

**Application of Pennsylvania-American Water Company for Acquisition of
the Water Assets of Valley Township
66 Pa. C.S. § 1329
Application Filing Checklist – Water/Wastewater
Docket No. A-2020-3019859**

14. Buyer Testimony:
- a. Provide buyer direct testimony supporting the application.
 - b. Provide buyer UVE direct testimony.

RESPONSE:

- a. See enclosed the direct testimonies of PAWC witnesses as follows:
 - i. Direct Testimony of Keith E. Gabage, Senior Manager of Business Development, PAWC, **PAWC Statement No. 1 W.**
 - ii. Direct Testimony of Michael J. Guntrum, Senior Project Engineer, PAWC, **PAWC Statement No. 2 W.**
 - iii. Direct Testimony of Rod P. Nevirauskis, Senior Director of Rates and Regulations for the Mid-Atlantic Division, American Water Works Service Company, on behalf of PAWC, **PAWC Statement No. 3 W.**
- b. See enclosed direct testimony of Jerome C. Weinert, Principal and Director for AUS on behalf of PAWC, **PAWC Statement No. 4 W.**

**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 Valley :
Township’s assets, properties and rights related to its :
water treatment and distribution system to Pennsylvania- :
American Water Company, and (2) the rights of :
Pennsylvania-American Water Company to begin to offer :
or furnish water service to the public in Valley Township, :
and in a portion of West Caln and East Fallowfield :
Townships, Chester County, Pennsylvania :

Docket No. A-2020-3019859 *et al.*

**DIRECT TESTIMONY OF
KEITH E. GABAGE
ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

Dated: October 9, 2020

PAWC Statement No. 1W

**DIRECT TESTIMONY OF
KEITH E. GABAGE**

INTRODUCTION

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

2 **A.** My name is Keith E. Gabage and my business address is 100 Cheshire Court, Suite 104,
3 Coatesville, PA 19320.

4

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

6 **A.** I am employed by Pennsylvania-American Water Company (“PAWC”) as Senior
7 Manager, Business Development.

8

9 **Q. WHAT ARE YOUR RESPONSIBILITIES AS PAWC’S SENIOR MANAGER,
10 BUSINESS DEVELOPMENT?**

11 **A.** I develop and maintain necessary contacts to stay abreast of new business opportunities
12 within the Commonwealth of Pennsylvania in both the community water and wastewater
13 markets. In addition, I also monitor acquisition activity throughout the Commonwealth of
14 Pennsylvania and conduct research on potential opportunities. I manage the acquisition
15 process from initial contact through to responding to Requests for Qualifications, Requests
16 for Proposals and Requests for Bids issued by owners (or through the owners’
17 representatives) of community water and/or wastewater systems. When PAWC is
18 successful in negotiating and executing an asset purchase agreement with a selling
19 municipality, township or entity, I assist in preparing an Application for submission to the
20 Pennsylvania Public Utility Commission (“PUC” or “Commission”). These
21 responsibilities require that I maintain a good working knowledge of regulatory and

1 technical developments, new technologies and current trends as they affect the water and
2 wastewater utility industries, and that I be familiar with legislation, regulations and public
3 policies affecting business opportunities.

4
5 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EDUCATION AND EXPERIENCE.**

6 **A.** I received a Bachelor of Arts (BA) degree in Liberal Arts, General Studies from Villanova
7 University (1994) and a paralegal certificate from Pennsylvania State University –
8 Abington Campus (1996). I also received a Master of Public Administration from West
9 Chester University (2019). I have attended Widener University School of Law and am
10 currently doctoral candidate and elected to pursue other educational pursuits in lieu of my
11 Doctor of Public Administration. I am a member of Pi Alpha Alpha; the National Honor
12 Society for Public Affairs and Administration. My experience in the water and wastewater
13 utility industry began in July 1979 when I was employed by Philadelphia Suburban Water
14 Company, now Essential Utilities, Inc. (f/k/a “Aqua America, Inc.”) (“Aqua”). I was
15 employed by Aqua or its Pennsylvania subsidiary, Aqua Pennsylvania, Inc., until May
16 2013, and during that time served in the capacity of Survey Mechanic (Engineering)
17 between 1979-1980; Draftsman (Engineering) between 1980-1981; Laborer (Operations)
18 between 1981-1983; Service Department Representative (Operations/Engineering)
19 between 1983-1989; Chief Estimator (Engineering) between 1989-1990; New Business
20 Representative (Engineering) between 1990-1994; Director of Safety & Claims (Law and
21 Administration) between 1994-2002; and then Director of Business Development between
22 2002-2013. I joined PAWC on May 13, 2013, where I have been serving in my current
23 capacity as Senior Manager, Business Development.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

2 **A.** Yes. I have previously testified for PAWC before the Commission as a company witness
3 for certain matters and a listing of those dockets is attached as **PAWC Exhibit KEG-1W.**

4

5 **Q. HAS PAWC FILED AN APPLICATION WITH THE COMMISSION FOR**
6 **REGULATORY APPROVAL TO ACQUIRE THE WATER SYSTEM OF VALLEY**
7 **TOWNSHIP (“VALLEY”) AND RELATED APPROVALS?**

8 **A.** Yes. PAWC filed its Application on October 9, 2020 for approval of PAWC’s acquisition
9 of Valley’s water treatment, and distribution facilities system (the “System”). I will refer
10 to the acquisition in my testimony as the “Transaction.”

11 The Application and its numerous appendices are true and correct to the best of my
12 knowledge, information, and belief. We used PAWC records, as well as Valley records
13 made available by Valley, to prepare the Application. For purposes of having a complete
14 evidentiary record in this proceeding, upon which the Commission can base its decision, I
15 incorporate by reference and submit the Application and all its appendices (**Appendices A**
16 **through K**) as **PAWC Exhibit KEG-2W.**

17

18 **Q. WHAT IS PAWC SEEKING IN ITS APPLICATION?**

19 **A.** There are four basic requests. First, PAWC is requesting approval of the acquisition under
20 66 Pa. C.S. § 1102, similar to many requests that come before the Commission.
21 Specifically, PAWC seeks approval to acquire the Water System and the right to begin

1 service in the areas currently served by Valley (the “Service Area”).¹ The Application
2 contains a *pro forma* tariff supplement (**Appendix A-12**) under which Valley’s current
3 rates would be initially adopted and would apply to all areas within the Service Area.

4 Second, pursuant to 66 Pa. C.S. § 1329 (“Section 1329”), PAWC is seeking to
5 utilize fair market value for the ratemaking rate base of the Water System. As explained
6 more-fully below, fair market value under Section 1329 is the lesser of the stated negotiated
7 purchase price in the APA or the average of the appraisal of Valley’s Utility Valuation
8 Expert (“UVE”) and the appraisal of PAWC’s UVE.

9 Third, PAWC is also seeking confirmation under Section 1329 to collect a
10 distribution system improvement charge (“DSIC”) for the new service area and seeking the
11 accrual and deferral of certain post-acquisition improvement costs. Specifically, the
12 accrual of Allowance for Funds Used During Construction (“AFUDC”) for post-
13 acquisition improvements not recovered through its DSIC for book and ratemaking
14 purposes and the deferral of depreciation related to post-acquisition improvements not
15 recovered through the DSIC for book and ratemaking purposes. In addition, PAWC is
16 seeking confirmation that it may include, in its next base rate case, a claim for transaction
17 and closing costs related to the acquisition.

18 Fourth, PAWC is seeking Certificates of Filing for approval under Section 507 of
19 the Pennsylvania Public Utility Code (“Code”), 66 Pa. C.S. § 507, of (a) the APA, and (b)
20 the November 16, 1988 Sewer and Water Service Agreement Between West Caln

¹ It should be noted that the Recitals to the Asset Purchase Agreement, dated December 17, 2019, (“APA”) erroneously state that Valley provides service in Sadsbury Township, Chester County, Pennsylvania (“Sadsbury”). Valley does not provide service in Sadsbury and the Service Area does not include any portion of Sadsbury.

1 Township, Valley, Valley Township Authority² and Highlands Corporate Center.³ These
2 agreements are between PAWC and a municipal corporation and are therefore required to
3 be filed with the Commission under Section 507. PAWC requests that the Commission
4 issue Certificates of Filing or otherwise approve these agreements if the Commission
5 deems that Certificates of Filing or approvals for these agreements are necessary under 66
6 Pa. C.S. § 507.

7
8 **Q. WHAT DOES SECTION 1329 REQUIRE TO BE INCLUDED IN THE**
9 **APPLICATION?**

10 **A.** Section 1329 requires that the Application include (1) a copy of the two UVE appraisals,
11 (2) the purchase price, (3) the ratemaking rate base, (4) the transaction and closing costs,
12 and (5) the proposed tariff. However, as will be explained later in my testimony, the
13 Commission has expanded the filing requirements beyond those specifically required by
14 the statute.

15
16 **Q. WHAT DOES THE COMMISSION REQUIRE FOR THE APPROVAL OF THE**
17 **FAIR MARKET VALUE RATEMAKING TREATMENT PERMITTED UNDER**
18 **SECTION 1329?**

19 **A.** In its Final Supplemental Implementation Order entered February 28, 2019, at Docket No.
20 M-2016-2543193 (*“Final Supplemental Implementation Order”*), the Commission
21 attached as Appendix A an extensive list of specific Section 1329 “Filing Requirements”

² Valley Township Authority was subsequently disbanded.

³ Valley will assign this contract to PAWC at closing. In addition, Valley will assign some other contracts with municipal corporations to PAWC at closing, but those agreements will either terminate or become obsolete at closing.

