

**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**

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

RESPONSE:

- a. See enclosed the Direct Testimony of Patrice Proctor, Chairwoman of the Board of Supervisors on behalf of Valley, **VT Statement No. 1 W.**
- b. See enclosed the Direct Testimony of Harold Walker III, Manager – Financial Studies for Gannett Fleming on behalf of Valley, **VT Statement No. 2 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- : Docket No. A-2020-3019859
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 :

**VALLEY TOWNSHIP
STATEMENT NO. 1 W**

DIRECT TESTIMONY OF

PATRICE PROCTOR

CHAIRWOMAN, BOARD OF SUPERVISORS

VALLEY TOWNSHIP

With Regard To

A General Overview of the Transaction

Valley’s Water System and Operations

Benefits of the Proposed Transaction

Valley’s Rates

October 9, 2020

VALLEY TOWNSHIP, CHESTER COUNTY
DIRECT TESTIMONY OF PATRICE PROCTOR

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 **A.** My name is Patrice Proctor. My business address is 1145 West Lincoln Highway,
4 Coatesville, PA 19320.

5 **Q. In what capacity are you affiliated with Valley Township?**

6 **A.** I am the Chairwoman of the Board of Supervisors (the “Board”) for Valley Township
7 (“Valley” or the “Township”). The Board is Valley’s governing body, comprised of five
8 members who are elected to six-year terms. The Board appoints the members of the
9 various advisory boards, commissions and authorities. An administrative staff, led by the
10 Township Manager, coordinates and directs the work to various township departments
11 and carries out the administrative policies of the Board.

12

13 **Q. Please provide a brief description of your education and work experience.**

14 I graduated from Peirce College with an Associate of Science degree in 1978, and from
15 Penn State University with a Bachelor of Science degree in 1980. I have served as one of
16 Valley’s Supervisors since I was first appointed to fill an unexpired term in 2002, before
17 being elected to the Board for the first time in 2003. Prior to that, I worked as a
18 Supervisor for Vanguard and for Providian Insurance.

19

20 **Q. Have you testified before the Pennsylvania Public Utility Commission (“PUC” or
21 “Commission”) before?**

22 **A.** No.

VALLEY TOWNSHIP, CHESTER COUNTY
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1 **Q. On whose behalf are you testifying in this proceeding?**

2 **A.** My testimony is on behalf of the Township and in support of the application of
3 Pennsylvania-American Water Company (“PAWC”) to purchase the Township’s water
4 system (the “System”) in this proceeding.

5
6 **Q. What are the purposes of your direct testimony and summarize the key points.**

7 **A.** The purpose of my testimony is as follows: (1) to provide a description of the System,
8 (2) to describe the anticipated benefits of the sale of the System assets to PAWC under
9 and in accordance with an Asset Purchase Agreement dated as of December 17, 2019
10 between the Township and PAWC (the “Proposed Transaction”), and (3) to describe how
11 Valley sets its annual rates.

12 In particular, I will focus on the numerous benefits of the Proposed Transaction that are
13 most important to Valley and the customers who use the System, including:

- 14 • Improving Valley’s financial condition and outlook by increasing its reserve fund
15 balance considerably, providing it with the ability to mitigate against the risk of
16 revenue shortfalls, allowing it the flexibility to undertake necessary future non-
17 System related capital projects, enabling redevelopment, eliminating debt, and
18 potentially lowering the total cost of residency for residents through tax stabilization;
- 19 • Enabling Valley to reallocate of its administration time to focus on other key
20 initiatives of the Township;
- 21 • PAWC already provides water service to some Township residents, which provides
22 synergies;
- 23 • The preservation of all jobs related to the System;

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- 1 • Adding property to Valley’s property tax rolls through increased development
2 opportunities;
- 3 • Benefits from PAWC’s expertise, long-standing capital improvement programs, and
4 its experience in improving and correcting systems with compliance issues;
- 5 • Township residents will benefit from enhanced customer service and operational
6 functions through expanded customer service center hours, additional payment
7 options (including by phone or online), enhanced customer information and education
8 programs, access to PAWC’s customer assistance program, and PAWC’s team of
9 experienced water and wastewater professionals;
- 10 • PAWC’s capability to make long-term investments in necessary capital
11 improvements to the water system;
- 12 • PAWC’s proven record of environmental stewardship for the operation of water
13 systems; and
- 14 • Regulation of the service provided to Valley’s customers will fall under PUC
15 jurisdiction, which will ensure regulatory oversight, require approval for all rate
16 increases, and provide significant consumer protections.

