as substantially all properties and rights that Royersford owns and uses in connection with
7 the System. The APA sets forth the entire understanding of the parties with respect to the
8 Transaction. Under the APA, the closing of the Transaction will occur after all applicable
9 governmental approvals, including approvals from this Commission, have been obtained
10 and after all applicable conditions have been met (or waived) by the parties.
11
12 Upon closing of the Transaction, PAWC will take ownership of the System and begin
13 rendering wastewater service to Royersford's current customers and Royersford will
14 permanently discontinue providing or furnishing wastewater service to the public within
15 the Borough and a portion of Upper Providence Township. Additionally, Royersford will
16 assign its bulk wastewater service agreement with Aqua Pennsylvania Wastewater, Inc.
17 ("Aqua") (assigned from Limerick Township) to PAWC upon closing of the Transaction.
18
19 **Q. CAN YOU PLEASE PROVIDE A SUMMARY OF THE APA'S PROVISIONS**
20 **GOVERNING THE TRANSFER OF ASSETS?**
21 **A.** The specific properties, assets and rights to be transferred to PAWC are defined and
22 described in the APA's Section 2.01, while excluded assets are defined in Section 2.02.
23 Generally, the APA states that every asset, property, business, goodwill and rights owned

by the Borough and used in the provision of wastewater service, whether real, personal, mixed, tangible or intangible, and including all the physical plant, property, equipment and facilities comprising the System owned by the Borough shall be conveyed to PAWC. The Engineering Assessment (**Appendix A-15-a**) contains a list of the wastewater system inventory used in connection with the System to be conveyed to PAWC. All interest in real estate, including leases, easements, and access to public rights-of-way, owned by Royersford and relating to the System are defined and described in Schedule 4.09 as well as assigned contracts to be conveyed to PAWC in Schedule 4.15.

Items that will not be transferred include: the Borough's cash and cash equivalents, including accounts receivable; sewer laterals from the edge of the road or mains to and throughout each customer's property; any and all grinder pumps of individual customers; any and all stormwater facilities; the Borough's insurance policies; all rights to any action, suit or claims being pursued by the Borough, all assets, properties and rights used by the Borough other than those which primarily relate to the operations of the System; and, certain Agreements.

Q. HAS PAWC AGREED TO ASSUME ANY LIABILITIES OF ROYERSFORD AS PART OF THE TRANSACTION?

A. Yes. PAWC is accepting certain "Assumed Liabilities" as part of this Transaction on the day of and after closing of the Transaction. Pursuant to Section 2.04 of the APA, PAWC will assume: (i) all liabilities and obligations under the Assigned Contracts and authorizations and permits resulting from events that occur or conditions that arise on or

after closing of the Transaction; (ii) any litigation initiated against Royersford related to the System or the acquired assets resulting from events that occur or conditions that arise on or after closing the Transaction; (iii) all liabilities and obligations for taxes relating to the System, its operations, the acquired assets and the assumed liabilities attributable to the period after closing of the Transaction; (iv) all other liabilities and obligations arising out of or relating to PAWC's ownership or operation of the System and acquired assets on or after closing of the Transaction. However, PAWC will not assume or be liable to pay any liabilities or obligations relating to excluded liabilities or other liabilities or obligations that are not assumed liabilities.

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

A. The purchase price of the System as set forth in Section 3.01 of the APA is $13,000,000.

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

A. Yes. Following the closing of the Transaction, PAWC has committed to invest at least $1,000,000 in capital improvements to the wastewater and/or water infrastructure located in the Borough during the first five years of PAWC's ownership of the System (see Section 3.05 of APA). Pursuant to Section 3.05, Royersford and PAWC have agreed to meet periodically to discuss and cooperate with respect to identification, coordination and completion of capital improvements.

In addition, PAWC has committed to offer employment effective on the closing date to personnel identified in Schedule 7.11(a) subject to PAWC's existing standard hiring policies and procedures applicable to new employees, except with respect to benefits as otherwise provided in Section 7.11(c) and subject to all the terms and conditions of Section 7.11 of the APA.

Q. PLEASE EXPLAIN THE RATES THAT WILL APPLY TO ROYERSFORD'S CUSTOMERS FOLLOWING THE CLOSING OF THE TRANSACTION.

A. As set forth in Section 7.03 of the APA and as will be explained more fully in the Direct Testimony of Mr. Nevirauskas, PAWC Statement No. 3, PAWC has committed to implement, upon closing of the Transaction, Royersford's wastewater rates then in effect at closing, as set forth on Schedule 7.03(a) and not increase base rates until after the second anniversary of the closing date. Immediately upon closing, Royersford's customers will be subject to PAWC's prevailing wastewater tariff on file with the Commission with respect to miscellaneous fees and charges, rules and regulations for wastewater service. All Royersford customers will be billed on a monthly basis. The monthly rates, converted from cubic feet into gallons, are shown in PAWC's pro forma tariff in **Appendix A-13** to the Application.

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

A. Yes. PAWC has made certain commitments to improve the System (see Section 3.05 of the APA). Additionally, my colleague, Michael J. Guntrum, will discuss additional System

capital commitments in great detail in his written direct testimony, PAWC Statement No. 2. PAWC has also committed to offer employment to eligible employees following the Transaction closing (see Section 7.11 of the APA).

DESCRIPTION OF PAWC AND THE ROYERSFORD SYSTEM

Q. PLEASE PROVIDE AN OVERVIEW OF PAWC.

A. PAWC, a subsidiary of American Water Works Company Inc. ("American Water"), is the largest regulated public utility corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania, engaged in the business of collecting, treating, storing, supplying, distributing, and selling water to the public, and collecting, treating, transporting and disposing of wastewater for the public. Water and wastewater services are furnished by PAWC to the public in a service territory encompassing more than 400 communities in 36 counties, including Montgomery County and the nearby counties of Berks and Chester. Overall, PAWC serves a combined population of over 2,400,000 across the Commonwealth and is American Water's largest subsidiary with nearly 21 percent of American Water's regulated customer base.

PAWC currently employs approximately 1,100 professionals with expertise in all areas of water and wastewater utility operations, including engineering, regulatory compliance, water and wastewater treatment plant operation and maintenance, distribution and collection system operation and maintenance, materials management, risk management, human resources, legal, accounting, and customer service. PAWC has the expertise, the record of environmental compliance, the commitment to invest in necessary capital

1 improvements and resources, and the experienced managerial and operating personnel
2 necessary to provide safe and reliable wastewater services to the residents of Royersford and
3 surrounding areas. Furthermore, PAWC has been providing water service to the Borough
4 for many years and the majority of Royersford's wastewater customers are PAWC's water
5 customers.
6
7 **Q. HOW MANY CUSTOMERS DOES THE WASTEWATER SYSTEM CURRENTLY**
8 **SERVE AND HOW MANY CUSTOMERS DOES PAWC CURRENTLY SERVE?**
9 **A.** As of June 1, 2020, Royersford furnished wastewater services to approximately 1,600
10 customers, including 16 residents of Upper Providence Township.[1] In addition, the
11 Borough has a sewer service agreement with Aqua to receive and treat wastewater from a
12 small portion of Limerick Township through one bulk service interconnection located
13 within the Borough. As of May 20, 2020, PAWC served approximately 668,658 water
14 customers across Pennsylvania, inclusive of 615,811 residential, 45,657 commercial, 530
15 industrial, 2,350 municipal, 23 sales for resale ("SFR"), 4,285 fire protection and 2 other
16 customers in 36 Pennsylvania counties. As of May 20, 2020, PAWC furnished wastewater
17 services to approximately 74,754 customers, inclusive of 69,223 residential, 5,275
18 commercial, 44 industrial customers, 4 SFR, and 198 municipal, and 10 bulk customers.

[1] These 16 customers are the subject of a Petition for Declaratory Order filed by the Borough on April 1, 2020 at Docket No. P-2020-3019398, in which the Borough seeks a declaratory order that service to these customers does not constitute the provision of public utility service to the public pursuant to Section 102 of the Code.

1 **THE TRANSACTION IS IN THE PUBLIC INTEREST**

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

4 **A.** Yes. The Transaction will result in affirmative public benefits of a substantial nature. First,
5 PAWC, as a large and long-established public utility, has the managerial, technical, and
6 financial fitness to operate the Royersford System in a safe and efficient manner in
7 compliance with the Code, the Pennsylvania Clean Streams Law, and all other applicable
8 statutory and regulatory requirements. PAWC has extensive experience in the operation
9 of wastewater treatment and collection systems including specific experience with the
10 types of treatment technologies employed in the Royersford System. PAWC continues to
11 develop expertise for the benefit of the Commonwealth through its current operation of
12 18 wastewater treatment plants providing service to approximately 74,700 customers in
13 12 Pennsylvania counties. The Transaction fosters the Commission's stated goal of
14 regionalizing wastewater systems within the Commonwealth and providing greater
15 environmental and economic benefits to customers. Current PAWC Royersford Area
16 operation employees and Royersford employees will be under the same management and
17 support teams, and employees of both departments will support each other when
18 appropriate and necessary, particularly in emergency situations. The Royersford System
19 is in the same footprint as PAWC's Royersford water system. PAWC can draw upon a
20 much broader range of engineering and operational experience, as well as deeper financial
21 resources, to address operational challenges, ensure employee safety and support growth
22 and redevelopment. Additionally, given PAWC's existing regional area operations,

PAWC is better positioned than Royersford to provide utility services on a long-term, cost-effective basis and to retain and attract qualified treatment plant operators.