1 for items to include with an Application for it to be processed in a six-month time frame.
2 PAWC's Application is structured around those Filing Requirements. Appendix A to the
3 Application and its sub-appendices directly address each of the Filing Requirements.
4

5 **Q. IS PAWC FILING AS PART OF THE APPLICATION TESTIMONY PREPARED**
6 **BY VALLEY?**

7 A. Yes. PAWC's Application includes the written direct testimony of Valley's selected UVE
8 Mr. Harold Walker, III, and the written direct testimony of Patrice Proctor, the Chairman
9 of the Valley Township Board of Supervisors. PAWC is not sponsoring the written direct
10 testimony of Mr. Walker and Ms. Proctor but has included that testimony in **Appendix A-**
11 **13** as required by the Filing Requirements and in anticipation of Valley's potential
12 participation in the proceeding. PAWC reserves its right to submit rebuttal testimony
13 regarding Valley's testimony as appropriate.
14

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

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

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

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

9
10 **Q. PLEASE IDENTIFY THE OTHER PAWC WITNESSES WHO WILL BE**
11 **PROVIDING WRITTEN DIRECT TESTIMONY AND THEIR SUBJECT**
12 **MATTER AREAS.**

13 **A.** In addition to my direct testimony, PAWC will submit the written direct testimony of Mr.
14 Michael Guntrum, PAWC Senior Project Engineer, Engineering; and Mr. Rod P.
15 Nevirauskas, American Water Works Service Company Senior Director of Rates and
16 Regulations, Mid-Atlantic Division. PAWC is also sponsoring direct testimony by its
17 selected UVE, Mr. Jerome C. Weinert, Principal & Director of AUS Consultants, Inc. As
18 discussed above, PAWC is also including in its Application, but not sponsoring, the written
19 direct testimony by Valley's selected UVE, Mr. Harold Walker, III, Manager, Financial
20 Studies of Gannett Fleming Valuation and Rate Consultants, LLC and Patrice Proctor,
21 Chairman, Valley Township Board of Supervisors. These testimonies are being submitted
22 in anticipation of Valley's potential participation in the proceeding. PAWC reserves its
23 right to submit rebuttal testimony regarding Valley's testimony, as appropriate.

1 Mr. Guntrum will also describe engineering and environmental issues associated
2 with the System, support PAWC's technical fitness to operate the Water System, and
3 explain certain commitments made by PAWC in the APA. Mr. Guntrum will also address
4 the anticipated day-to-day operation of the Water System once it is acquired by PAWC,
5 including staffing and the customer service enhancements that PAWC intends to
6 implement for the benefit of Valley's customers. Mr. Nevirauskas will address the initial
7 rates, rules, and regulations for Valley's customers as well as the impact of the Transaction
8 on PAWC's existing customers. Mr. Nevirauskas will also discuss the financing of the
9 Transaction and the overall financial fitness of PAWC. Mr. Weinert will provide
10 supporting testimony for his fair market valuation report.

11 12 **DESCRIPTION OF THE TRANSACTION**

13 **Q. PLEASE PROVIDE A DESCRIPTION OF THE TRANSACTION NEGOTIATION** 14 **PROCESS.**

15 **A.** On June 20, 2019, PFM Financial Advisors, LLC ("PFM") issued Valley's Request for
16 Qualifications for Water & Sewer System Exploration ("RFQ"), which was the first part
17 of a two-step process. PAWC responded on June 21, 2019, expressing its indication of
18 interest to participate in Valley's process and subsequently submitted its response to the
19 RFQ on July 11, 2019, which included a Confidentiality Agreement. PAWC received
20 access to PFM's Virtual Data Room and on July 31, 2019, PAWC participated in Valley's
21 Management Meeting and Tour to conduct its field due diligence. PAWC had the
22 opportunity during the due diligence phase of Valley's process to request additional

1 materials and provide comments to the draft Asset Purchase Agreement and related
2 Disclosure Schedules.

3 On October 18, 2019, PFM issued, on behalf of Valley, the Request for Bids
4 (“RFB”); the second step of the process, which indicated that proposals were due on
5 November 15, 2019. The RFB was later modified to require that proposals were due on
6 November 18, 2019. PAWC submitted its proposal timely on November 18, 2019 and was
7 notified by PFM later that day that PAWC was the only bidder. On November 19, 2019,
8 PFM presented PAWC’s offer to Valley’s Supervisors. PAWC then attended a Valley
9 Board of Supervisors’ Meeting on December 17, 2019, at the request of PFM. At this
10 meeting, PFM presented, and the Board opened the meeting for public discussion. PAWC
11 assisted in answering questions from the members of the public in attendance and at the
12 conclusion of the public discussion the Board of Supervisors approved and signed the APA.

13 Pursuant to Section 1329, PAWC and Valley retained the services of Pennoni
14 Associates, Inc. on February 12, 2020, for the completion of The Engineer’s Assessment
15 of Tangible Assets, which is included as **Appendix A-15-a** of this Application. Also
16 pursuant to Section 1329, on or about August 23, 2019, and April 20, 2020, PAWC and
17 Valley, respectively, retained their UVEs to use The Engineer’s Assessment of Tangible
18 Assets in preparing their fair market valuation reports. These reports and electronic
19 working papers are included as **Appendix A-5-a** and **Appendix A-5-b** of this Application.
20 To complete these reports, PAWC retained the services of AUS Consultants, Inc. and
21 Valley retained the services of Gannett Fleming Valuation and Rate Consultants, LLC.
22 These reports value the System as of December 17, 2019, and March 31, 2020,

1 respectively. The average of these two appraisals is \$11,041,185 The arms-length
2 negotiated purchase price for the Water System, as provided for in the APA, is \$7,325,000.

3
4 **Q. CAN YOU PLEASE PROVIDE AN OVERVIEW OF THE APA?**

5 **A.** Yes. The APA is attached as **Appendix A-24-a (CONFIDENTIAL)** to the Application
6 **(PAWC Exhibit KEG-2W)**. The APA sets forth the terms and conditions pursuant to
7 which Valley will sell, and PAWC will purchase, substantially all assets, properties and
8 rights that Valley owns and uses in connection with the Water System. The APA sets forth
9 the entire understanding of the parties with respect to the Transaction. Under the APA, the
10 closing of the Transaction will occur after the receipt of all applicable governmental
11 approvals, including approvals from this Commission, and after all applicable conditions
12 have been met (or waived) by the parties.

13 Upon closing of the Transaction, PAWC will take ownership of the Water System
14 and begin rendering water service to Valley's current customers and Valley will
15 permanently discontinue providing or furnishing water service to the public within Valley
16 Township and limited portions of West Caln and East Fallowfield Townships, Chester
17 County, Pennsylvania.

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

21 **A.** The terms of purchase of specific properties, assets and rights to be transferred to PAWC
22 are defined and described in the APA's Section 2.01. Generally, the APA states that every
23 asset, property and right owned by Valley, and used in the provision of water service,

1 whether real, personal, mixed, tangible or intangible, and including all the physical plant,
2 property, equipment and facilities comprising the Water System owned by Valley shall be
3 conveyed to PAWC. All interests in real estate, including leases, easements and access to
4 public rights-of-way, owned by Valley and relating to the Water System, as well as all
5 assigned contracts, which are listed in the APA's Schedule 4.13, also will be conveyed to
6 PAWC.

7 Section 2.02 and Schedule 2.02(h) of the APA provide a list of assets not included
8 in the sale. They generally exclude: any contracts, licenses and leases that are not otherwise
9 Assigned Contracts; the seals, organizational documents, minute books, or other records
10 having to do with the organization of the Seller; cash and cash equivalents; insurance
11 policies of Seller; all rights to any outstanding lien related to a non-payment by a System
12 customer existing at or prior to the Closing Date; any assets, properties and rights used by
13 Seller other than those that primarily relate to the System; and any and all connecting
14 facilities originating from the Seller's terminus point of the distribution facilities at the
15 main or edge-of-road or curb-line when the facilities are located within a public right-of-
16 way or the edge of an easement when the distribution facilities are located within private
17 property to and throughout the customer's property.

18
19 **Q. HAS PAWC AGREED TO ASSUME ANY LIABILITIES OF VALLEY'S AS PART**
20 **OF THE TRANSACTION?**

21 **A.** Yes, PAWC is accepting certain "Assumed Liabilities" as part of this Transaction on the
22 day of closing. Per Section 2.04 of the APA, PAWC will assume any and all liabilities and
23 obligations: (1) arising under Valley's public water supply permits (arising from, related

1 to or based on events or circumstances occurring on or after the Closing Date) and (2)
2 arising out of or relating to the System or the Acquired Assets on or after the Closing
3 including: (a) all liabilities and obligations under the Assigned Contracts and Permits
4 resulting from events that occur or conditions that arise on or after the Closing; (b) any
5 litigation against Valley related to the System or the Acquired Assets resulting from events
6 that occur after the Closing; (c) all liabilities and obligations for Taxes related to the
7 System, its operation, and the Acquired Assets on or after the Closing.

8
9 **Q. CAN YOU PLEASE SUMMARIZE THE APA'S PROVISIONS GOVERNING THE**
10 **NEGOTIATED PURCHASE PRICE OF THE TRANSACTION?**

11 **A.** The consideration for the purchase of the System is set forth in Section 3.01 of the APA.
12 The arm's length negotiated purchase price is \$7,325,000.

13
14 **Q. PLEASE EXPLAIN THE RATES THAT WILL APPLY TO VALLEY'S**
15 **CUSTOMERS FOLLOWING THE CLOSING OF THE TRANSACTION.**

16 **A.** As set forth in Section 7.03 of the APA and as will be explained more-fully in the Direct
17 Testimony of Mr. Nevirauskas, PAWC Statement No. 3, PAWC will adopt Valley's rates
18 at the time of Closing of the Transaction. Moreover, the parties recognize that ratemaking
19 authority is vested with the Commission. Other charges, such as PAWC's DSIC and State
20 Tax Adjustment Surcharges, will apply and may be subject to increases. PAWC will bill
21 all Valley customers on a monthly basis, effective following closing. The effective rates
22 are shown in the APA **Appendix A-24-a (CONFIDENTIAL)**, Schedule 7.03, and

1 referenced in **Appendix A-18-a through A-18-c** to the Application (**PAWC Exhibit**
2 **KEG-2W**).