17

18 **Q. Are you sponsoring any Exhibits with your testimony?**

19 **A.** No.

20

21 **II. DESCRIPTION OF VALLEY AND ITS WATER SYSTEM**

22 **Q. Please provide a general overview of Valley.**

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1 **A.** Valley was formed in 1852. It is a Township of the Second Class located in Chester
2 County, Pennsylvania. The size of the Township is approximately six (6) square miles.
3 The Township is governed by its Board. Presently, there are approximately 7,600
4 residents in the Township. According to the 2016 American Community Survey by the
5 U.S. Bureau of the Census, the Township’s median household income is \$57,415.

6
7 **Q.** **Please provide a description of the Township’s water system.**

8 **A.** The Township owns, operates and maintains the System, which distributes approximately
9 65 million gallons per year of drinking water to approximately 1,669 customers. The
10 System provides water service to Township residents, as well as 22 residents of West
11 Caln Township and East Fallowfield Township. The System is supplied by Township-
12 owned wells and bulk water purchased from PAWC. The Township owns and operates
13 the Mineral Springs Water Treatment Plant (“WTP”), three public water supply wells,
14 one 150,000 gallon elevated tank, and approximately 22 miles of water mains for public
15 water use.

16
17 **Q.** **Please confirm that the water sources and water system customers are metered in**
18 **accordance with 52 Pa. Code § 65.7?**

19 **A.** Yes, the water sources and water system customers are metered in accordance with 52 Pa.
20 Code § 65.7.

21
22 **Q.** **Please provide an overview of any compliance issues with the water system**
23 **experienced by the Township.**

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1 **A.** Valley is party to an April 28, 2020 consent decree (the “Consent Decree”) with the
2 Commonwealth of Pennsylvania Department of Environmental Protection (“DEP”). The
3 violations detailed in the Consent Decree stemmed from the Township’s failure to submit
4 (a) requisite certifications to the DEP relating to the completion of an Uninterrupted
5 System Service Plan (“USSP”) and (b) a Comprehensive Monitoring Plan (“CMP”) to
6 assure that all sources, purchased interconnections and entry points are included in
7 compliance monitoring at the entry points and in the distribution system. To rectify these
8 issues, the Township agreed to do the following within 30 days of execution of the
9 Consent Decree: (a) submit the requisite CMPs to the DEP and (b) develop the requisite
10 USSPs and certify as to their completion to the DEP. The Township also agreed to pay a
11 civil penalty of \$3,000. Valley’s Board ratified and publicly approved the Consent
12 Decree on May 12, 2020, and has since fully complied with it.

13

14 **III. SALE PROCESS**

15 **Q. Please describe the Township’s decision process in concluding that a sale of the**
16 **water system was in the best interest of the Township.**

17 **A.** The decision to sell the System (in addition to the Township’s wastewater system) was
18 the result of deliberate consideration by the Township, its administration and our
19 residents. We undertook a thorough process, along with capable outside experts, to value
20 the System, assess future costs of capital and revenue requirements, evaluate the ongoing
21 time commitments of Township personnel to address System issues, and carefully
22 consider from various stakeholder points of view the numerous qualitative and
23 quantitative factors that weigh in favor of or against the Township keeping the

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1 System. We weighed and balanced issues at numerous public meetings and working
2 sessions that addressed the Proposed Transaction.

3 Ultimately, the decision to sell resulted from three main considerations. First, the
4 Township desired to exit the water business and instead focus its resources and energy on
5 other core government functions while ensuring safe and reasonable service at affordable
6 rates for its residents. Second, the System's aging infrastructure will require additional
7 investment over time, which we project will cause significant rate increases if the System
8 remains with the Township. Third, the Township desired to generate significant up-front
9 sale proceeds to be used for other Township purposes.