Second, Royersford's current customers will benefit in several ways from becoming PAWC wastewater customers. PAWC is a large, financially-sound company that has the capacity to finance necessary capital additions and improvements that will benefit its customers. In addition, given its size, its access to capital, and its recognized strengths in system planning, capital budgeting, and construction management, PAWC is well-positioned to ensure that high quality wastewater service meeting all applicable state and federal regulatory requirements is provided to Royersford's customers. There is also a general public benefit being that PAWC is subject to the jurisdiction of the Commission requiring PAWC to provide adequate, efficient, safe and reliable service at just and reasonable rates. Currently, Royersford has no such regulatory oversight.

Third, Royersford's current customers will benefit from the enhanced and proven customer service that PAWC provides. My colleague, Michael Guntrum, discusses these customer service enhancements in more detail in PAWC Statement No. 2; however, I would like to note that they include, but are not limited to, common billing for water and wastewater service, extended customer service and call center hours, and enhanced customer information and educational programs and access to PAWC's customer assistance program. Additionally, through community giving, partnerships and volunteering, PAWC demonstrates its commitment to programs that address community-specific needs. One example is PAWC's H2O – Help to Others Program, which for more than twenty-five years

has assisted low-income customers. In 2011, the program was expanded to include wastewater customers, and those who qualify can receive a grant up to $500 and a 20% discount on their total wastewater charges.

Fourth, the Borough of Royersford will gain an immediate increase to the tax base within their municipalities upon the closing of this Transaction as well as with subsequent PAWC capital improvements, which will greatly improve Royersford's financial condition, improve its financial stability, and enable Royersford to focus on other key initiatives upon the closing of this Transaction.

Finally, the Transaction will benefit PAWC's existing customers in the long-term by expanding PAWC's customer base. There will be no immediate rate impact on PAWC's existing customers. In the long-term, the Transaction will help PAWC keep rates reasonable for all of its customers. By adding additional connections to the entire PAWC system, there are more customers to share future infrastructure investment costs which promotes stable rates across the entire PAWC system. Customers who benefit from near-term improvements will one day help pay for improvements on behalf of other customers on other parts of the PAWC system. Being able to spread the costs of investing in and maintaining public wastewater systems over a growing customer base, particularly in a time of increased environmental requirements, is essential to the continued success and longevity of wastewater systems and maintaining reasonable rates for customers. As a matter of public policy, the Pennsylvania Legislature recognized the importance of consolidation and cost sharing in the passage of Act 11 of 2012. There is also a clear

1 legislative intent associated with Section 1329 and its allowance of fair market valuation
2 for ratemaking purposes. The General Assembly intended to facilitate the acquisition of
3 municipal water and wastewater systems by investor-owned utilities for the benefit of
4 municipal corporations and their customers.
5
6 **PAWC'S LEGAL, FINANCIAL, AND TECHNICAL FITNESS**
7 **Q. CAN YOU PLEASE TELL US WHY PAWC IS LEGALLY FIT TO ACQUIRE AND**
8 **OPERATE THE WASTEWATER SYSTEM?**
9 **A.** Yes. PAWC is a Commission-regulated public utility with a good compliance history.
10 There are no pending legal proceedings that would suggest that PAWC is not legally fit to
11 provide wastewater service to customers on the Royersford System.
12
13 **Q. CAN YOU PLEASE EXPLAIN WHY PAWC IS FINANCIALLY FIT TO**
14 **ACQUIRE AND OPERATE THE WASTEWATER SYSTEM?**
15 **A.** Yes. PAWC is the largest water and wastewater provider in Pennsylvania. It has a long-
16 demonstrated history with the Commission of financial stability.
17
18 As part of the Application, PAWC provided the audited internal balance sheet, as of
19 December 31, 2019, for PAWC **(Appendix D)**, as well as the audited income statement,
20 as of December 31, 2019, for PAWC **(Appendix F)**. Those documents show that PAWC
21 had total assets of approximately $5.3 billion as of December 31, 2019. Further, they show
22 that PAWC had net income of approximately $187 million for the 12 months ending
23 December 31, 2019. These figures are further demonstration that PAWC has the financial

stability and wherewithal to acquire the Royersford System and operate it in the public interest. My colleague, Rod Nevirauskas, will provide additional details in PAWC Statement No. 3 on the financial health of PAWC and its ability to access capital.

Q. PLEASE EXPLAIN WHY PAWC IS TECHNICALLY FIT TO OPERATE THE SYSTEM?

A. As I discussed earlier, PAWC is engaged in the business of treating and collecting wastewater for the public. We are the largest investor-owned water and wastewater utility in the Commonwealth of Pennsylvania and we already have significant water and wastewater operations throughout Pennsylvania. PAWC is experienced in undertaking and completing water and wastewater system acquisitions with public and private sector owners and successfully integrating those assets into our business operations. In fact, PAWC is often called upon by the Commission to step in and resolve troubled water and wastewater systems, resolving compliance issues and providing the excellent service that customers expect and deserve. My colleague, Michael Guntrum, will explain in greater detail in PAWC Statement No. 2, specifically how PAWC intends to operate the Royersford System once acquired.

DESCRIPTION OF THE SERVICE AREA

Q. PLEASE EXPLAIN THE SERVICE AREA SOUGHT BY PAWC IN THE APPLICATION.

A. As part of its Application, PAWC is seeking the right to provide service to the customers currently served by Royersford as shown in the maps and descriptions attached as

Appendix A-16-a through h. No municipal authority, corporation, partnership or individual other than Royersford is now furnishing or has corporate or franchise rights to furnish service similar to that to be rendered by PAWC in the Service Area covered by the Application, and no competitive condition will be created. As discussed above, upon closing of the Transaction, Royersford will permanently discontinue all wastewater service to the public.

APPROVAL OF CONTRACTS WITH MUNICIPAL CORPORATIONS

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

A. Yes. In addition to the approvals sought under Code Sections 1102(a) and 1329, 66 Pa. C.S. §§ 1102(a), 1329, the APA must, according to PAWC's counsel, be filed with the Commission pursuant to Code Section 507, 66 Pa. C.S. § 507. There are no other contracts with a municipal corporation that will be assumed by PAWC.

CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

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

VERIFICATION

I, Michael Salvo 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.

Michael Salvo, Senior Manager, Business Development
Pennsylvania-American Water Company

Dated: 7/1/20

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 Royersford Borough's assets, properties and rights related to its wastewater treatment, transportation and collection system facilities 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 Royersford Borough and a portion of the Township of Upper Providence, Montgomery County, Pennsylvania.	:	Docket No. A-2020-3014248 *et al.*

DIRECT TESTIMONY OF
MICHAEL J GUNTRUM, P.E. ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY

Date: July 14, 2020

PAWC Statement No. 2

DIRECT TESTIMONY OF
MICHAEL J. GUNTRUM, P.E.

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

2 **A.** Michael J. Guntrum, 852 Wesley Drive, Mechanicsburg, PA 17055.

3

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

5 **A.** I am employed by Pennsylvania-American Water Company ("PAWC" or the "Company")
6 as a Senior Project Engineer.

7

8 **Q. WHAT ARE YOUR RESPONSIBILITIES AS A SENIOR PROJECT ENGINEER?**

9 **A.** As a Senior Project Engineer for PAWC, I am responsible for the performance of due
10 diligence activities related to potential water and wastewater acquisitions in the
11 Commonwealth of Pennsylvania.

12

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

14 **A.** I received my Bachelor of Science (B.S.) degree in civil engineering in 1994 and a Master
15 of Engineering degree (M.E.) in Environmental Engineering in 1995 from the University
16 of Idaho. In 2010, I received my Master in Business Administration (MBA) from Lebanon
17 Valley College. I have worked in various engineering roles and have over 24 years of
18 experience in environmental engineering related to municipal and industrial water and
19 wastewater treatment. I have worked at PAWC since 2003 in roles related to the
20 acquisition of water and wastewater facilities. I am a registered Professional Engineer in

Pennsylvania and a hold a Project Management Professional (PMP) certification from the Project Management Institute (PMI).

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

A. Yes. I have testified before the Pennsylvania Public Utility Commission ("Commission") on several occasions, including both water and wastewater proceedings.

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

A. My testimony will describe the wastewater collection and treatment system ("System") currently owned by the Royersford Borough ("Royersford" or the "Borough") that PAWC has agreed to acquire (the "Transaction"). I will also explain how the acquired system will be integrated into PAWC's existing operations, describe PAWC' s technical fitness to run the system, and discuss the benefits of the Transaction.

Q. CAN YOU PLEASE DESCRIBE THE SYSTEM?

A. Royersford discharges under NPDES Permit PA0021512 which was effective January 1, 2018 and expires December 21, 2022. The current permitted hydraulic capacity of the wastewater treatment plant is 1.0 million gallons per day (MGD), and the permitted organic capacity is 1,751 pounds per day. Based on information that PAWC received from the Borough, as well as my personal knowledge of the System resulting from independent due diligence, the System is comprised of a treatment plant consisting of raw sewage screening, pumping, primary settling, biological primary and secondary trickling filters, final settling,

chlorination and de-chlorination facilities. Treated effluent is discharged to the Schuylkill River. Primary and secondary (trickling filter) sludge is digested in a 45,000-gallon anaerobic digester. Under the proposed Transaction, PAWC will acquire and operate the System and assume responsibilities for operation and maintenance as the holder of the NPDES Permit.

Q. CAN YOU PLEASE DESCRIBE THE SERVICE AREA?

A. The Royersford System provides service to the Borough of Royersford as well as sixteen (16) customers in Upper Providence Township. Service to customers in Limerick Township is provided via one bulk service interconnection located in Royersford Borough pursuant to an Agreement for Sewer Service between the Borough and Aqua Pennsylvania Wastewater, Inc. ("Aqua") (assigned to Aqua from Limerick Township) that will be assigned from the Borough to PAWC at closing of the Transaction. See Application Appendix A-25.