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

5 **A.** No, however, my colleague, Michael Guntrum, will discuss our proposed capital plan post-
6 closing in his written direct testimony, PAWC Statement No. 2W. In addition, Mr.
7 Guntrum will also discuss the anticipated day-to-day operation of the System once it is
8 acquired by PAWC, including staffing, in his written direct testimony.

9
10 **TRANSACTION IS IN THE PUBLIC INTEREST**

11 **Q. PLEASE PROVIDE AN OVERVIEW OF PAWC.**

12 **A.** PAWC, a subsidiary of American Water Works Company Inc., (“American Water”), is the
13 largest regulated public utility corporation duly organized and existing under the laws of
14 the Commonwealth of Pennsylvania, engaged in the business of collecting, treating,
15 storing, supplying, distributing, and selling water to the public, and collecting, treating,
16 transporting and disposing of wastewater for the public. Water and wastewater service is
17 furnished by PAWC to the public in a service territory encompassing more than 400
18 communities in 36 counties, including Chester County and the neighboring counties of
19 Lancaster, Berks, and Montgomery. Overall, PAWC serves a combined population of over
20 2,400,000 across the Commonwealth and is American Water’s largest subsidiary with
21 nearly 19 percent of American Water’s regulated customer base.

22 PAWC currently employs approximately 1,100 professionals with expertise in all
23 areas of water and wastewater utility operations, including engineering, regulatory

1 compliance, water and wastewater treatment plant operation and maintenance, distribution
2 and collection system operation and maintenance, materials management, risk
3 management, human resources, legal, accounting and, most importantly, customer service.
4 PAWC has the expertise, the record of environmental compliance, the commitment to
5 invest in necessary capital improvements and resources, and experienced managerial and
6 operating personnel necessary to provide safe and reliable water service to the residents of
7 Valley and surrounding areas.

8
9 **Q. PLEASE DESCRIBE PAWC’S HISTORICAL RELATIONSHIP WITH VALLEY.**

10 **A.** Since PAWC’s acquisition of the water and wastewater assets of the City of Coatesville
11 Authority (“CCA”) in March 2001, PAWC has been the regional water (and wastewater)
12 provider in the City of Coatesville and surrounding communities. PAWC provides water
13 to the communities of Valley Township, Sadsbury Township, City of Coatesville, East
14 Fallowfield Township, Caln Township, West Caln Township, West Sadsbury Township,
15 Highland Township, West Brandywine Township, Parksburg Borough, Atglen Borough,
16 Quarryville Borough, South Coatesville Borough, Bart and Colerain Townships. Valley
17 has been a bulk water customer of PAWC since PAWC’s acquisition of CCA’s water and
18 wastewater system assets. We maintain a relationship with Valley and other local
19 municipalities by participating in local events, providing environmental and firefighting
20 grants, offering the “H2O Assistance Program,” and supporting economic growth through
21 infrastructure improvements in the communities we serve.

1 **Q. HOW MANY CUSTOMERS DOES VALLEY'S SYSTEM CURRENTLY SERVE**
2 **AND HOW MANY CUSTOMERS DOES PAWC CURRENTLY SERVE?**

3 **A.** As of March 31, 2020, Valley furnished water service to 1,671 customers including 1,641
4 residential, 27 commercial, 1 industrial, and 2 school customer connections.

5 As of August 31, 2020 PAWC, furnished water service to approximately 671,431
6 ,customers in the following classifications:

7	Residential:	618,309
8	Commercial:	45,876
9	Industrial:	532
10	Municipal, Resale and Other:	2,399
11	<u>Fire Protection:</u>	<u>4304</u>
12	Total:	671,431
13		

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

16 **A.** The Transaction will result in affirmative public benefits of a substantial nature. First,
17 PAWC, as a large and long-established public utility, has the managerial, technical, and
18 financial fitness to operate the System in a safe and efficient manner in compliance with
19 the Code, the Pennsylvania Clean Streams Law, and all other applicable statutory and
20 regulatory requirements. PAWC has extensive experience in the operation of water
21 treatment and distribution systems. The acquisition fosters the Commission's stated goal
22 of regionalizing water systems to provide greater environmental and economic benefits to
23 customers.

24 Second, Valley's current customers will benefit in several ways from becoming
25 PAWC customers. PAWC is a large, financially-sound company that has the capacity to
26 finance necessary capital additions and improvements that will benefit its customers. In
27 addition, given its size, its access to capital, and its recognized strengths in system

1 planning, capital budgeting, and construction management, PAWC is well-positioned to
2 ensure that high quality water service meeting all applicable state and federal regulatory
3 requirements is provided to Valley's customers. Additionally, PAWC is subject to the
4 jurisdiction of the Commission and must comply with the Code. Valley is not regulated
5 by the Commission and does not need to comply with the Code.

6 Third, Valley's current customers will benefit from the enhanced and proven
7 customer service that PAWC provides. My colleague, Michael Guntrum, discusses these
8 customer service enhancements in more detail in PAWC Statement No. 2W; however, I
9 would like to note that they include, but are not limited to, additional bill payment options,
10 extended customer service and call center hours, enhanced customer information and
11 education programs, and access to PAWC's customer assistance program.

12 Finally, the Transaction will benefit PAWC's existing customers and Valley's
13 current customers in the long-term by expanding PAWC's customer base. There will be
14 no immediate rate impact on PAWC's existing customers, and we expect that the
15 Transaction will help PAWC maintain reasonable rates for all its customers going forward.
16 Moreover, by adding additional connections to the entire PAWC system, there are more
17 customers to share future infrastructure investment cost, which promotes stable rates across
18 the entire PAWC system. Customers who benefit from near-term improvements will one
19 day help pay for improvements on behalf of other customers on other parts of the PAWC
20 system. Being able to spread the costs of investing in and maintaining public water systems
21 over a growing customer base, particularly in a time of increased environmental
22 requirements, is essential to the continued success of water systems and maintaining
23 reasonable rates for customers. There is also a clear legislative intent associated with

1 Section 1329 and its allowance of fair market valuation for ratemaking purposes. The
2 General Assembly intended to facilitate the acquisition of municipal water and wastewater
3 systems by investor-owned utilities for the benefit of municipal corporations and their
4 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 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 service to customers on Valley's System.

12
13 **Q. CAN YOU EXPLAIN WHY PAWC IS FINANCIALLY FIT TO ACQUIRE AND**
14 **OPERATE THE 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 As part of the Application, PAWC provided the audited internal balance sheet, as
18 of December 31, 2019, for PAWC (**Appendix D to PAWC Exhibit KEG-2W**), as well as
19 the audited income statement, as of December 31, 2019 for PAWC (**Appendix F to PAWC**
20 **Exhibit KEG-2W**). Those documents show that PAWC had total assets of approximately
21 \$5.3 billion as of December 31, 2019. Further, they show that PAWC had net income of
22 approximately \$187 million for the 12 months ending December 31, 2019. These figures
23 further demonstrate that PAWC has the financial stability and wherewithal to acquire the

1 System and operate it in the public interest. My colleague, Mr. Nevirauskas, will provide
2 additional details in PAWC Statement No. 3 on the financial health of PAWC and its ability
3 to access capital.

4
5 **Q. PLEASE EXPLAIN WHY PAWC IS TECHNICALLY FIT TO OPERATE THE**
6 **SYSTEM?**

7 **A.** As I discussed earlier, PAWC is engaged in the business of collecting, treating, storing and
8 distributing water for the public. PAWC is the largest investor-owned water utility in the
9 Commonwealth of Pennsylvania and already has significant water operations. PAWC is
10 experienced in undertaking and completing water and wastewater system acquisitions with
11 public and private sector owners and successfully integrating those assets into our business
12 operations. My colleague, Michael Guntrum, will explain in greater detail in PAWC
13 Statement No. 2, specifically how PAWC intends to operate the System once acquired.

14
15 **SERVICE TERRITORY**

16 **Q. PLEASE EXPLAIN THE SERVICE TERRITORY SOUGHT BY PAWC IN THE**
17 **APPLICATION.**

18 **A.** As part of its Application, PAWC is seeking the right to provide service in the service area
19 served by Valley as shown in the maps and descriptions attached as **Appendix A-16-a**
20 **through A-16-f (Appendix A-16-f is CONFIDENTIAL) to PAWC Exhibit KEG-2W.**
21 No municipal authority, corporation, partnership or individual other than Valley is now
22 furnishing or has corporate or franchise rights to furnish service similar to that to be
23 rendered by PAWC in the Service Area covered by the Application, and no competitive

1 condition will be created. As discussed above, upon closing of the Transaction, Valley will
2 permanently discontinue all water service to the public.

3 Valley also provides water service in limited portions of West Caln and East
4 Fallowfield Townships which are also served by PAWC.

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

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

9 **A.** Yes. In addition to the approvals sought under Code Sections 1102(a) and 1329, 66 Pa.
10 C.S. §§ 1102(a), 1329, the APA (attached as **CONFIDENTIAL Appendix A-24-a**) and
11 the Sewer and Water Service Agreement Between West Caln Township, Valley, Valley
12 Township Authority, and Highlands Corporate Center (attached in **Appendix A-25-a**)
13 (which will be assumed by PAWC), must be filed with the Commission pursuant to Code
14 Section 507.

15 The foregoing agreements are reasonable and necessary in order for PAWC to
16 provide service in the Service Area.

17
18 **Q. PLEASE DESCRIBE ANY OTHER MUNICIPAL CONTRACTS TO BE**
19 **ASSUMED BY PAWC.**

20 **A.** Other municipal agreements assigned or assumed by PAWC either terminate or become
21 obsolete at closing. These agreements include contracts between Valley and PAWC and
22 contracts between Valley and the City of Coatesville Authority (which is now owned by
23 PAWC). Those agreements are attached to the Application in **Appendix A-25-a**.

CONCLUSION

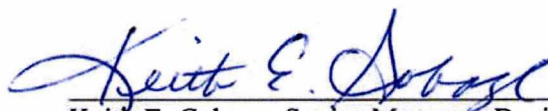
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Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

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

VERIFICATION

I, Keith E. Gabage 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.