10 After the Township made the decision to sell the System based on these considerations,
11 we issued a request for bids. PAWC submitted the only bid for the System in the amount
12 of \$7,325,000.00 (along with a bid for \$13,950,000.00 for the Township's wastewater
13 system). We determined that this bid was in the best interest of, and provided the greatest
14 value to, Valley, and so it was accepted.

15
16 **Q. Did the Township request public input on the sale?**

17 **A.** Yes, multiple public meetings were held in the Township to receive input from residents
18 on the state of the System and the advantages and disadvantages of the potential sale.
19 The potential sale was discussed at a public Board meeting at every significant juncture
20 in the Proposed Transaction process, including prior to engaging PFM Financial Advisors
21 LLC ("PFM") as our consultant, prior to releasing the request for bid from qualified
22 firms, shortly after the bidding deadline occurred, and when the Board unanimously
23 chose to accept PAWC's bid.

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1 A full chronology of the public process undertaken regarding the potential sale is as
2 follows:

- 3 • June 4, 2019: The Board publicly entered into an agreement with PFM for “Phase
4 II and III” evaluations and services, in which PFM undertook outreach to
5 potential investors and/or system operators to confirm market interest in candidate
6 assets, establishment of a timeline for potential transactions, and identification of
7 key issues;
- 8 • October 1, 2019: Following pre-qualifications of interested purchasers, the Board
9 publicly authorized PFM to proceed with the release of a request for bids;
- 10 • October 18, 2019: The Township released its Request for Bids;
- 11 • November 18, 2019: PAWC submitted a bid for the purchase of Township water
12 and sanitary sewer systems in the amount of \$21,275,000 (\$13,950,000 for the
13 sanitary sewer system; and \$7,325,000 for the water system);
- 14 • December 3, 2019: The Board held a public meeting where it provided an update
15 on the PAWC bid and authorized the delivery of a letter to all Township residents
16 regarding the proposed Board action to be taken with respect to the sale; and
- 17 • December 17, 2019: After a presentation from PFM and public comment from
18 Township residents, the Board accepted PAWC’s bid.

19
20 **Q. Did the Board hold a vote at a regularly scheduled public meeting on the sale,**
21 **following input from the Township residents?**

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1 A. Yes, the Board decided that the Proposed Transaction is in the best interests of the
2 Township. After numerous public meetings, as detailed above, the Board unanimously
3 voted on December 17, 2019 to accept PA American Water’s bid.
4

5 **Q. Please describe the process that the Township used to hire a Utility Valuation**
6 **Expert (“UVE”) for the transaction.**

7 A. When the Board voted to unanimously accept PAWC’s bid on December 17, 2019, it also
8 authorized me to take all steps necessary to effectuate the award, including seeking
9 proposals from and selecting a UVE. On April 20, 2020, the Township received a
10 proposal from Gannett Fleming Valuation and Rate Consultants, LLC (“Gannett
11 Fleming”), which was accepted after review and consideration. Gannett Fleming is not
12 affiliated with the Township.
13

14 **IV. BENEFITS OF THE PROPOSED TRANSACTION**

15 **Q. Please describe the benefits of the Proposed Transaction for Valley.**

16 A. Valley will benefit from the Proposed Transaction as it will transfer its water assets to a
17 long-standing and well-run utility – PAWC. There are three key benefits of the Proposed
18 Transaction to the Township and its residents. The sale will (1) improve the Township’s
19 financial condition and outlook, (2) enable the Township to reallocate its administration
20 time to focus on other key initiatives of the Township, and (3) provide for synergies
21 given that PAWC already provides a portion of the Township’s water and treats the
22 Township’s wastewater.