Royersford's Act 537 plan approved by the Pennsylvania Department of Environmental Protection ("DEP") on May 21, 1987, described providing service to a small number of direct service customers in Upper Providence Township and customers in Limerick Township via the bulk service interconnection. PAWC has included the existing Upper Providence customers in its applied-for certificated service territory as part of this application. PAWC will also include this service area in Upper Providence Township in its Act 537 Plan Update that reflects the change in system ownership for municipal adoption and DEP approval. Typically, planning module(s) for these properties would

have been submitted to DEP for approval. PAWC is attempting to locate these planning module(s) and will forward them if they are found.

Q. WHAT IS AN "MS4" SYSTEM?

A. An MS4 system is a "municipal separate storm sewer system."

Q. IS PAWC ACQUIRING AN MS4 SYSTEM?

A. No. PAWC will not be acquiring the MS4 system of Royersford.

Q. IS THE ROYERSFORD SYSTEM A COMBINED SEWER SYSTEM?

A. No. The Royersford System is not a combined sewer system.

Q. DOES THE SYSTEM HAVE AN INDUSTRIAL PRETREATMENT PROGRAM?

A. There are no significant or categorical industrial users in the System. Therefore, the Borough does not have an Industrial Pretreatment Program ("IPP"). The Borough has an IPP surcharge calculation in its existing rates. PAWC will assume this IPP surcharge calculation as part of its proposed tariff. Having an IPP surcharge calculation in PAWC's Royersford tariff will provide for an IPP surcharge for any future industrial customers.

Q. PLEASE DESCRIBE PIPE SIZES AND MATERIALS USED FOR THE CONSTRUCTION OF THE COLLECTION SYSTEM.

1 **A.** Based on the mapping that was available and provided by Royersford, the collection system
2 is primarily constructed from vitrified clay pipe with newer portions constructed with PVC
3 piping. The approximate sizes and lengths are listed in the table below.

Gravity Main	
Diameter	Length
8"	56772.9'
10"	926.1'
12"	2022.8'
15"	8819.3'
Force Main	
Diameter	Length
4"	351'
6"	639'
8"	3475'
Manhole	
Count	257

4
5
6 **Q. PLEASE STATE WHETHER THE SYSTEM CAN PROVIDE ADEQUATE**
7 **CONVEYANCE, TREATMENT, AND DISPOSAL CAPACITY TO MEET**
8 **PRESENT AND FUTURE CUSTOMER DEMANDS.**
9 **A.** Based on the population projections and demand projections as provided in Royersford's
10 latest Chapter 94 Report included in Appendix A-20(c), the conveyance, treatment, and
11 disposal capacity is adequate to meet present and future customer demands.

1 **Q. PLEASE STATE THE ELEVATIONS OF THE MAJOR FACILITIES AND**
2 **SERVICE AREA.**
3 **A.** Please see **Appendix A-16(f) (CONFIDENTIAL)** for a map showing the approximate
4 elevations of the existing facilities.
5
6 **Q. DOES PAWC PROVIDE WATER SERVICE TO THE BOROUGH AND UPPER**
7 **PROVIDENCE TOWNSHIP ("TOWNSHIP")?**
8 **A.** Yes, PAWC provides water service in the Borough and the Township.
9
10 **Q. PLEASE PROVIDE AN OVERVIEW OF PAWC'S EXISTING WATER**
11 **OPERATIONS FACILITIES IN THE ROYERSFORD AREA.**
12 **A.** The PAWC Royersford water system serves the Borough and Township. PAWC's
13 Royersford operations center is located three miles from Royersford and houses both the
14 local operations team and operations support staff.
15
16 **Q. PLEASE DESCRIBE HOW PAWC WILL MANAGE THE DAY-TO-DAY**
17 **OPERATIONS OF THE SYSTEM ONCE IT IS ACQUIRED?**
18 **A.** The System will be managed as a separate wastewater department within PAWC's
19 Southeast Area operations. The Southeast Area provides a range of shared support services
20 -- including purchasing, environmental compliance, health, and safety, meter reading,
21 customer service work and PA One Calls. The water and wastewater operations in
22 Royersford will both be supported by common shared support services.

1 **Q. ARE OTHER PAWC EMPLOYEES AVAILABLE TO ASSIST WITH**
2 **WASTEWATER OPERATIONS, AS NEEDED?**
3 **A.** Yes. Current PAWC employees in this area and Royersford employees will be under the
4 same area management and supported by a shared support team supporting common
5 functions such as payroll, purchasing, environmental compliance, health, and safety.
6 Employees in both the water and wastewater departments will support each other when
7 appropriate and necessary, particularly in emergency situations. As mentioned above, all
8 operations and employees within PAWC and within the broader American Water Works
9 Company, Inc. ("American Water") footprint have access to each other when
10 circumstances require and/or when a very specialized skill or experience is required to
11 support all local issues.
12
13 **Q. WILL THERE BE ANY UNNECESSARY DUPLICATION OF OPERATIONS**
14 **FACILITIES FOLLOWING THE ACQUISITION?**
15 **A.** No, the System will be operated as a stand-alone system. It will however have the support
16 of PAWC's surrounding operations as well as PAWC's operations throughout the
17 Commonwealth and American Water's nationwide resources.
18
19 **Q. DOES PAWC PLAN TO INTERCONNECT THE SYSTEM TO ANOTHER PAWC**
20 **WASTEWATER SYSTEM?**
21 **A.** No, the System is not proximate to any other PAWC wastewater system.

1 **Q. WHAT ARE THE ESTIMATED CAPITAL COSTS FOR THE SYSTEM?**

2 **A.** The 5-year capital plan for the System is shown on **PAWC Exhibit MJG-1**.

3

4 **Q. IN YOUR OPINION, IS PAWC BETTER EQUIPPED THAN ROYERSFORD TO**

5 **MAINTAIN ENVIRONMENTAL COMPLIANCE FOR THE SYSTEM? WHY?**

6 **A.** Yes. PAWC can draw upon a much broader range of engineering and operational

7 experience, as well as deeper financial resources, to address the environmental compliance

8 challenges of the System. In addition, given PAWC's existing platform in relation to the

9 operation of water and wastewater systems in neighboring communities, we believe that

10 PAWC is best positioned to provide those services on a cost-effective basis.

11 PAWC is the Commonwealth's largest investor-owned provider of water and

12 wastewater services. As a leading wastewater provider in Pennsylvania, PAWC brings

13 industry leading expertise and has extensive technical experience in upgrading, operating

14 and maintaining sewer facilities. PAWC is a recognized leader in providing communities

15 in the Commonwealth with well-maintained and reliable water and wastewater service and

16 has extensive local knowledge due to our decades of experience providing water service to

17 neighboring communities.

18 PAWC currently employs approximately 1,100 professionals with expertise in all

19 areas of water and wastewater utility operations including engineering, regulatory

20 compliance, water and wastewater treatment plant operation and maintenance, distribution

21 and collection system operation and maintenance, material management, risk management,

22 human resources, legal, accounting, and customer service. As a subsidiary of American

23 Water, PAWC has available to it additional resources of highly trained professionals who

have expertise in various specialized areas. American Water currently owns or operates approximately 200 wastewater operations through its subsidiaries in a number of states. American Water's experience includes the full breadth of treatment processes, from facultative ponds to membrane biological reactors in every climate zone across the U.S. More-advanced technologies allow a number of American Water's plants to utilize effluent for reuse applications, eliminating discharge to receiving streams. These diverse facilities have provided American Water operators and process experts with deep experience in the operation and maintenance of every possible type of wastewater treatment technology, as well as the experience available to support PAWC's operations staff and facilities. A 50-person team of American Water corporate engineers has handled a wide variety of system evaluations, selecting treatment processes and establishing critical design criteria for water and wastewater treatment systems in order to improve operations and prioritize capital improvements.

PAWC has an established track record of successfully managing large capital investment projects in order to provide reliable service to the communities it serves. PAWC has an ongoing program of capital investment focused on systematically replacing and adding new pipes, treatment and pumping facilities, and other water and wastewater infrastructure; thereby minimizing customer disruption caused by infrastructure failure. PAWC has funded in excess of $1 billion in capital construction over the past five years with expenditures expected to total $275 million to $300 million per year for the next five years. Capital planning is performed by in-house engineering staff and operations to establish capacity needs, regulatory impacts, service adequacy and reliability for PAWC's wastewater systems. Project costs, alternatives and risks are also determined.

Comprehensive periodic oversight of water and wastewater assets gives PAWC a clear and objective view of needs and potential capital project solutions.

Q. PLEASE DESCRIBE PAWC'S TECHNICAL FITNESS TO PROVIDE WASTEWATER SERVICE TO ROYERSFORD'S CUSTOMERS.

A. PAWC has approximately 74,700 active wastewater customers across the Commonwealth, with customers in Adams, Beaver, Chester, Clarion, Cumberland, Lackawanna, Monroe, Northumberland, Pike, Washington, and York counties. A map of PAWC's current service territories is attached to my testimony as **PAWC Exhibit MJG-2**. PAWC has had no material issues in complying with the Pennsylvania Public Utility Code ("Code"), the Clean Streams Law, or other regulatory requirements. Moreover, PAWC has the resources, skill and expertise to respond to ever-increasing environmental standards for the treatment of wastewater and to manage the long-term infrastructure issues inherent in wastewater systems.

Q. DOES PAWC MAINTAIN CYBER SECURITY, PHYSICAL SECURITY, BUSINESS CONTINUITY, AND EMERGENCY PLANS?

A. Yes. Cyber and physical security plans are maintained and monitored by American Water for each of its subsidiaries. PAWC maintains emergency response plans and Operations and Maintenance ("O&M") Manuals, both of which have operational business continuity included within the plans and are updated each year. These plans are tested each year through emergency response tabletop exercises. Each plan is overseen and managed by various groups and individuals to provide overarching support to PAWC. These groups are responsible for testing, reviewing, and updating their respective plan(s).