Keith E. Gabage, Senior Manager, Business Development
Pennsylvania-American Water Company

Dated: *October 7, 2020*

**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 Valley :
Township’s assets, properties and rights related to its :
water treatment and distribution system to Pennsylvania- : Docket No. A-2020-3019859 *et al.*
American Water Company, and (2) the rights of :
Pennsylvania-American Water Company to begin to offer :
or furnish water service to the public in Valley Township, :
and in a portion of West Caln and East Fallowfield :
Townships, Chester County, Pennsylvania :

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

Date: October 9, 2020

PAWC Statement No. 2W

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

1 hold a Project Management Professional certification from the Project Management
2 Institute.

3
4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
5 **PUBLIC UTILITY COMMISSION (“PUC” OR “COMMISSION”)?**

6 **A.** Yes. I have testified before the Commission on several occasions as shown on **PAWC**
7 **Exhibit MJG-3W.**

8
9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

10 **A.** My testimony will describe the water system including the source of supply, treatment, and
11 distribution system (“System”) currently owned by the Township of Valley (“Valley”) that
12 PAWC has agreed to acquire (the “Transaction”). I will also explain how the acquired
13 system will be integrated into PAWC’s existing operations, describe PAWC’s technical
14 fitness to run the system, and discuss the benefits of the Transaction.

15
16 **Q. CAN YOU PLEASE DESCRIBE THE SYSTEM?**

17 **A.** The Valley system has three Public Water System Identification Numbers (“PWSIDs”).
18 Valley Springs (PWSID #: 1150185) has three permanent ground water wells. Prior to
19 entering the distribution system, the water is treated with sodium hypochlorite for
20 disinfection and pH adjusted by addition of sodium hydroxide. The system received its
21 ground water rule certification in November 2011. The maximum rated flow from the
22 treatment system is 150 gpm. The Valley Springs system also supplements production
23 with purchased surface water from PAWC’s Coatesville water system. Valley Crossing

1 (PWSID #: 1150197) purchases all its water from PAWC Coatesville. Villages of Hillview
2 (PWSID #: 1150225) purchases all its water from PAWC Coatesville.

3
4 **Q. PLEASE DESCRIBE PIPE SIZES AND MATERIALS USED FOR THE**
5 **CONSTRUCTION OF THE DISTRIBUTION SYSTEM.**

6 **A.** Based on the mapping that was available and provided by Valley, the distribution system
7 is primarily constructed from ductile iron pipe. The approximate sizes and lengths are
8 listed in the table below.

Pipe Diameter and Material	Approximate Pipe Length
6-inch DIP	12,599 ft
8-inch DIP	79,554 ft
10-inch DIP	10,916 ft
12-inch DIP	10,814 ft
14-inch DIP	1,250 ft
TOTAL	115,133 ft

10
11 **Q. PLEASE STATE WHETHER THE SYSTEM CAN PROVIDE AN ADEQUATE**
12 **SUPPLY OF WATER TO MEET PRESENT AND FUTURE CUSTOMER**
13 **DEMANDS.**

14 **A.** Based on the population projections and demand projections the system capacity is
15 adequate to meet present and future customer demands.

16
17 **Q. PLEASE STATE THE ELEVATIONS OF THE MAJOR FACILITIES AND**
18 **SERVICE AREA.**

19 **A.** Please see **Appendix A-16-f (CONFIDENTIAL)** for a map showing the approximate
20 elevations of the existing facilities.

1 **Q. DOES PAWC PROVIDE WATER SERVICE TO VALLEY, WEST CALN AND**
2 **EAST FALLOWFIELD TOWNSHIPS?**

3 **A.** Yes, presently PAWC provides water service in portions of Valley and East Fallowfield
4 Township and provides water service in most of West Caln Township. PAWC is acquiring
5 the wastewater system in Valley under a separate application that will be filed shortly.

6
7 **Q. PLEASE PROVIDE AN OVERVIEW OF PAWC'S EXISTING WATER**
8 **OPERATIONS FACILITIES IN THE VALLEY AREA.**

9 **A.** PAWC's Coatesville operations center is located within one mile from Valley and houses
10 both the local operations team and operations support staff.

11
12 **Q. PLEASE DESCRIBE HOW PAWC WILL MANAGE THE DAY-TO-DAY**
13 **OPERATIONS OF THE SYSTEM ONCE IT IS ACQUIRED?**

14 **A.** The System will be managed as part of PAWC's Coatesville water department within
15 PAWC's Southeast Area operations. The Valley systems that receive water wholly from
16 PAWC (Valley Crossing, and Villages of Hillview) will be integrated into the PAWC
17 Coatesville water system. The Valley Springs system will continue to operate as a
18 standalone system. The Southeast Area provides a range of shared support services --
19 including purchasing, environmental compliance, health, and safety, meter reading,
20 customer service work and PA One Calls. The water and wastewater operations in Valley
21 will both be supported by common shared support services.

1 **Q. ARE OTHER PAWC EMPLOYEES AVAILABLE TO ASSIST WITH WATER**
2 **OPERATIONS, AS NEEDED?**

3 **A.** Yes. Current PAWC employees in this area are supported by a shared support team
4 supporting common functions such as payroll, purchasing, environmental compliance,
5 health, and safety. Employees in both the water and wastewater departments will support
6 each other when appropriate and necessary, particularly in emergency situations. As
7 mentioned above, all operations and employees within PAWC and within the broader
8 American Water Works Company, Inc. (“American Water”) footprint have access to each
9 other when circumstances require and/or when a very specialized skill or experience is
10 required to support all local issues.

11
12 **Q. WILL THERE BE ANY UNNECESSARY DUPLICATION OF OPERATIONS**
13 **FACILITIES FOLLOWING THE ACQUISITION?**

14 **A.** No, the System will be operated by PAWC’s existing Coatesville system. It will also have
15 the support of PAWC’s surrounding operations as well as PAWC’s operations throughout
16 the Commonwealth and American Water’s nationwide resources.

17
18 **Q. WHAT ARE THE ESTIMATED CAPITAL COSTS FOR THE SYSTEM?**

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

20
21 **Q. IN YOUR OPINION, IS PAWC BETTER EQUIPPED THAN VALLEY TO**
22 **MAINTAIN ENVIRONMENTAL COMPLIANCE FOR THE SYSTEM? WHY?**

1 A. Yes. PAWC can draw upon a much broader range of engineering and operational
2 experience, as well as deeper financial resources, to address the environmental compliance
3 challenges of the System. In addition, given PAWC's existing platform in relation to the
4 operation of water and wastewater systems in neighboring communities, we believe that
5 PAWC is best positioned to provide those services on a cost-effective basis.

6 PAWC is the Commonwealth's largest investor-owned provider of water and
7 wastewater services. As a leading wastewater provider in Pennsylvania, PAWC brings
8 industry leading expertise and has extensive technical experience in upgrading, operating
9 and maintaining sewer facilities. PAWC is a recognized leader in providing communities
10 in the Commonwealth with well-maintained and reliable water and wastewater service and
11 has extensive local knowledge due to our decades of experience providing water service to
12 neighboring communities.

13 PAWC currently employs approximately 1,100 professionals with expertise in all
14 areas of water and wastewater utility operations including engineering, regulatory
15 compliance, water and wastewater treatment plant operation and maintenance, distribution
16 and collection system operation and maintenance, material management, risk management,
17 human resources, legal, accounting, and customer service. As a subsidiary of American
18 Water, PAWC has available to it additional resources of highly trained professionals who
19 have expertise in various specialized areas. A 50-person team of American Water
20 corporate engineers has handled a wide variety of system evaluations, selecting treatment
21 processes and establishing critical design criteria for water and wastewater treatment
22 systems in order to improve operations and prioritize capital improvements.

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

13
14 **Q. PLEASE DESCRIBE PAWC'S TECHNICAL FITNESS TO PROVIDE WATER**
15 **SERVICE TO VALLEY'S CUSTOMERS.**

16 **A.** PAWC has approximately 670,000 active water customers across the Commonwealth, with
17 customers in 36 counties. A map of PAWC's current service territories is attached to my
18 testimony as **PAWC Exhibit MJG-2W**. PAWC has had no material issues in complying
19 with the Pennsylvania Public Utility Code ("Code") or other regulatory requirements.
20 Moreover, PAWC has the resources, skill and expertise to respond to ever-increasing
21 environmental standards for the treatment of water and to manage the long-term
22 infrastructure issues inherent in water systems.

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

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

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

- 12 • Physical Security Plan - Operational Risk Management Security
13 (American Water Works Service Company, Inc. (“AWWSC”))
 - 14 • Cyber Security Plan - Operational Risk Management Security
15 (AWWSC)
 - 16 • Emergency Response Plan - Operations (PAWC)
 - 17 • Business Continuity Plan - Operational Risk Management (PAWC)
18 and Operations (PAWC)
- 19

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

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

4 **A.** PAWC has a strong working relationship with the Commission's Emergency Response
5 Staff. PAWC provides the Commission with emergency response numbers for all PAWC
6 operating areas each year. The Commission provides emergency numbers for its staff,
7 which PAWC distributes to all PAWC's operating areas for inclusion in the PAWC
8 Emergency Response Plans. For those emergencies that warrant communication to the
9 Commission's Emergency Preparedness Liaison Officer ("EPLO"), PAWC has contacted
10 Commission staff numerous times in the past to advise of situations and actions taken by
11 PAWC. Each year PAWC conducts emergency response tabletop exercises to test response
12 to emergency situations, including weather emergencies, contamination of supply, damage
13 to facilities, cyber-attack, and other perils. The Commission's emergency response staff
14 has participated in those exercises each year since 2006. We also invite local first
15 responders to participate, such as fire departments, police departments, hazmat responders,
16 local prison personnel, as well as the Pennsylvania Department of Environmental
17 Protection ("DEP"), and the Pennsylvania Governor's Office of Homeland Security
18 ("OHS") personnel. PAWC has participated in Pennsylvania Water/Wastewater Agency
19 Response Network ("PaWARN") and Pennsylvania Emergency Management Agency
20 ("PEMA") sponsored exercises over the years. Our current relationship with PEMA is
21 through the Commission EPLO and PaWARN.