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1 First, the Proposed Transaction will greatly improve the Township's financial condition.
2 Most notably, the proceeds of the sale will provide the Township with a significantly
3 increased reserve fund balance. Currently, the Township's reserve fund is
4 approximately \$1,166,367.43. The proceeds of the Proposed Transaction would increase
5 this amount by \$7,325,000 – an amount that is more than 1.5 times the Township's
6 typical yearly revenue (approximately \$4,760,455). Not only will this provide the
7 Township with great flexibility, but it also provides significant liquidity to allow the
8 Township to weather any sort of emergency it may face. At the time the Proposed
9 Transaction was contemplated, such an emergency was purely theoretical. However, in
10 these uncertain times, and facing a pandemic, the need for liquidity in order to weather
11 the storm is all too real due to anticipated future revenue shortfalls. The sale of the
12 System would provide the Township with the security blanket that simply can no longer
13 be taken for granted. In the event that these funds can be allocated elsewhere, they would
14 help allow for redevelopment opportunities that would otherwise not be attainable. This
15 is significant given the limited development opportunities at present in the Township.
16 Moreover, this financial stability would help both eliminate debt and mitigate against the
17 risk of future revenue shortfalls.

18 Second, with respect to reallocating administrative time and expense, given the time and
19 economic impact on the Township of dealing with the System, by reallocating Township
20 administration time to focusing on other key initiatives of the Township, the Proposed
21 Transaction will provide significant public benefits.

22 Finally, PAWC already provides a portion of the Township's water and treats the
23 Township's wastewater. My understanding is that because of this, the Proposed

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1 Transaction will allow for synergies, such as the fact that the water and wastewater
2 operations in Valley will both be supported by common shared support services. These
3 benefits include more efficient combined billing processes and capital replacement
4 planning and execution.

5
6 **Q. Please describe any further benefits from the Proposed Transaction.**

7 **A.** The Township will realize many additional benefits from the sale of its water system to
8 PAWC. These benefits include, but are not limited to, the following:

- 9 • The preservation of all jobs related to the System;
- 10 • Adding property to the Township's property tax rolls through increased development
11 opportunities;
- 12 • PAWC can draw upon a broad range of engineering and operational experience, as
13 well as deeper financial resources than are available to the Township, to address the
14 environmental compliance challenges of the System;
- 15 • The Township will benefit from PAWC's capital improvement programs, and its
16 experience in improving and correcting systems with compliance issues.
- 17 • Valley residents will benefit from enhanced customer service and operational
18 functions through expanded customer service center hours, additional payment
19 options (including by phone or online), enhanced customer information and
20 education programs, access to PAWC's customer assistance program, and PAWC's
21 team of experienced water and wastewater professionals;
- 22 • PAWC's capability to make long-term investments in necessary capital
23 improvements to the System; and

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- 1 • PAWC's proven record of environmental stewardship for the operation of water
2 systems.

3

4 **Q. Do you believe that the Proposed Transaction provides affirmative public benefits of**
5 **a substantial nature and is in the public interest?**

6 **A.** Yes. For the reasons set forth above, I believe that the Proposed Transaction provides
7 substantial affirmative public benefits and is in the public interest. I urge the
8 Commission to promptly approve the Proposed Transaction.

9

10 **V. RATES**

11 **Q. How does Valley set the rates it charges customers for water service?**

12 **A.** Rates are governed by the Valley Township Code, and are set by the Board by ordinance
13 after consideration of the costs of providing service. Any rate increases must be approved
14 by the Board through an ordinance.

15

16 **Q. How frequently does Valley adjust rates?**

17 **A.** Rates have only been increased when necessary. Over the past decade, Valley adjusted
18 rates one (1) times: the rates were raised once in 2011 from \$80.33 per quarter to \$84.35.

19

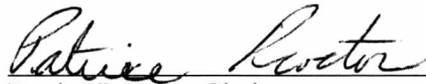
20 **VI. CONCLUSION**

21 **Q. Does this conclude your testimony?**

22 **A.** Yes, it does. However, I reserve the right to file additional testimony at a later date as
23 may be necessary or appropriate.

VERIFICATION

I, Patrice Proctor 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.



Patrice Proctor, Chairwoman
Valley Township Board of Supervisors

Dated: *October 7, 2020*