The departments assigned to Physical Security, Emergency Response, Business Continuity, and Cyber Security plans are as follows:

- Physical Security Plan - Operational Risk Management Security (American Water Works Service Company, Inc. ("AWWSC"))
- Cyber Security Plan - Operational Risk Management Security (AWWSC)
- Emergency Response Plan - Operations (PAWC)
- Business Continuity Plan - Operational Risk Management (PAWC) and Operations (PAWC)

To constantly protect physical and cyber resources, the designated groups have developed procedures to ensure that PAWC operates in a safe, secure, and reliable environment. A major commitment in assuring plans are kept current is performing various testing on an annual basis. Types of testing performed by AWWSC and PAWC include vulnerability assessments, system operational testing, full scale exercises, media backups, and real-life events.

Q. PLEASE DESCRIBE PAWC'S RELATIONSHIPS WITH COMMISSION EMERGENCY RESPONSE STAFF, PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY STAFF, AND LOCAL FIRST RESPONDERS.

A. PAWC has a strong working relationship with the Commission's Emergency Response Staff. PAWC provides the Commission with emergency response numbers for all PAWC operating areas each year. The Commission provides emergency numbers for its staff, which PAWC distributes to all of PAWC's operating areas for inclusion in the PAWC Emergency Response Plans. For those emergencies that warrant communication to the Commission's Emergency Preparedness Liaison Officer ("EPLO"), PAWC has contacted

1 Commission staff numerous times in the past to advise of situations and actions taken by
2 PAWC. Each year PAWC conducts emergency response tabletop exercises to test response
3 to emergency situations, including weather emergencies, contamination of supply, damage
4 to facilities, cyber-attack, and other perils. The Commission's emergency response staff
5 has participated in those exercises each year since 2006. We also invite local first
6 responders to participate, such as fire departments, police departments, hazmat responders,
7 local prison personnel, as well as the DEP, and Governor's Office of Homeland Security
8 ("OHS") personnel. PAWC has participated in Pennsylvania Water/Wastewater Agency
9 Response Network ("PaWARN") and Pennsylvania Emergency Management Agency
10 ("PEMA") sponsored exercises over the years. Our current relationship with PEMA is
11 through the Commission EPLO and PaWARN.
12
13 **Q. PLEASE DESCRIBE PAWC'S PARTICIPATION IN PENNSYLVANIA'S "ONE**
14 **CALL" SYSTEM AND THE RESOURCES THAT PAWC DEDICATES TO THE**
15 **PROGRAM.**
16 **A.** All of PAWC's 36 districts are members of Pennsylvania One Call System Inc. and
17 complete excavator requested mark outs on a daily basis. Each district has a minimum of
18 one person dedicated to completing dig notifications utilizing a third party internet-based
19 One Call ticket management system known as Korweb that is accessible via vehicle
20 mounted computers for real time response to any PA One Call dig notification.
21
22 **Q. DOES PAWC HAVE AN EMPLOYEE SAFETY PROGRAM?**

A. Yes. American Water and PAWC have made safety a value and not just a goal. It is very important to us that every employee and contractor return home safely every day. We make safety a value instead of a goal because goals change, but values do not change. Safety performance is fundamental to our Company's culture and key to its success. Employees are expected to conduct themselves in a safe manner, in accordance with our Health and Safety policy and with the Health and Safety Procedures and Practices Manual. PAWC establishes, implements, promotes and manages safety programs, activities and training that enable continued safety improvement, injury reduction and compliance with applicable Federal, State and local requirements. Safety programs are developed and implemented in accordance with Company policy and applicable practices and include:

- Supporting practices that are developed, reviewed and updated to provide guidance on safe performance of activities in the workplace and are reflective of changes in organizational, operational and regulatory needs;
- Strategic and priority development and implementation of safety improvements based on risk analysis of workplaces, work tasks and related potential injuries and incidents;
- Development of, and measurement against, specific Company and external safety performance targets and safety accountabilities for all employees;
- Ongoing assessment and review of safety processes, activities and supporting programs (including those related to other Company policies, such as the Workplace Conduct and Behavior Policy) to gauge effectiveness, identify program gaps and pinpoint opportunities for continued improvement;
- Consistency of implementation and compliance with Company and regulatory requirements across the enterprise; and;
- Defined and monitored contractor qualifications and requirements for safety performance in accordance with approved contract documents, applicable laws and regulations.

1 **Q. WHAT EFFORTS, IF ANY, WILL PAWC UNDERTAKE TO EDUCATE**
2 **CUSTOMERS REGARDING PAWC OWNERSHIP OF THE SYSTEM?**
3 **A.** As the Transaction is nearing closing, PAWC plans to produce bill inserts or onserts and/or
4 letters to customers to explain the transition, billing, payment options and other items
5 associated with the change in ownership. PAWC's website will also add content to help
6 educate customers and to address frequently asked questions.
7
8 **Q. WHAT, IF ANY, CUSTOMER ENHANCEMENTS CAN THE ROYERSFORD**
9 **CUSTOMERS EXPECT AS A RESULT OF THE TRANSACTION?**
10 **A.** PAWC prides itself on providing superior customer service. As part of its commitment to
11 customer service, PAWC offers its customers a number of enhanced services, including
12 extended call center hours, additional bill payment options, enhanced customer information
13 and education programs, and access to PAWC's customer assistance program.
14
15 **Q. CAN YOU PLEASE PROVIDE ADDITIONAL DETAIL ON EACH OF THESE**
16 **CUSTOMER SERVICE ENHANCEMENTS?**
17 **A.** Yes. ***Customer Service***. Our call center is available from 7:00 a.m. to 7:00 p.m., Monday
18 through Friday. Customers can also reach a customer service representative via email at
19 infopa@amwater.com. In addition, our customers have the ability to manage their account
20 via PAWC's "My H20" online portal. Finally, PAWC offers emergency support 24 hours
21 a day, seven days a week. All of this means that we are very responsive to our customers
22 and any issues they may have and will provide the same responsive approach to
23 Royersford's customers once PAWC acquires the System.

1 ***Bill Payment Options.*** PAWC offers a number of bill payment options. Customers
2 have the option to receive paper bills through the mail or go paperless and receive their
3 bills electronically via the "My H20" on-line portal. Either way, customers can pay their
4 bill by mail, online, or over the phone with a debit or credit card. They can also pay by e-
5 check or an electronic funds transfer (which can be set up at the "My H20" online portal)
6 or pay in person at multiple authorized payment locations across the state. Additionally,
7 customers will transition from a wastewater quarterly billing to a monthly billing cycle and
8 will receive a combined monthly bill from PAWC for water and wastewater services.

9 ***Customer Information and Education Programs.*** PAWC provides extensive
10 customer information and education programs that will be available to Royersford's current
11 customers through brochures, bill inserts, and educational videos posted on PAWC's
12 website. Our customers always have full access to a wide range of topics, including
13 information on preventing sewer overflows, preventing frozen pipes, beneficially re-using
14 residuals from water treatment plants for community gardens, detecting and fixing silent
15 toilet leaks, properly disposing of unused pharmaceuticals to keep them out of the
16 wastewater system, conserving water, installing expansion tanks, obtaining Fire
17 Department Grants, and protecting customers from utility imposters.

18 ***Customer Assistance Programs***. Finally, as new PAWC customers, Royersford's
19 customers will have access to PAWC's customer assistance program called the "H20 Help
20 to Others Program." For wastewater customers, this program offers two main services: (1)
21 grants of up to $500 per year and (2) a 15% discount on total wastewater charges.
22 Additionally, customers who qualify for the program may also qualify to receive a water

saving kit which includes, among other things, a low-flow shower head and low-flow faucet aerators.

Q. DOES PAWC HAVE A PROGRAM TO PROTECT ITS CUSTOMERS AGAINST UTILITY EMPLOYEE IMPOSTERS?

A. Yes, PAWC has developed communications tools and programs to regularly educate customers about the tactics used by utility employee imposters and what homeowners need to know to protect themselves. The communications vehicles include bill inserts, news releases, social media posts and website information about imposter-related crimes and precautions that customers can take. In addition, PAWC helped form the Keystone Alliance to Stop Utility Imposters, a coalition of water, gas and electric utilities, along with the Commission, Pennsylvania District Attorneys Association and Pennsylvania Chiefs of Police Association, to launch a public awareness campaign using public service announcements, print materials, posters and community presentations.

Q. PLEASE DESCRIBE PAWC'S CUSTOMER DISPUTE RESOLUTION PROCEDURE.

A. PAWC is governed by Chapter 14 of the Code, Responsible Utility Customer Protection Act, 66 Pa. C.S. § 1401 *et seq.*, and the Commission's regulations commonly known as Chapter 56, 52 Pa. Code § 56.1 *et seq.* This law and Commission regulations provide the process and procedures for customer billing, collections, payment arrangements, medical certifications, Protection from Abuse Orders, termination of service, reconnection of service, and customer dispute resolution procedures. PAWC has a customer compliance

team located in the Mechanicsburg office responsible for ensuring that customer disputes and complaints are resolved in compliance with the Commission's regulations. Additionally, the Company has a customer advocacy team located in the Mechanicsburg office responsible for addressing any customer disputes and escalated concerns.

Q. TO THE BEST OF YOUR KNOWLEDGE, DO ROYERSFORD'S CUSTOMERS CURRENTLY HAVE A PUBLIC OMBUDSMAN TO REPRESENT THEIR INTERESTS?