1 **Q. PLEASE DESCRIBE PAWC’S PARTICIPATION IN PENNSYLVANIA’S “ONE**
2 **CALL” SYSTEM AND THE RESOURCES THAT PAWC DEDICATES TO THE**
3 **PROGRAM.**

4 **A.** All of PAWC’s 36 districts are members of Pennsylvania One Call System Inc. and
5 complete excavator requested mark outs on a daily basis. Each district has a minimum of
6 one person dedicated to completing dig notifications utilizing a third-party internet based
7 One Call ticket management system known as Korweb that is accessible via vehicle
8 mounted computers for real time response to any PA One Call dig notification.

9
10 **Q. DOES PAWC HAVE AN EMPLOYEE SAFETY PROGRAM?**

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

- 21 • Supporting practices that are developed, reviewed and updated to
22 provide guidance on safe performance of activities in the workplace
23 and are reflective of changes in organizational, operational and
24 regulatory needs;

- 1 • Strategic and priority development and implementation of safety
2 improvements based on risk analysis of workplaces, work tasks and
3 related potential injuries and incidents;
4
- 5 • Development of, and measurement against, specific Company and
6 external safety performance targets and safety accountabilities for all
7 employees;
8
- 9 • Ongoing assessment and review of safety processes, activities and
10 supporting programs (including those related to other Company
11 policies, such as the Workplace Conduct and Behavior Policy) to
12 gauge effectiveness, identify program gaps and pinpoint opportunities
13 for continued improvement;
- 14 • Consistency of implementation and compliance with Company and
15 regulatory requirements across the enterprise; and;
16
- 17 • Defined and monitored contractor qualifications and requirements for
18 safety performance in accordance with approved contract documents,
19 applicable laws and regulations.
20

21 **Q. WHAT EFFORTS, IF ANY, WILL PAWC UNDERTAKE TO EDUCATE**
22 **CUSTOMERS REGARDING PAWC OWNERSHIP OF THE SYSTEM?**

23 **A.** As the Transaction is nearing closing, PAWC plans to produce bill inserts or onserts and/or
24 letters to customers to explain the transition, billing, payment options and other items
25 associated with the change in ownership. PAWC's website will also add content to help
26 educate customers and to address frequently asked questions.
27

28 **Q. WHAT, IF ANY, CUSTOMER ENHANCEMENTS CAN VALLEY CUSTOMERS**
29 **EXPECT AS A RESULT OF THE TRANSACTION?**

30 **A.** PAWC prides itself on providing superior customer service. As part of its commitment to
31 customer service, PAWC offers its customers a number of enhanced services, including
32 extended call center hours, additional bill payment options, enhanced customer information
33 and education programs, and access to PAWC's customer assistance program.

1 **Q. CAN YOU PLEASE PROVIDE ADDITIONAL DETAIL ON EACH OF THESE**
2 **CUSTOMER SERVICE ENHANCEMENTS?**

3 **A. Yes. *Customer Service.*** Our call center is available from 7:00 a.m. to 7:00 p.m., Monday
4 through Friday. Customers can also reach a customer service representative via email at
5 infopa@amwater.com. In addition, our customers have the ability to manage their account
6 via PAWC's "My H2O" online portal. Finally, PAWC offers emergency support 24 hours
7 a day, seven days a week. All of this means that we are very responsive to our customers
8 and any issues they may have and will provide the same responsive approach to Valley's
9 customers once PAWC acquires the System.

10 ***Bill Payment Options.*** PAWC offers a number of bill payment options. Customers
11 have the option to receive paper bills through the mail or go paperless and receive their
12 bills electronically via the "My H2O" on-line portal. Either way, customers can pay their
13 bill by mail, online, or over the phone with a debit or credit card. They can also pay by e-
14 check or an electronic funds transfer (which can be set up at the "My H2O" online portal)
15 or pay in person at multiple authorized payment locations across the state. Additionally,
16 customers will transition from a quarterly billing to a monthly billing cycle and will receive
17 a combined monthly bill from PAWC for water and wastewater services.

18 ***Customer Information and Education Programs.*** PAWC provides extensive
19 customer information and education programs that will be available to Valley's current
20 customers through brochures, bill inserts, and educational videos posted on PAWC's
21 website. Our customers always have full access to a wide range of topics, including
22 information on preventing sewer overflows, preventing frozen pipes, beneficially re-using
23 residuals from water treatment plants for community gardens, detecting and fixing silent

1 toilet leaks, properly disposing of unused pharmaceuticals to keep them out of the
2 wastewater system, conserving water, installing expansion tanks, obtaining Fire
3 Department Grants, and protecting customers from utility imposters.

4 *Customer Assistance Programs.* Finally, as new PAWC customers, Valley's
5 customers will have access to PAWC's customer assistance program called the "H2O Help
6 to Others Program." For water customers, this program offers two main services: (1)
7 grants of up to \$500 per year and (2) a 15% discount on total water charges. Additionally,
8 customers who qualify for the program may also qualify to receive a water saving kit which
9 includes, among other things, a low-flow shower head and low-flow faucet aerators.

10
11 **Q. DOES PAWC HAVE A PROGRAM TO PROTECT ITS CUSTOMERS AGAINST**
12 **UTILITY EMPLOYEE IMPOSTERS?**

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

1 **Q. PLEASE DESCRIBE PAWC'S CUSTOMER DISPUTE RESOLUTION**
2 **PROCEDURE.**

3 **A.** PAWC is governed by Chapter 14 of the Code, Responsible Utility Customer Protection
4 Act, 66 Pa. C.S. § 1401 *et seq.*, and the Commission's regulations commonly known as
5 Chapter 56, 52 Pa. Code § 56.1 *et seq.* This law and Commission regulations provide the
6 process and procedures for customer billing, collections, payment arrangements, medical
7 certifications, Protection from Abuse Orders, termination of service, reconnection of
8 service, and customer dispute resolution procedures. PAWC has a customer compliance
9 team located in the Mechanicsburg office responsible for ensuring that customer disputes
10 and complaints are resolved in compliance with the Commission's regulations.
11 Additionally, the Company has a customer advocacy team located in the Mechanicsburg
12 office responsible for addressing any customer disputes and escalated concerns.

13
14 **Q. TO THE BEST OF YOUR KNOWLEDGE, DO VALLEY'S CUSTOMERS**
15 **CURRENTLY HAVE A PUBLIC OMBUDSMAN TO REPRESENT THEIR**
16 **INTERESTS?**

17 **A.** No.

18
19 **Q. DO PAWC'S CUSTOMERS HAVE A PUBLIC OMBUDSMAN TO REPRESENT**
20 **THEIR INTERESTS?**

21 **A.** Yes. The Office of Consumer Advocate ("OCA") represents residential customers of
22 public utilities; the Office of Small Business Advocate ("OSBA") represents small
23 commercial customers of public utilities; and, the Commission's Bureau of Investigation

1 & Enforcement (“I&E”) represents the general public interest. Moreover, the Commission,
2 an independent regulatory agency, has regulatory oversight of matters involving public
3 utilities. The Commission and all of the public advocates are funded by regulatory
4 assessments on public utilities.

5 **CONCLUSION**

6 **Q. DO YOU BELIEVE PAWC HAS THE ABILITY TO PROVIDE SAFE,**
7 **ADEQUATE, AND RELIABLE WATER SERVICE TO VALLEY’S**
8 **CUSTOMERS?**

9 **A.** Yes.

10
11 **Q. DO YOU BELIEVE THAT THE PROPOSED TRANSACTION WOULD RESULT**
12 **IN AN AFFIRMATIVE PUBLIC BENEFIT OF A SUBSTANTIAL NATURE?**

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

16
17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

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

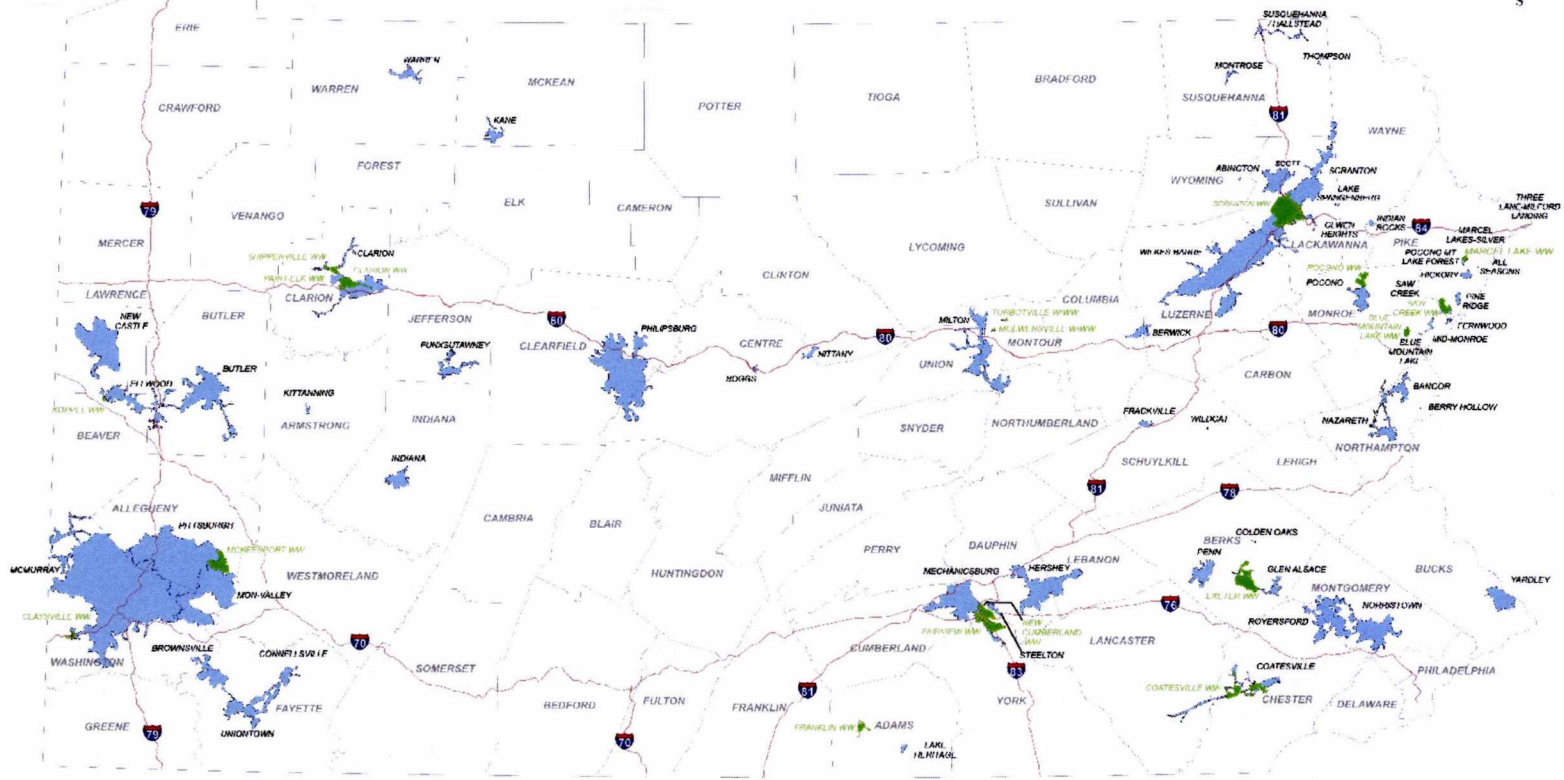
**PAWC EXHIBIT
MJG-1W**

Valley Water Capital Plan

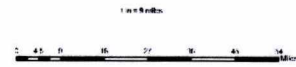
Year After Closing	1	2	3	4	5
Capital Improvement					
Safety	\$ 30,000				
Security	\$ 30,000				
SCADA	\$ 50,000				
GIS Survey	\$ 45,000				
Misc. improvements	\$ 100,000	\$ 50,000			
Meter replacement	\$ 110,000	\$ 110,000	\$ 110,000		
Distribution System Improvements		\$ 200,640	\$ 200,640	\$ 200,640	\$ 200,640
Hillview pump station improvements			\$ 100,000	\$ 500,000	\$ 500,000
Valley Springs improvements		\$ 50,000	\$ 150,000		
Reoccurring capital projects	\$ 185,000	\$ 145,000	\$ 145,000	\$ 145,000	\$ 145,000
Total	\$ 550,000	\$ 555,640	\$ 705,640	\$ 845,640	\$ 845,640

**PAWC EXHIBIT
MJG-2W**

Existing Service Territory Pennsylvania American Water Company



- Legend**
- PAWC WATER
 - PAWC WASTEWATER



PAWC - Pennsylvania American Water Company. All rights reserved. 2014. All other trademarks are the property of their respective owners.

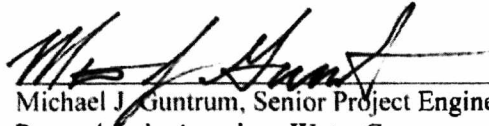
**PAWC EXHIBIT
MJG-3W**

CASES PREVIOUSLY TESTIFIED IN

Case	Docket Number
Pennsylvania-American Water Company Acquisition of Sadsbury Township Wastewater System	Docket No. A-2018-3002437
Pennsylvania American Water Company Acquisition of Borough of Kane Wastewater System	Docket No. A-2019-3014248
Pennsylvania-American Water Company Acquisition of the Borough of New Cumberland Borough	Docket No. A-2016-2544151
Pennsylvania-American Water Company Acquisition of Borough of Royersford Wastewater System	Docket No. A-2020-3019634

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: October 7, 2020

**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 Valley :
Township’s assets, properties and rights related to its :
water treatment and distribution system to Pennsylvania- : Docket No. A-2020-3019859 *et al.*
American Water Company, and (2) the rights of :
Pennsylvania-American Water Company to begin to offer :
or furnish water service to the public in Valley Township, :
and in a portion of West Caln and East Fallowfield :
Townships, Chester County, Pennsylvania :

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

Date: October 9, 2020

PAWC Statement No. 3W

**DIRECT TESTIMONY OF
ROD P. NEVIRAUSKAS**

INTRODUCTION

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22

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

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

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

A. I am employed by American Water Works Service Company (“Service Company”) as Senior Director of Rates and Regulations for the Mid-Atlantic Division, which includes Pennsylvania-American Water Company (“PAWC”).

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

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

1 responsibility for rate and regulatory matters in West Virginia, Virginia and Maryland were
2 transferred to the Mid-Atlantic Division of AWW, of which PAWC is a member. On April
3 1, 2017, I was promoted to Senior Director with regulatory responsibility for Pennsylvania
4 and West Virginia.
5

6 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**
7 **PENNSYLVANIA PUBLIC UTILITY COMMISSION (THE “COMMISSION” OR**
8 **“PUC”)?**

9 **A.** Yes. I have testified on numerous occasions on behalf of utility subsidiaries of AWW in
10 support of rate filings and financings in the States of Connecticut, Rhode Island, New
11 Jersey, New Hampshire, Maryland, New York, Ohio, West Virginia and the
12 Commonwealths of Massachusetts, Virginia and Pennsylvania.
13

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

15 **A.** My testimony first addresses the financial fitness of PAWC to acquire and operate the
16 water treatment and distribution system (“System”) currently owned and operated by
17 Valley Township (“Township”), which PAWC has agreed to purchase (“Transaction”).
18 Second, my testimony addresses: (a) the identification of ratemaking rate base as required
19 in 66 Pa. C.S § 1329 for PAWC’s acquisition of the System; (b) the benefits of the
20 Transaction; (c) the customer notices associated with the Transaction; (d) an estimate of
21 the range of transaction and closing costs incurred by PAWC; (e) an overview of the rate
22 provisions contained in the Asset Purchase Agreement (“APA”) for PAWC’s acquisition
23 of the System; (f) a recommendation regarding a separate cost of service study for this

1 acquisition; (g) a statement regarding PAWC's intentions with respect to accrual of certain
2 post-acquisition improvement costs and deferral of related depreciation; and, (h) the
3 authentication of certain Application appendices.

4
5 **PAWC'S FINANCIAL FITNESS**

6 **Q. PLEASE DISCUSS PAWC'S FINANCIAL FITNESS.**

7 A. PAWC is the Commonwealth's largest water and wastewater provider, with total assets of
8 \$5.3 billion and annual revenues of \$689 million for 2019. For 2019, PAWC had operating
9 income of approximately \$330 million and net income of approximately \$187 million.
10 These operating results produced cash flows from operations of approximately \$355
11 million.

12
13 **Q. DOES PAWC HAVE THE OVERALL FINANCIAL FITNESS AND ACCESS TO
14 CAPITAL TO ACQUIRE THE TOWNSHIP'S ASSETS?**

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

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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 water and wastewater assets is \$20,575,000.
8 The purchase prices for each system and the average of the appraisals of the buyer’s Utility
9 Valuation Expert (“UVE”) and the seller’s UVE are shown in the chart below:

	<u>Purchase Price</u>	<u>Average Appraisal</u>
10 Water	\$7,325,000	\$11,051,185
11 Wastewater	\$13,950,000	\$19,463,530

13

14 Accordingly, the negotiated purchase prices totaling \$20,575,000 are the fair market value
15 for ratemaking purposes under Section 1329 (*i.e.* the lower of the negotiated purchase price
16 and the average of the UVEs’ appraisals). The fair market value as determined by the
17 Section 1329 process, in addition to the transaction and closing costs described below,
18 becomes part of PAWC’s rate base for ratemaking purposes. Note, however, that PAWC
19 reserves its right in future proceedings to make rate base claims related to the acquisition
20 as may otherwise be permitted under the Pennsylvania Public Utility Code (“Code”).

21

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

23 A. The System’s customers will be served by a large, financially sound company that has the
24 capability to finance necessary capital additions. PAWC is fit to provide safe and adequate
25 service to the Township’s customers. Given its size, access to capital and its recognized

1 strengths in system planning, capital budgeting and construction management, PAWC is
2 well-positioned from a financial, managerial and technical perspective to ensure that high
3 quality wastewater service meeting all federal and state requirements is provided to the
4 Township's customers and maintained for PAWC's existing customers. As discussed in
5 the testimony of PAWC witness Michael J. Guntrum, PAWC's Senior Project Engineer,
6 PAWC Statement No. 2W, PAWC plans improvements in the service to the Township's
7 water and wastewater customers over the next five years. Furthermore, the acquisition
8 furthers the Commission's goals of consolidation and regionalization of water and
9 wastewater systems within the Commonwealth. PAWC currently provides water for resale
10 and bulk wastewater treatment to the Township. As explained in PAWC witness
11 Guntrum's testimony in Statement No. 2W, this acquisition will enable PAWC to directly
12 provide distribution and treatment service to the Township's customers, most of which are
13 currently indirectly provided service by PAWC's Coatesville water and wastewater
14 treatment plants.

15 The ratemaking rate base of the Transaction equates to an average of approximately
16 \$4,386 per water customer and \$4,464 per wastewater customer.¹ This average rate base
17 per customer is less than the average per-customer ratemaking rate base approved by the
18 Commission in other recent Section 1329 applications, including PAWC's recently
19 approved acquisition of the wastewater system assets of the Borough of Kane Authority,
20 at \$8,697 per customer² and the acquisition of the water system assets of the Steelton

¹ Water: \$7,325,000 purchase price / 1,670 customers = \$4,386.

Wastewater: \$13,950,000 purchase price / 3,125 customers = \$4,464.

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.