A. No.

Q. DO PAWC'S CUSTOMERS HAVE A PUBLIC OMBUDSMAN TO REPRESENT THEIR INTERESTS?

A. Yes. The Office of Consumer Advocate ("OCA") represents residential customers of public utilities; the Office of Small Business Advocate ("OSBA") represents small commercial customers of public utilities; and, the Commission's Bureau of Investigation & Enforcement ("I&E") represents the general public interest. Moreover, the Commission, an independent regulatory agency, has regulatory oversight of matters involving public utilities. The Commission and all of the public advocates are funded by regulatory assessments on public utilities.

CONCLUSION

Q. DO YOU BELIEVE PAWC HAS THE ABILITY TO PROVIDE SAFE, ADEQUATE, AND RELIABLE WASTEWATER SERVICE TO ROYERSFORD'S CUSTOMERS?

A. Yes.

Q. DO YOU BELIEVE THAT THE PROPOSED TRANSACTION WOULD RESULT IN AN AFFIRMATIVE PUBLIC BENEFIT OF A SUBSTANTIAL NATURE?

A. Yes. PAWC, as the largest investor-owned water and wastewater company in the Commonwealth, will be able to provide an enhanced level of operational expertise and customer service.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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

PAWC EXHIBIT
MJG-1

Royersford Capital Plan

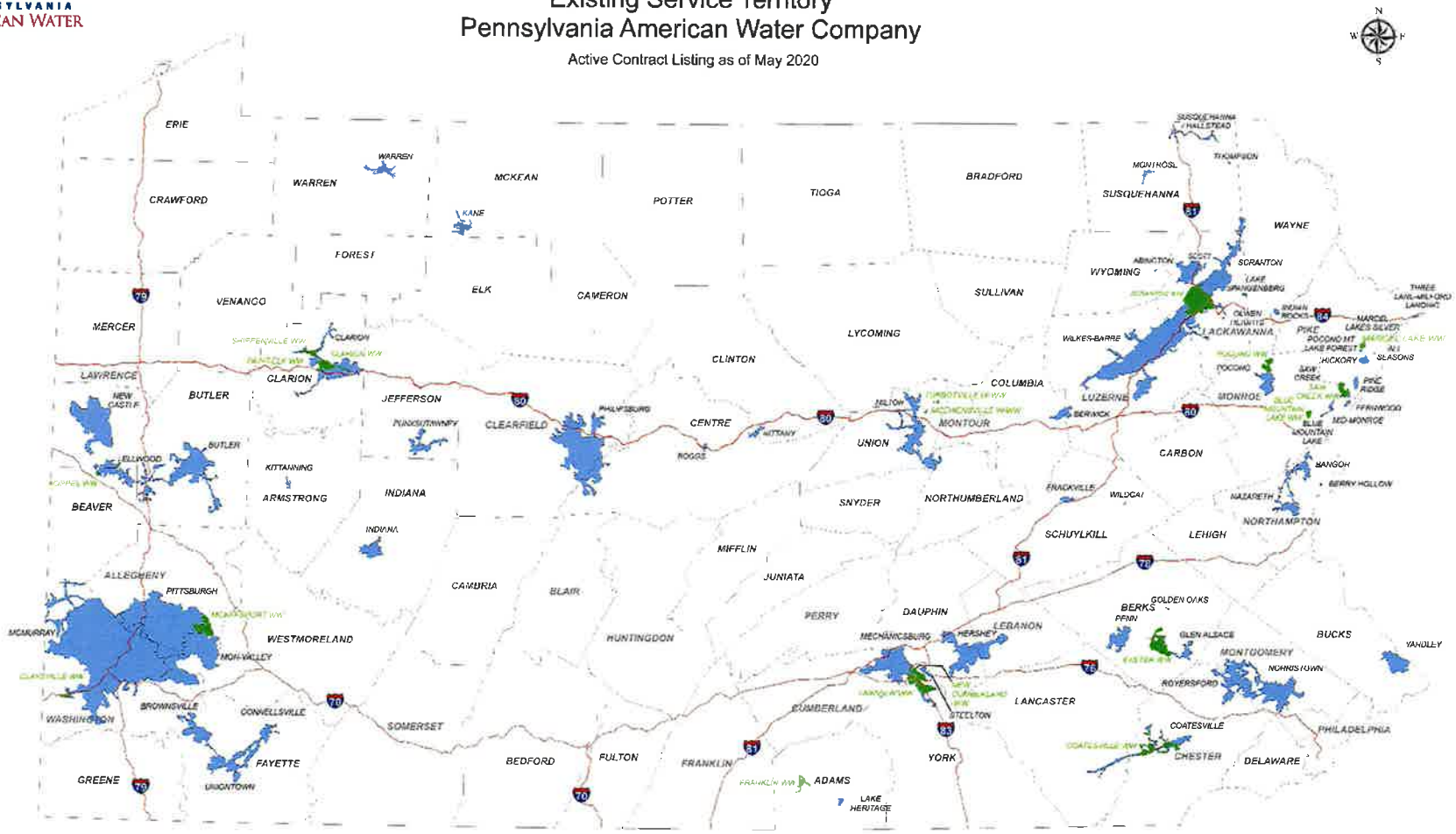
Capital Improvements	Year 1	Year 2	Year 3	Year 4	Year 5
Condition based assesment/GIS survey	$130,000	$130,000			
Targeted DSIC projects		$230,000	$230,000	$230,000	$230,000
Safety improvements	$65,000	$65,000			
Security improvements	$80,000	$80,000			
SCADA improvements		$120,000			
Chlorine feed improvements			$100,000		
Reoccuring capital projects	$340,000	$550,000	$590,000	$242,000	$227,000
Sub Total	**$615,000**	**$1,175,000**	**$920,000**	**$472,000**	**$457,000**
Grand Total					**$3,639,000**

PAWC EXHIBIT
MJG-2

PENNSYLVANIA AMERICAN WATER

Existing Service Territory
Pennsylvania American Water Company

Active Contract Listing as of May 2020



VERIFICATION

I, Michael J. Guntrum 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.

Michael J. Guntrum, Senior Project Engineer
Pennsylvania-American Water Company

Dated: 6/29/20

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 Royersford Borough assets, properties and rights related to its wastewater collection and 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 Royersford Borough and a portion of Upper Providence Township, Montgomery County, Pennsylvania	:	Docket No. A-2020-3014248, et al

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DIRECT TESTIMONY OF
ROD P. NEVIRAUSKAS ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY

Date: July 14, 2020

PAWC Statement No. 3

DIRECT TESTIMONY OF
ROD P. NEVIRAUSKAS

1 **INTRODUCTION**

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

3 **A.** Rod P. Nevirauskas, 852 Wesley Drive, Mechanicsburg, PA 17055.

4

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

6 **A.** I am employed by American Water Works Service Company ("Service Company") as
7 Senior Director of Rates and Regulations for the Mid-Atlantic Division, which includes
8 Pennsylvania-American Water Company ("PAWC" or the "Company").

9

10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS**
11 **EXPERIENCE.**

12 A. I received a Bachelor's Degree in Economics from the University of Massachusetts. Since
13 beginning my employment with a subsidiary of the American Water Works Company, Inc.
14 ("AWW" or "American Water") in 1980, I have held various positions of increasing
15 responsibilities in rates and finance. In October 2004, I was named Director of Rates and
16 Regulations for the American Water Works Shared Services Center ("SSC"), a financial
17 services organization providing national support to AWW's subsidiary operating
18 companies. In 2005, I was promoted to the position of Director of Financial Services at
19 the SSC. In that capacity, I led the SSC Rates and Regulations group in supporting rate
20 case filings for all of AWW's regulated operating subsidiaries. On January 1, 2009, I
21 assumed the position of Director of Rates and Regulations for the states of Pennsylvania,
22 Virginia and Maryland. In late 2011, AWW re-organized its divisional structure, and

responsibility for rate and regulatory matters in West Virginia, Virginia and Maryland were transferred to the Mid-Atlantic Division of AWW, of which PAWC is a member. On April 1, 2017, I was promoted to Senior Director with regulatory responsibility for Pennsylvania and West Virginia.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION (THE "COMMISSION" OR "PUC")?

A. Yes. I have testified on numerous occasions on behalf of utility subsidiaries of AWW in support of rate filings and financings in the States of Connecticut, Rhode Island, New Jersey, New Hampshire, Maryland, New York, Ohio, Virginia, West Virginia and the Commonwealths of Massachusetts and Pennsylvania.

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

A. My testimony first addresses the financial fitness of PAWC to acquire and operate the wastewater collection and treatment system ("System") currently owned and operated by Royersford Borough ("Borough"), which PAWC has agreed to purchase ("Transaction"). Second, my testimony addresses: (a) the identification of ratemaking rate base as required in 66 Pa. C.S § 1329 for PAWC's acquisition of the System; (b) the benefits of the Transaction; (c) the customer notices associated with the Transaction; (d) an estimate of the range of transaction and closing costs incurred by PAWC; (e) an overview of the rate provisions contained in the Asset Purchase Agreement ("APA") for PAWC's acquisition of the System; (f) a statement regarding PAWC's intentions with respect to accrual of

certain post-acquisition improvement costs and deferral of related depreciation; and, (g) authentication of certain Application appendices.

PAWC'S FINANCIAL FITNESS

Q. PLEASE DISCUSS PAWC'S FINANCIAL FITNESS.

A. PAWC is the Commonwealth's largest water and wastewater provider, with total assets of $5.3 billion and annual revenues of $689 million for 2019. For 2019, PAWC had operating income of approximately $330 million and net income of approximately $187 million. These operating results produced cash flows from operations of approximately $355 million.