1 Borough Authority (“Steelton”) at \$8,293 per customer.³ The Commission approved the
2 Kane acquisition on June 18, 2020 and the Steelton acquisition on October 3, 2019, finding
3 the settlements of the application proceedings to be in the public interest.
4

5 **Q. WHAT IMPACT, IF ANY, WILL THERE BE ON THE RATES OF THE**
6 **TOWNSHIP’S CUSTOMERS AS A RESULT OF THE ACQUISITION OF THE**
7 **SYSTEM?**

8 **A.** PAWC has committed to adopt, upon closing of the Transaction, the Township’s current
9 minimum charge and consumption charge then in effect at the time of closing.

10 PAWC expects to propose to move the Township’s rates toward consolidated rates
11 in future base rate cases. Subject to Commission approval, PAWC anticipates allocating a
12 portion of its wastewater revenue requirement to the combined water and wastewater
13 customer base, as permitted by 66 Pa. C.S. § 1311(c). As PAWC customers, the cost of
14 service to Township customers can be allocated among a larger group of customers,
15 thereby mitigating the per-customer impact of capital improvements and increases in
16 operating costs.
17

18 **Q. WHAT IMPACT, IF ANY, WILL THERE BE ON THE RATES OF PAWC’S**
19 **CURRENT CUSTOMERS AS A RESULT OF THE ACQUISITION OF THE**
20 **SYSTEM?**

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 **A.** There is no immediate impact on the rates of PAWC’s current customers. PAWC expects
2 to include the Township’s water and wastewater operations in PAWC’s future base rate
3 filings. Any impacts on the rates of PAWC’s existing customers would occur only upon
4 Commission approval as part of a base rate proceeding. A non-binding estimate of possible
5 rate impacts for existing customers is shown in **Appendix A-18-d** and discussed in the
6 Customer Notice section below. The Township’s customers, as part of PAWC’s overall
7 customer base, will become part of PAWC’s overall cost allocation. Nothing contained in
8 the APA would bind the Commission or other interested parties in future ratemaking
9 proceedings.

10
11 **Q. DO YOU ANTICIPATE THE TRANSACTION HARMING PAWC’S FINANCIAL**
12 **STATUS IN ANY MANNER?**

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

17
18 **CUSTOMER NOTICE**

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

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

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

3 **A.** These notices were prepared in accordance with the *Steelton Order*.⁴ This Order approved
4 a Settlement in which PAWC agreed to the form and calculation of the notices for future
5 Section 1329 acquisition proceedings (“Settlement”).

6 In the Settlement, the Joint Petitioners (PAWC, the Commission’s Bureau of
7 Investigation & Enforcement (“I&E”), the Office of Consumer Advocate (“OCA”), the
8 Office of Small Business Advocate (“OSBA”) and the Borough of Steelton) agreed to the
9 form of the notices to be sent to existing PAWC water and wastewater customers and the
10 notice to be sent to the customers of the system being acquired. The forms of the notices
11 were attached to the Settlement as Appendix E and Appendix F.

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

14
15 **Q. ARE THE NOTICES TO EXISTING PAWC CUSTOMERS AND THE**
16 **CUSTOMERS OF THE SYSTEM BEING ACQUIRED SUBSTANTIALLY IN THE**
17 **FORM INDICATED BY APPENDIX E AND APPENDIX F TO THE ABOVE-**
18 **REFERENCED SETTLEMENT?**

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

⁴ The Valley water system is a current bulk water customer of PAWC. Because the situation of the acquired system being a bulk water customer was not addressed in the Steelton Settlement, the Company discussed the reflection of these bulk revenues in the calculation with I&E, OCA and OSBA prior to filing. The notice contained in PAWC Exhibit RPN-1W reflects the methodology discussed with these parties.

1 **Q. PLEASE SUMMARIZE THE CALCULATION OF THE POTENTIAL RATE**
 2 **IMPACT SHOWN IN THE NOTICE TO THE TOWNSHIP’S CUSTOMERS.**

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

Valley Township Water Customers				
Rate Class	Average Usage	Average Monthly Bill at the Township’s Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,630 gal/month	\$30.05	\$60.91	103%
Commercial	22,000 gal/month	\$156.24	\$316.70	103%
Industrial	476,000 gal/month	\$3,969.84	\$8,046.87	103%

5 The 103% increase shown in the chart above is calculated as 100% of the revenue
 6 deficiency divided by the Year One revenues of the System.⁵ The current average monthly
 7 bill is calculated using the Township’s existing water rates, which will be adopted by
 8 PAWC at closing.⁶ The potential average monthly bill after acquisition is calculated by
 9 increasing the current average monthly bill amounts by the 103% increase. This
 10 methodology was used to comply with the Settlement at Docket No. A-2019-3006880
 11 (Exhibit G). Please refer to **PAWC Exhibit RPN-1W** for the calculation of the customer
 12 notice.

13
 14 **Q. PLEASE SUMMARIZE THE CALCULATION OF THE POTENTIAL RATE**
 15 **IMPACT SHOWN IN THE NOTICE TO PAWC WATER CUSTOMERS.**

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

⁵ See note 4, above.
⁶ As discussed in the APA Rate Provisions section below, PAWC intends to bill customers on a monthly basis, and Valley’s existing quarterly rates are prorated for purposes of calculating monthly billing. The Township’s existing rates are shown in **Appendix A-18-a**.

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%

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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.⁷

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-1W** for the calculation of the customer notice.

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

⁷ Consistent with the *Steelton* Settlement, the 2017 base rate case is considered PAWCs most recent base rate case. PAWC has a base rate case pending before the Commission. The Settlement indicates that the notice will be revisited by the parties after the conclusion of this base rate case.

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

5
6 **TRANSACTION AND CLOSING COSTS**

7 **Q. PLEASE DESCRIBE THE ESTIMATED TRANSACTION AND CLOSING COSTS**
8 **FOR THE TRANSACTION.**

9 A. As set forth in the Commission’s *Final Implementation Order* at Docket No. M-2016-
10 2543193, transaction and closing costs include the Utility Valuation Expert (“UVE”)
11 appraisal fees and the buyer’s closing costs, including reasonable attorney fees. In
12 accordance with the *Final Implementation Order* and traditional ratemaking principles,
13 reasonable transaction and closing costs are not to be decided in this Application
14 proceeding; instead, PAWC must justify the costs by a “preponderance of the evidence” in
15 a future base rate proceeding.

16 As a practical matter, the exact extent of such costs cannot be known at the time of
17 filing the Application and will not be finally known until after closing of the Transaction.
18 The costs depend on a number of variables, including whether this Application is settled
19 or fully-litigated. PAWC will track such costs and incorporate them into rate base in a
20 future base rate proceeding as appropriate. Nevertheless, attached to the Application as
21 **Appendix A-10** is PAWC’s estimate of the anticipated range of transaction and closing
22 costs (approximately \$441,000 to \$656,000).

23

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 17, 2019, contains provisions related to rates. PAWC has committed to adopt, upon closing of the Transaction, the Township’s current minimum charge and consumption charge then in effect at the time of closing.

The initial rates to be applicable to the former Township water 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 Valley Rate Zone “XX.” The current usage rate (consumption charge) utilized by Valley is a rate per thousand gallons beyond 10,000 gallons per quarter. The Township’s customers are currently billed quarterly. Under PAWC ownership, and set forth in the *pro forma* tariff supplement, attached as **Appendix A-12**, the usage rate per thousand gallons is converted to a usage rate per hundred gallons, beyond 3,400 gallons per month. This billing per 100 gallons corresponds to how all other PAWC customers are billed. PAWC intends to bill customers on a monthly basis, and Valley’s existing rates will be prorated for purposes of calculating monthly billing. Valley does not currently bill for fire protection, and PAWC will adopt this practice until its next rate case.

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

1 Docket No. M-2016-2543193 to provide testimony, schedules, and work papers in support
2 of a rate stabilization plan.

3 Section 1329(g) defines a “rate stabilization plan” as “[a] plan that will hold rates
4 constant or phase rates in over a period of time after the next base rate case.” As detailed
5 in Section 7.03 of the APA, PAWC will be charging the Township’s current rates (but not
6 other charges) as PAWC’s base rates within the service territory. The APA provides that
7 PAWC shall not propose to increase base rates until after the second anniversary of the
8 Closing Date.

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

15 Moreover, while the APA contractually restricts PAWC from proposing an increase
16 in base rates until after the second anniversary of the Closing Date, I am advised by counsel
17 that nothing in the APA purports to restrict the Commission’s authority to set rates that it
18 considers to be “just and reasonable” in the context of a base rate proceeding or otherwise.
19 As such, the instant application does not propose a “rate stabilization plan” for approval by
20 the Commission. In a previous Section 1329 proceeding, the Commission stated the

1 following regarding the relationship between rate commitments and rate stabilization
2 plans:⁸

3 The ALJ determined that the rate commitment provision contained in the APA does
4 not trump the Commission’s ultimate authority to set and allocate rates. We agree.
5 Here, the APA provides firm, unqualified guarantees to the seller as a term of the
6 APA. However, it does not purport to hold rates constant or phase rates in over a
7 period time after the next base rate case. It offers no tariff language for us to
8 approve. Thus, we decline to hold that the rate commitment constitutes a rate
9 stabilization plan pursuant to Section 1329(g) of the Code.”), *reversed on other*
10 *grounds, McCloskey v. Pa. Pub. Util. Comm’n*, 195 A.2d 1055 (Pa. Cmwlt. 2018)
11 (“*Aqua/New Garden*”).
12

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

15 In its pending base rate case, PAWC has asked the Commission to approve tariff
16 provisions allowing for a Regionalization and Consolidation Surcharge (“RCS”). The RCS
17 would reduce regulatory lag in the recovery of the capital investment being made by
18 PAWC in order to regionalize and consolidate its system through acquisitions. This
19 regulatory lag results from PAWC’s adoption of the rates being charged by the selling
20 municipality at the time of the acquisition pursuant to the requirements of Section 1329 --
21 which, in some instances, are substantially below the costs of providing service to the
22 customers of the acquired system. The proposed RCS would allow PAWC to recover the
23 revenue requirement shortfall resulting from the acquisition in a more timely manner. The
24 System, however, is not included in PAWC’s pending base rate case and, because of
25 Section 1329’s requirement to adopt existing rates for acquired customers, the RCS would
26 not apply to System customers under the proposed tariff provisions.