Q. DOES PAWC HAVE THE OVERALL FINANCIAL FITNESS AND ACCESS TO CAPITAL TO ACQUIRE THE BOROUGH'S ASSETS?

A. Yes. PAWC has strong operating cash flows and net income and, therefore, a strong balance sheet. PAWC's strong operating and financial performance allows it to obtain competitive interest rates for long-term debt financing and access to equity investments from its parent company. PAWC is a financially-sound business that can financially support the acquisition of the System as well as the ongoing operating and investment commitments that will be required to operate, maintain and improve those assets in serving the public.

Line of Credit

PAWC presently has liquidity through a $400 million line of credit through American Water Capital Corp. ("AWCC"), a wholly owned subsidiary of American Water. PAWC's strong credit ratings allow PAWC to obtain additional capacity on this line of credit.

Long Term Debt Financing

PAWC carries a corporate credit rating of "A3" from Moody's Investors Services and an "A" rating from Standard and Poor's Rating Services. PAWC obtains long-term debt financing through AWCC at favorable interest rates and payment terms. When applicable, PAWC also uses low-cost financing through the Pennsylvania Infrastructure Investment Authority ("PENNVEST") and the Pennsylvania Economic Development Financing Authority ("PEDFA").

Equity Investments

PAWC may obtain additional equity investments through American Water based on its strong operating performance.

Q. PLEASE EXPLAIN HOW PAWC INTENDS TO FUND THE ACQUISITION.

A. PAWC will initially fund the Transaction with short-term debt and will later replace it with a combination of long-term debt and equity capital.

Q. WHAT IMPACT, IF ANY, DO YOU ANTICIPATE THAT THE ACQUISITION OF THE SYSTEM WILL HAVE ON PAWC'S CORPORATE CREDIT RATINGS?

1 **A.** As stated above, PAWC does not anticipate that the acquisition of the System will have a
2 significant impact on its credit ratings.
3
4 **FAIR MARKET VALUE RATE BASE**

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

7 **A.** The negotiated purchase price for the acquired assets is $13,000,000 and the average of the
8 appraisals of the buyer's Utility Valuation Expert ("UVE") and the seller's UVE is
9 $13,494,401. Accordingly, the negotiated purchase price of $13,000,000 is the fair market
10 value for ratemaking purposes under Section 1329 (*i.e.* the lower of the negotiated purchase
11 price and the average of the UVEs' appraisals). The fair market value as determined by
12 the Section 1329 process, in addition to the transaction and closing costs described below,
13 becomes part of PAWC's rate base for ratemaking purposes. Note, however, that PAWC
14 reserves its right in future proceedings to make rate base claims related to the acquisition
15 as may otherwise be permitted under the Pennsylvania Public Utility Code ("Code").
16

17 **Q. PLEASE DISCUSS THE PUBLIC BENEFITS OF THE TRANSACTION.**

18 **A.** The System's customers will be served by a large, financially sound company that has the
19 capability to finance necessary capital additions. PAWC is fit to provide safe and adequate
20 service to the Borough's customers. Given its size, access to capital and its recognized
21 strengths in system planning, capital budgeting and construction management, PAWC is
22 well-positioned from a financial, managerial and technical perspective to ensure that high
23 quality wastewater service meeting all federal and state requirements is provided to the

1 Borough's customers and maintained for PAWC's existing customers. As discussed in the
2 testimony of PAWC witness Michael J. Guntrum, PAWC's Senior Project Engineer,
3 PAWC Statement No. 2, PAWC plans improvements in the service to the Borough's
4 customers over the next five years. Furthermore, the acquisition furthers the Commission's
5 goals of consolidation and regionalization of wastewater systems within the
6 Commonwealth. All of the Borough's customers are existing PAWC water customers,
7 except for 23 who are serviced by a well. As such, improvements in the wastewater service
8 directly benefit these existing PAWC customers.

9 The ratemaking rate base of the Transaction equates to approximately $8,025 per
10 customer, on average.[1] This average rate base per customer is less than the average per-
11 customer ratemaking rate base approved by the Commission in other recent Section 1329
12 applications, including PAWC's recently approved acquisition of the wastewater system
13 assets of the Borough of Kane Authority, at $8,697 per customer[2] and the acquisition of
14 the water system assets of the Steelton Borough Authority at $8,293 per customer.[3] The
15 Commission approved the Kane acquisition on June 18, 2020 and the Steelton acquisition
16 on October 3, 2019, finding the Settlements of the application proceedings to be in the
17 public interest.

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[1] $13,000,000 purchase price / 1,620 customers = $8,025.

[2] Docket No. A-2019-3014248, Opinion and Order entered June 18, 2020. $17,560,000 ratemaking rate base approved (Recommended Decision p. 24) / 2,019 customers (p. 9) = average rate base of $8,697 per customer.

[3] Docket No. A-2019-3006880, Opinion and Order entered October 3, 2019 ("*Steelton Order*"). $20.5 million ratemaking rate base approved (Recommended Decision p. 36) / 2,472 customers (Recommended Decision p. 10) = average rate base of $8,293 per customer.

1 **Q. WHAT IMPACT, IF ANY, WILL THERE BE ON THE RATES OF THE**
2 **BOROUGH'S CUSTOMERS AS A RESULT OF THE ACQUISITION OF THE**
3 **SYSTEM?**
4 **A.** There is no immediate impact on the rates of the Borough's customers because PAWC has
5 committed to adopt, upon closing of the Transaction, the Borough's current minimum
6 charge and consumption charge then in effect at the time of closing. PAWC expects to
7 propose to move the Borough's rates toward consolidated rates in future base rate cases.
8 Subject to Commission approval, PAWC anticipates allocating a portion of its wastewater
9 revenue requirement to the combined water and wastewater customer base, as permitted
10 by 66 Pa. C.S. § 1311(c). As PAWC customers, the cost of service to Borough customers
11 can be allocated among a larger group of customers, thereby mitigating the per-customer
12 impact of capital improvements and increases in operating costs.
13
14 **Q. WHAT IMPACT, IF ANY, WILL THERE BE ON THE RATES OF PAWC'S**
15 **CURRENT CUSTOMERS AS A RESULT OF THE ACQUISITION OF THE**
16 **SYSTEM?**
17 **A.** There is no immediate impact on the rates of PAWC's current customers. PAWC expects
18 to include the Borough's wastewater operations in PAWC's future base rate filings. Any
19 impacts on the rates of PAWC's existing customers would occur only upon Commission
20 approval as part of a base rate proceeding. A non-binding estimate of possible rate impacts
21 for existing customers is shown in **Appendix 18-d** and discussed in the Customer Notice
22 section below. The Borough's customers, as part of PAWC's overall customer base, will

become part of PAWC's overall cost allocation. Nothing contained in the APA would bind the Commission or other interested parties in future ratemaking proceedings.

Q. DO YOU ANTICIPATE THE TRANSACTION HARMING PAWC'S FINANCIAL STATUS IN ANY MANNER?

A. No, not at all. PAWC does not anticipate that the acquisition of the System will have a negative impact on PAWC's cash flows, credit ratings or access to capital and, therefore, will not deteriorate in any manner PAWC's ability to continue to provide safe, adequate, and reasonable service to its existing customers at just and reasonable rates.

CUSTOMER NOTICE

Q. IS PAWC PROVIDING NOTICE TO CUSTOMERS OF THE ACQUISITION?

A. Yes. PAWC is providing notice of the acquisition to existing PAWC water and wastewater customers as well as to the Borough's wastewater customers. The notices to PAWC customers and Borough wastewater customers are attached to the application as **Appendix 18-d**. These notices contain a non-binding estimate of the potential rate impact of the acquisition.

Q. HOW WERE THE ESTIMATES OF POTENTIAL RATE IMPACTS CALCULATED FOR THE NOTICES PROVIDED IN APPENDIX 18-D?

A. These notices were prepared in accordance with the *Steelton Order*. This Order approved a Settlement in which PAWC agreed to the form and calculation of the notices for future Section 1329 acquisition proceedings ("Settlement").

In the Settlement, the Joint Petitioners (PAWC, the Commission's Bureau of Investigation & Enforcement, the Office of Consumer Advocate, the Office of Small Business Advocate and the Borough of Steelton) agreed to the form of the notices to be sent to existing PAWC water and wastewater customers and the notice to be sent to the customers of the system being acquired. The forms of the notices were attached to the Settlement as Appendix E and Appendix F.

The Joint Petitioners also agreed to the Rate Impact Calculations for these notices. Those calculations are discussed in more detail below.

Q. ARE THE NOTICES TO EXISTING PAWC CUSTOMERS AND THE CUSTOMERS OF THE SYSTEM BEING ACQUIRED SUBSTANTIALLY IN THE FORM INDICATED BY APPENDIX E AND APPENDIX F TO THE ABOVE-REFERENCED SETTLEMENT?

A. Yes. These notices were prepared in compliance with the Settlement.

Q. PLEASE SUMMARIZE THE CALCULATION OF THE POTENTIAL RATE IMPACT SHOWN IN THE NOTICE TO THE BOROUGH'S CUSTOMERS.

A. As shown in **Appendix 18-d**, the notice to Borough customers shows the following information regarding the potential rate impacts of the acquisition:

Royersford Borough Wastewater Customers				
Rate Class	Average Usage	Average Monthly Bill at the Borough's Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,630 gal/month	$30.00	$50.94	69.8%
Commercial	22,000 gal/month	$123.53	$209.75	69.8%
Industrial	476,000 gal/month	$2,672.74	$4,538.31	69.8%

The 69.8% percentage increase shown in the chart above is calculated as 100% of the revenue deficiency after the Act 11 allocation to water customers,[4] divided by the Year One revenues of the System. The current average monthly bill is calculated using the Borough's existing wastewater rates, which will be adopted by PAWC at closing.[5] The potential average monthly bill after acquisition is calculated by increasing the current average monthly bill amounts by the 69.8% percentage increase. This methodology was used to comply with the Settlement at Docket No. A-2019-3006880 (Exhibit G). Please refer to **PAWC Exhibit RPN-1** for the calculation of the customer notice.