⁸ See *Application of Aqua Pennsylvania Wastewater, Inc. Pursuant to Sections 1102 and 1329 of the Public Utility Code for Approval of its Acquisition of the Wastewater System Assets of New Garden Township and the New Garden Township Sewer Authority*, Docket No. A-2016-2580061 (Opinion and Order entered Jun. 29, 2017), pp. 41-42. Internal footnote omitted.

1 Exclusion of Township customers from the RCS does not make Section 703(a) of
2 the APA a rate stabilization plan because, as discussed above, approval is not being
3 requested in this proceeding. *See Aqua/New Garden*. If approved in PAWC's pending
4 base rate case, the RCS would be a tariff provision with the force and effect of law – not a
5 rate stabilization plan. Under Section 1329, PAWC must adopt the existing base rates of
6 the acquired customers, with the specific exclusion of the DSIC (as discussed below).
7 System customers would be exempt from the RCS until the next base rate case because of
8 the mandates of Section 1329 and the Commission-approved tariff adopting the RCS; not
9 as the result of any contractual obligation between PAWC and the Township under the
10 APA.

11
12 **Q. DOES PAWC SEEK THE AUTHORITY TO CHARGE NON-BASE RATES PRIOR**
13 **TO PAWC'S FIRST BASE RATE CASE IN WHICH THE SYSTEM IS**
14 **INCLUDED?**

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

1 **POST-ACQUISITION IMPROVEMENT COSTS**

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

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

13
14 **Q. DOES PAWC INTEND TO ACCRUE AFUDC FOR POST-ACQUISITION**
15 **IMPROVEMENTS?**

16 **A.** Yes. As summarized in the Direct Testimony of PAWC Witness Michael J. Guntrum,
17 PAWC’s Senior Project Engineer, PAWC Statement No. 2W, PAWC will be making post-
18 acquisition improvements to the System. As such, PAWC will likely accrue AFUDC
19 consistent with what is permitted under Section 1329. PAWC will address any claims for
20 AFUDC in the first base rate proceeding in which the Authority’s assets are included.

1 **Q. DOES PAWC INTEND TO DEFER DEPRECIATION ON NON-DSIC-ELIGIBLE**
2 **POST-ACQUISITION IMPROVEMENTS FOR BOOK AND RATEMAKING**
3 **PURPOSES?**

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

8

9

COST OF SERVICE STUDY

10 **Q. PLEASE PROVIDE AN OVERVIEW OF THE SEPARATE COST OF SERVICE**
11 **STUDY (“COSS”) PROVISION OF PRIOR PAWC SECTION 1329**
12 **ACQUISITIONS.**

13 **A.** As part of the settlement of prior Section 1329 acquisition proceedings, PAWC has agreed
14 that in the next base rate case, PAWC will submit a cost of service study removing the
15 revenues, expenses and rate base associated with the acquired system and will submit a
16 separate cost of service study for the acquired system.⁹

17

18 **Q. PLEASE DISCUSS WHETHER PAWC SHOULD BE REQUIRED TO PROVIDE**
19 **A SEPARATE COSS FOR VALLEY IN PAWC’S NEXT RATE CASE.**

20 **A.** As discussed above, Valley is currently a bulk water and wastewater customer of PAWC.
21 Upon acquisition, the Valley customers will be direct PAWC customers and will continue
22 to be served by PAWC’s Coatesville water and wastewater treatment plants. I believe it is

⁹ See, for example, the Steelton settlement referenced above, paragraph 23.

1 appropriate that Valley be included in the COSS that includes the Coatesville water
2 treatment plant rather than in a separate COSS. By including Valley in this COSS, the
3 Valley system would also be part of the depreciation study that will be performed for the
4 service area including Coatesville. In my opinion, this is preferable to establishing separate
5 depreciation rates for Valley, which is and will be physically connected to the Coatesville
6 system.

7 Additionally, as stated previously, PAWC expects to propose to move the
8 Township's rates toward consolidated rates in future base rate cases. Under these
9 circumstances, a cost of service study for the Valley System would be of limited value in
10 PAWC's next base rate case. In my opinion, the expense of a separate cost of service study
11 would not be warranted by the benefits to be gained from such a study..

12
13 **AUTHENTICATION OF APPLICATION APPENDICES**

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

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

18
19 **Q. PLEASE IDENTIFY WHICH APPLICATION APPENDICES WERE PREPARED**
20 **BY YOU OR UNDER YOUR SUPERVISION AND CONTROL?**

21 **A.** **Appendix A-10** is PAWC's estimate of the anticipated range of transaction and closing
22 costs. The *pro forma* tariff supplement is attached as **Appendix A-12** to the Application.
23 In addition, based on financial statements provided by the Township and on PAWC's

1 audited financial statements, the following appendices were prepared: **Appendix C**
2 (balance sheet of the Township as of December 31, 2019),¹⁰ **Appendix D** (audited balance
3 sheet of PAWC as of December 31, 2019), **Appendix E** (income statement of the
4 Township for the 12 months ended December 31, 2019),¹¹ **Appendix F** (audited income
5 statement of PAWC for the 12 months ended December 31, 2019), **Appendix G** (*pro forma*
6 balance sheet of PAWC, giving effect to the transfer), **Appendix H** (*pro forma*
7 consolidated income statement of PAWC and the Township for 12 months) and **Appendix**
8 **K** (estimated annual revenues and expenses).

9
10 **Q. HOW WERE APPENDICES A-10, A-12, APPENDICES C THROUGH H, AND**
11 **APPENDIX K PREPARED?**

12 **A.** I reviewed the financial information of PAWC, to which I have direct access, and I
13 reviewed the financial and rate information provided by the Township, to which I received
14 access through the Transaction due diligence process.

15
16 **Q. ARE APPENDICES A-10, A-12, APPENDICES C THROUGH H, AND APPENDIX**
17 **K TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE,**
18 **INFORMATION, AND BELIEF?**

19 **A.** Yes.

¹⁰ Valley does not have a separate balance sheet for the water system. All balance sheet items are reflected on a Township-wide basis. As such, the balance sheet shown for Valley in Appendix C is blank.

¹¹ Valley does not have a separate income statement for the water system; however, the information in Appendix E is provided based on information separately identified for the system in the audited Annual Audit and Financial Report.

CONCLUSION

1
2
3
4

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.

Valley Township Water Customers

Water

Rate Class	Average Usage	Average Monthly Bill at Valley Township Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,630 gal/month	\$30.05	\$60.91	\$30.86 or 103%
Commercial	22,000 gal/month	\$156.24	\$316.70	\$160.46 or 103%
Industrial	476,000 gal/month	\$3,969.84	\$8,046.87	\$4,077.03 or 103%

PAWC Current Customers

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 Acquisition	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%

**Pennsylvania American Water Company
Acquisition of Water Assets of the Valley Township
Docket No. A-2020-3019859**

Valley Township Water

Residential		
	Minimum Charge	\$28.12
36.30	0.8400	1.93
34.00		
		\$30.05

Rate Impact 102.7%
\$30.86
Total \$60.91

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	\$28.12
220.00	0.8400	156.24
34.00		
		\$156.24

Rate Impact 102.7%
\$160.46
Total \$316.70

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	\$28.12
4,760.00	0.8400	3,969.84
34.00		
		\$3,969.84

Rate Impact 102.7%
\$4,077.03
Total \$8,046.87

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

Full COS - 100% of Increase applied to Valley Township Water Customers		
Revenue Requirement Increase	\$	722,220
Current Valley Township water revenues		703,000
Estimated Increase to wastewater customers		102.7%

Amount of increase allocated to water customers:		
Revenue Requirement Increase	\$	722,220
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
Acquisition of Water Assets of the Valley Township
Docket No. A-2020-3019859**

Revenue Requirement Increase

Rate Base	\$	7,325,000	Appendix A-11
Rate of Return %		7.81%	See Calculations
Rate of Return		<u>572,000</u>	
O&M		362,000	Appendix K
Taxes Other		15,000	Appendix K
Depreciation		150,000	Appendix K
Taxes		162,000	See Calculations
Revenue Requirement		<u>1,261,000</u>	
Add Bulk Water Revenues (46% of per books 2019)		164,220	
Valley Township Water Year-1 Revenues		703,000	Appendix K
Total Revenue Deficiency (Rev. Req. + Bulk Rev. - Year 1 Rev.)		722,220	

Summary

Revenue Requirement

Rate Base	\$	7,325,000
Pretax ROR %		10.02%
Pretax ROR		734,000
Plus: O&M Expense		362,000
Taxes Other		15,000
Depreciation		150,000
Total Revenue Requirement		1,261,000

Income Tax Calculation

Revenues	\$	1,261,000
Less: O&M Expense		362,000
Taxes Other		15,000
Depreciation		150,000
Interest		173,000
SIT Taxable Income		561,000
State Income Tax Rate		9.99%
State Income Tax		56,000
FIT Taxable Income		505,000
Federal Income Tax Rate		21.00%
Federal Income Tax		106,000
Total Income Taxes		162,000

Interest

Rate Base	\$	7,325,000
Weighted Cost of Debt		2.36%
	\$	173,000

Wastewater	Capital Structure	Cost Rate	Weighted Cost	Revenue Multiplier	Revenue Requirement
Long-Term Debt	44.89%	5.25%	2.36%		2.36%
Preferred Stock	0.17%	8.66%	0.01%	1.40631	0.01%
Common Equity	54.94%	9.90%	5.44%	1.40631	7.65%
			7.81%		10.02%

Cost of Equity for Distribution System Improvement Charge (DSIC) 9.90% M-2020-3019868

Capital Structure based on PAWC last water 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: *October 7, 2020*