Q. PLEASE SUMMARIZE THE RATE IMPACT CALCULATION IN THE NOTICE TO PAWC WASTEWATER CUSTOMERS.

A. As shown in **Appendix 18-d**, the notice to PAWC's existing wastewater customers shows the following information regarding the potential rate impacts of the acquisition:

PAWC Existing Wastewater Customers				
Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Current Rates	Average Monthly Bill at PAWC Zone 1 Current Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,630 gal/month	$64.93	$66.36	2.2%
Commercial	22,000 gal/month	$280.22	$286.38	2.2%
Industrial	476,000 gal/month	$5,547.08	$5,669.12	2.2%

[4] The allocation of a portion of the wastewater revenue requirement to water customers pursuant to Act 11 of 2012 (66 Pa. C.S. § 1311(c)) is referred to in this testimony as the "Act 11 allocation." For calculating the notice in this case, the Settlement requires PAWC to use the Act 11 allocation from wastewater to water from PAWC's last base rate case. In PAWC's last base rate case, 46% of the wastewater revenue requirement was allocated to water customers under Act 11. See Docket No. R-2017-2595853, Joint Petition for Settlement paragraph 35d and the Summary Proof of Revenues. The Settlement was approved by Order entered December 7, 2017 ("2017 Rate Case"). References herein to PAWC's "most recent base rate" or "last base rate case" are to the 2017 Rate Case and not to PAWC's currently pending base rate case at Docket Nos. R-2020-3019369 and R-2020-3019371.

[5] The Borough's existing rates are shown in **Appendix 18-a**.

The 2.2% percentage increase shown in the chart above is calculated by dividing 100% of the revenue deficiency after the Act 11 allocation to water customers by total wastewater revenues. The "total wastewater revenues" include PAWC's wastewater revenues from existing customers, which were determined to be $26,935,197 in PAWC's last base rate case, as well as the Year One revenues from the System ($852,000 as shown on **Appendix K**). This methodology was used to comply with the Settlement at Docket No. A-2019-3006880 (Exhibit G). Please refer to **PAWC Exhibit RPN-1** for the calculation of the customer notice.

Q. PLEASE SUMMARIZE THE CALCULATION OF THE POTENTIAL RATE IMPACT SHOWN IN THE NOTICE TO PAWC WATER CUSTOMERS.

A. As shown in **Appendix 18-d**, the notice to PAWC's existing water customers shows the following information regarding the potential rate impacts of the acquisition:

PAWC Existing Water Customers				
Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Current Rates	Average Monthly Bill at PAWC Zone 1 Current Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,630 gal/month	$60.85	$60.91	0.1%
Commercial	22,000 gal/month	$291.80	$292.09	0.1%
Industrial	476,000 gal/month	$4,530.44	$4,534.97	0.1%

The 0.1% percentage increase shown in the chart above represents the potential impact on PAWC water customers of the Act 11 allocation to water customers. This allocation to water customers is divided by PAWC's applicable water revenues, which were $667,585,862 in PAWC's most recent base rate case.

The current average monthly bill is shown at PAWC's current Zone 1 rates and the average usage for each customer class as reflected in the filing of PAWC's most recent base rate case (Docket No. R-2017-2595853). The average monthly bill for PAWC Zone 1 customers after acquisition is calculated by increasing the current average monthly bill amounts by the 0.1% percentage increase, which was calculated as explained above. This methodology was used to comply with the Settlement at Docket No. A-2019-3006880 (Exhibit G). Please refer to **PAWC Exhibit RPN-1** for the calculation of the customer notice.

Q. DO YOU HAVE ANY FURTHER COMMENTS ON THE CUSTOMER NOTICES PAWC IS PROVIDING IN THIS PROCEEDING?

A. Yes. As discussed above, the calculation of estimated potential rate impacts to PAWC and Borough customers were performed in conformance with the Company's Settlement at Docket No. A-2019-3006880. Ultimately, any rate impacts of the acquisition will be determined by the Commission in future base rate proceedings.

TRANSACTION AND CLOSING COSTS

Q. PLEASE DESCRIBE THE ESTIMATED TRANSACTION AND CLOSING COSTS FOR THE TRANSACTION.

A. As set forth in the Commission's *Final Implementation Order* at Docket No. M-2016-2543193, transaction and closing costs include the UVE's appraisal fee and the buyer's closing costs, including reasonable attorney fees. In accordance with the *Final Implementation Order* and traditional ratemaking principles, reasonable transaction and

closing costs are not to be decided in this Application proceeding; instead, PAWC must justify the costs by a "preponderance of the evidence" in a future base rate proceeding.

As a practical matter, the exact extent of such costs cannot be known at the time of filing the Application and will not be finally known until after closing of the Transaction. The costs depend on a number of variables, including whether this Application is settled or fully-litigated. PAWC will track such costs and incorporate them into rate base in a future base rate proceeding as appropriate. Nevertheless, attached to the Application as **Appendix A-10** is PAWC's estimate of the anticipated range of transaction and closing costs (approximately $605,650 to $815,650).

APA RATE PROVISIONS

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

A. Section 7.03 of the APA, dated as of December 10, 2019, contains provisions related to rates. PAWC has committed to adopt, upon closing of the Transaction, the Borough's current minimum charge and consumption charge then in effect at the time of closing.

The initial rates to be applicable to the former Borough wastewater customers are set forth in the *pro forma* tariff supplement attached as **Appendix A-12** to the Application. System customers will be governed by rates for new Royersford Rate Zone "XX." After PAWC closes on the Transaction, System customers will be subject to PAWC's prevailing wastewater tariff on file with the Commission with respect to all rates other than the customer charge and consumption charge, including capacity reservation fees, reconnection fees and the like, as well as non-rate related terms and conditions of service.

The Borough's customers are currently billed quarterly. The Company intends to bill customers on a monthly basis, and Royersford's existing rates will be prorated for purposes of calculating monthly billing. PAWC is the water provider within the Borough's service area with the exception of 23 customer who are served by a private well.

PAWC will charge a capacity reservation fee of $4,000 per new equivalent dwelling unit for the allocation of treatment, pumping, and transmission, truck and interceptor main capacity, commencing with the date of Closing. No capacity fee will be charged for any applicant for wastewater service that meets the criteria of a Bona Fide Service Applicant, as defined in 52 Pa. Code § 65.1 (excluding clause (iii) of that definition) if "wastewater" were substituted for "water."

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

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

Section 1329(g) defines a "rate stabilization plan" as "[a] plan that will hold rates constant or phase rates in over a period of time after the next base rate case." As detailed in Section 7.03 of the APA, PAWC will be charging the Borough's current rates (but not other charges) as the Company's base rates within the service territory. The APA provides that base rates shall not be increased until after the second anniversary of the Closing Date.

The Borough is not included in PAWC's base rate case that is currently pending before the Commission. The Company does not anticipate that the Borough's rates will be held constant after the next base rate case and therefore the APA provision does not fall within the definition of a "rate stabilization plan" as defined by 66 Pa. C.S. § 1329. Interested parties will have an opportunity to participate in the first base rate case in which the System is included and address issues, including cost allocation, as appropriate.

PAWC was careful in negotiating the APA to respect the statutory authority of the Commission to set just and reasonable rates.

Q. DOES PAWC SEEK THE AUTHORITY TO CHARGE NON-BASE RATES PRIOR TO PAWC'S FIRST BASE RATE CASE IN WHICH THE SYSTEM IS INCLUDED?

A. Yes. PAWC is requesting authority from the Commission to approve collection of a distribution system improvement charge ("DSIC") related to the System in the future, prior to the first base rate case in which the System plant-in-service is incorporated into rate base. PAWC would not begin charging a DSIC until the eligible System plant is approved by the Commission in an amendment to PAWC's Long Term Infrastructure Improvement Plan for wastewater.

POST-ACQUISITION IMPROVEMENT COSTS

Q. PLEASE STATE YOUR UNDERSTANDING OF SECTION 1329 WITH RESPECT TO POST-ACQUISITION IMPROVEMENT COSTS.

1 **A.** I am advised by counsel that Section 1329(f) allows "an acquiring public utility's post
2 acquisition improvements that are not included in a distribution system improvement
3 charge [to] accrue allowance for funds used during construction ["AFUDC"] after the date
4 the cost was incurred until the asset has been in service for a period of four years or until
5 the asset is included in the acquiring public utility's next base rate case, whichever is
6 earlier." Section 1329(f) also provides that "[d]epreciation on an acquiring public utility's
7 post acquisition improvements that have not been included in the calculation of a
8 distribution system improvement charge shall be deferred for book and ratemaking
9 purposes."
10
11 **Q. DOES PAWC INTEND TO ACCRUE AFUDC FOR POST-ACQUISITION**
12 **IMPROVEMENTS?**
13 **A.** Yes. As summarized in the Direct Testimony of PAWC Witness Michael J. Guntrum,
14 PAWC's Senior Project Engineer, PAWC Statement No. 2, PAWC will be making post-
15 acquisition improvements to the System. As such, PAWC will likely accrue AFUDC
16 consistent with what is permitted under Section 1329. PAWC will address any claims for
17 AFUDC in the first base rate proceeding in which the Authority's assets are included.
18
19 **Q. DOES PAWC INTEND TO DEFER DEPRECIATION ON NON-DSIC-ELIGIBLE**
20 **POST-ACQUISITION IMPROVEMENTS FOR BOOK AND RATEMAKING**
21 **PURPOSES?**
22 **A.** Yes. Section 1329(f) permits such deferral of depreciation. The statute appears to allow
23 deferral without specific Commission approval; however, out of an abundance of caution,

PAWC is specifically petitioning the Commission, as part of this Application proceeding, for permission to defer the depreciation for book and ratemaking purposes.

AUTHENTICATION OF APPLICATION APPENDICES

Q. ARE YOU FAMILIAR WITH THE APPLICATION FILED BY PAWC IN THIS PROCEEDING?

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

Q. PLEASE IDENTIFY WHICH APPLICATION APPENDICES WERE PREPARED BY YOU OR UNDER YOUR SUPERVISION AND CONTROL?

A. **Appendix A-10** is the Company's estimate of the anticipated range of transaction and closing costs. The *pro forma* tariff supplement is attached as **Appendix A-12** to the Application. In addition, based on financial statements provided by the Borough and on PAWC's audited financial statements, the following appendices were prepared: **Appendix C** (balance sheet of the Borough as of December 31, 2019), **Appendix D** (audited balance sheet of PAWC as of December 31, 2019), **Appendix E** (income statement of the Borough for the 12 months ended December 31, 2019), **Appendix F** (audited income statement of PAWC for the 12 months ended December 31, 2019), **Appendix G** (*pro forma* balance sheet of PAWC, giving effect to the transfer), **Appendix H** (*pro forma* consolidated income statement of PAWC and the Borough for 12 months) and **Appendix K** (estimated annual revenues and expenses).

1 **Q. HOW WERE APPENDICES A-10, A-12, APPENDICES C THROUGH H, AND**
2 **APPENDIX K PREPARED?**
3 **A.** I reviewed the financial information of PAWC, to which I have direct access, and I
4 reviewed the financial and rate information provided by the Borough, to which I received
5 access through the Transaction due diligence process.
6
7 **Q. ARE APPENDICES A-10, A-12, APPENDICES C THROUGH H, AND APPENDIX**
8 **K TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE,**
9 **INFORMATION, AND BELIEF?**
10 **A.** Yes.
11
12 **CONCLUSION**
13 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**
14 **A.** Yes. However, I reserve the right to supplement my testimony as additional issues and
15 facts arise during the course of the proceeding. Thank you.

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Royersford Borough
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Royersford Borough Wastewater Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at Royersford Borough Rates at Closing	Potential Average Monthly Bill	Potential Increase		
Residential	3,630 gal/month	$30.00	$50.94	$20.94	or	69.8%
Commercial	22,000 gal/month	$123.53	$209.75	$86.22	or	69.8%
Industrial	476,000 gal/month	$2,672.74	$4,538.31	$1,865.57	or	69.8%

PAWC Current Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Current Rates	Average Bill at PAWC Zone 1 Current Rates Adjusted for Potential Impact of Acquistion	Potential Increase		
Residential	3,630 gal/month	$64.93	$66.36	$1.43	or	2.2%
Commercial	22,000 gal/month	$280.22	$286.38	$6.16	or	2.2%
Industrial	476,000 gal/month	$5,547.08	$5,669.12	$122.04	or	2.2%

Water

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Current Rates	Average Bill at PAWC Zone 1 Current Rates Adjusted for Potential Impact of Acquistion	Potential Increase		
Residential	3,630 gal/month	$60.85	$60.91	$0.06	or	0.1%
Commercial	22,000 gal/month	$291.80	$292.09	$0.29	or	0.1%
Industrial	476,000 gal/month	$4,530.44	$4,534.97	$4.53	or	0.1%

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Royersford - Wastewater

Residential		
	Minimum Charge	$30.00
36.30	0.5615	20.38
		$30.00

Rate Impact	69.8%
	$20.94
Total	$50.94

PAWC - Wastewater

Zone 1 - Residential		
	Service Charge	$10.00
36.30	1.5132	54.93
		$64.93

Rate Impact	2.2%
	$1.43
Total	$66.36

PAWC - Water

Zone 1 - Residential		
5/8"	Service Charge	$16.50
36.30	1.2217	44.35
		$60.85

Rate Impact	0.1%
	$0.06
Total	$60.91

Commercial		
	Service Charge	$30.00
220.00	0.5615	123.53
		$123.53

Rate Impact	69.8%
	$86.22
Total	$209.75

Zone 1 - Commercial		
	Service Charge	$25.00
220.00	1.1601	255.22
		$280.22

Rate Impact	2.2%
	$6.16
Total	$286.38

Zone 1 - Commercial		
1"	Service Charge	$41.60
160.00	1.2205	195.28
60.00	0.9153	54.92
220.00		
		$291.80

Rate Impact	0.1%
	$0.29
Total	$292.09

Industrial		
	Service Charge	
4,760.00	0.5615	2,672.74
		$2,672.74

Rate Impact	69.8%
	$1,865.57
Total	$4,538.31

Zone 1 - Industrial		
	Service Charge	$25.00
4,760.00	1.1601	5,522.08
		5,547.08

Rate Impact	2.2%
	$122.04
Total	$5,669.12

Zone 1 - Industrial		
2"	Service Charge	$196.35
160.00	1.1843	189.49
4,600.00	0.9010	4,144.60
4,760.00		
		4,530.44

Rate Impact	0.1%
	$4.53
Total	$4,534.97

Pennsylvania American Water Company
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Estimated Rate Increase

Revenue Requirement Increase (Attachment page 2)	$	1,102,000
Act 11 Percentage (R-2017-2595853 Proof of Revenues)		46%
Amount of increase allocated to water through Act 11		506,920
Amount of increase allocated to wastewater customers	$	595,080

Full COS - 100% of increase applied to Royersford Borough Wastewater Customers		
Revenue Requirement Increase - After Act 11	$	595,080
Current Borough of Royersford wastewater revenues		852,000
Estimated Increase to wastewater customers		**69.8%**

Amount of increase allocated to wastewater customers and applied to the combined revenues of all PAWC wastewater customers and acquired customers:		
Revenue Requirement Increase	$	595,080
Current Borough of Royersford wastewater revenues		852,000
PAWC wastewater customers-excl. Scranton rev. (R-2017-2595853 Proof of Revenues excl. OWR)		26,162,360
		27,014,360
Estimated Increase to wastewater customers		**2.2%**

Amount of increase allocated to water customers:		
Revenue Requirement Increase	$	506,920
PAWC water cust. rev. (R-2017-2595853 Proof of Revenues Excludes OWR & Contract Sales)		650,769,554
Estimated Increase to Water Customers		**0.1%**

Pennsylvania American Water Company
R-2017-2595853 - Proof of Revenues
Act 11 Allocation

	Water Operations	Wastewater Excluding Scranton		Scranton Wastewater		Combined Wastewater		Total Company
Additional Annual Operating Revenue Before Act 11	$ 51,581,090	$ 5,290,300		$ 4,977,893		$ 10,268,193		$ 61,849,283
ACT 11 Allocation - WW COS Recovered from Water	4,700,000	(2,383,000)	45%	(2,317,000)	47%	(4,700,000)	46%	$ -
Additional Annual Operating Revenue	56,281,090	2,907,300	55%	2,660,893	53%	5,568,193	54%	61,849,283

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Royersford Borough
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Revenue Requirement Increase

Rate Base	$	13,000,000	Appendix A-11
Rate of Return %		7.12%	See Calculations
Rate of Return		926,000	
O&M		373,000	Appendix K
Taxes Other		31,000	Appendix K
Depreciation		398,000	Appendix K
Taxes		226,000	See Calculations
Revenue Requirement		1,954,000	
Royersford Year-1 Revenues		852,000	Appendix K
Revenue Requirement Increase		1,102,000	

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Royersford Borough
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Summary

Revenue Requirement		
Rate Base	$	13,000,000
Pretax ROR %		8.86%
Pretax ROR		1,152,000
Plus: O&M Expense		373,000
Taxes Other		31,000
Depreciation		398,000
Total Revenue Requirement		1,954,000

Income Tax Calculation		
Revenues	$	1,954,000
Less: O&M Expense		373,000
Taxes Other		31,000
Depreciation		398,000
Interest		369,000
SIT Taxable Income		783,000
State Income Tax Rate		9.99%
State Income Tax		78,000
FIT Taxable Income		705,000
Federal Income Tax Rate		21.00%
Federal Income Tax		148,000
Total Income Taxes		226,000

Interest		
Rate Base	$	13,000,000
Weighted Cost of Debt (1.85% + 0.99%)		2.84%
	$	369,000

Wastewater	Capital Structure	Cost Rate	Weighted Cost	Revenue Multiplier	Revenue Requirement
Long-Term Debt	35.24%	5.25%	1.85%		1.85%
Wastewater Financing	21.51%	4.59%	0.99%		0.99%
Preferred Stock	0.13%	8.66%	0.01%	1.40631	0.01%
Common Equity	43.12%	9.90%	4.27%	1.40631	6.00%
			7.12%		8.86%

Cost of Equity for Distribution System Improvement Charge (DSIC) 9.95% M-2020-3019868
Capital Structure based on PAWC last wastewater base rate case R-2017-2595853 PAWC Statement No. 13, Exhibit No. 13-A, Schedule 12.

Revenue 'Multiplier	
Statutory State Tax Rate	0.0999
Statutory Federal Tax Rate	0.21
1- State Tax Rate	0.9001
Fed Rate Times (1-State Tax Rate)	0.189021
Effective Tax Rate	0.288921
1-Eff Tax Rate	0.711079
Reciprocal	1.40631

VERIFICATION

I Rod P. Nevirauskas 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.

Rod P. Nevirauskas, Sr. Director Rates and Regulation
Pennsylvania-American Water Company

Dated: 7/1/20