

**Application of Pennsylvania-American Water Company for Acquisition of
the Wastewater Assets of Valley Township
66 Pa. C.S. § 1329
Application Filing Checklist – Water/Wastewater
Docket No. A-2020-3020178**

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, Pennsylvania-American Water Company, **PAWC Statement No. 1WW.**
 - ii. Direct Testimony of Michael J. Guntrum, Senior Project Engineer, Pennsylvania-American Water Company, **PAWC Statement No. 2WW.**
 - 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 Pennsylvania-American Water Company, **PAWC Statement No. 3WW.**
- b. See enclosed Direct Testimony of Jerome C. Weinert, Principal and Director for AUS Consultants, Inc. on behalf of Pennsylvania-American Water Company Utility, **PAWC Statement No. 4WW.**

**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 :
wastewater collection and conveyance : Docket No. A-2020-3020178
system to Pennsylvania-American Water :
Company, and (2) the rights of Pennsylvania-American :
Water Company to begin to offer or furnish wastewater :
service to the public in Valley Township, and limited :
portions of East Fallowfield Township, :
Sadsbury Township and West Caln Township, :
Chester County, Pennsylvania :

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

Dated: October 9, 2020

PAWC Statement No. 1 WW

**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 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 pursuing a Doctor of Public Administration (“DPA”) at West Chester University.
11 I am a member of Pi Alpha Alpha; the National Honor Society for Public Affairs and
12 Administration. My experience in the water and wastewater utility industry began in July
13 1979 when I was employed by Philadelphia Suburban Water Company, now Essential
14 Utilities, Inc. (f/k/a “Aqua America, Inc.”) (“Aqua”). I was employed by Aqua or its
15 Pennsylvania subsidiary, Aqua Pennsylvania, Inc., until May 2013, and during that time
16 served in the capacity of Survey Mechanic (Engineering) between 1979-1980; Draftsman
17 (Engineering) between 1980-1981; Laborer (Operations) between 1981-1983; Service
18 Department Representative (Operations/Engineering) between 1983-1989; Chief
19 Estimator (Engineering) between 1989-1990; New Business Representative (Engineering)
20 between 1990-1994; Director of Safety & Claims (Law and Administration) between 1994-
21 2002; and then Director of Business Development between 2002-2013. I joined PAWC on
22 May 13, 2013, where I have been serving in my current capacity as Senior Manager,
23 Business Development.

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

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

4
5 **Q. HAS PAWC FILED AN APPLICATION WITH THE COMMISSION FOR**
6 **REGULATORY APPROVAL TO ACQUIRE THE WASTEWATER SYSTEM OF**
7 **VALLEY 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 wastewater treatment, transportation and collection system (the “Wastewater
10 System”). I will refer 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 L**) as **PAWC Exhibit KEG-2 WW.**

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 Wastewater System and the right to
22 begin service in the areas currently served by Valley (the “Service Area”), to include all
23 areas pursuant to Valley’s Act 537 Plan. The Application contains a *pro forma* tariff

1 supplement (**Appendix A-12**) under which Valley’s current rates would be initially
2 adopted and would apply to all areas within the Service Area.

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

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

17 Fourth, PAWC is seeking Certificates of Filing for approval under Section 507 of
18 the Pennsylvania Public Utility Code (“Code”), 66 Pa. C.S. § 507, of (a) the APA, and (b)
19 the November 16, 1988 Sewer and Water Service Agreement Between West Caln
20 Township, Valley, Valley Township Authority¹ and Highlands Corporate Center.² These
21 agreements are between PAWC and a municipal corporation and are therefore required to

¹ Valley Township Authority was subsequently disbanded.

² 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 be filed with the Commission under Section 507. PAWC requests that the Commission
2 issue Certificates of Filing or otherwise approve these agreements if the Commission
3 deems that Certificates of Filing or approvals for these agreements are necessary under 66
4 Pa. C.S. § 507.

5
6 **Q. WHAT DOES SECTION 1329 REQUIRE TO BE INCLUDED IN THE**
7 **APPLICATION?**

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

13
14 **Q. WHAT DOES THE COMMISSION REQUIRE FOR THE APPROVAL OF THE**
15 **FAIR MARKET VALUE RATEMAKING TREATMENT PERMITTED UNDER**
16 **SECTION 1329?**

17 **A.** In its Final Supplemental Implementation Order entered February 28, 2019, at Docket No.
18 M-2016-2543193 (*“Final Supplemental Implementation Order”*), the Commission
19 attached as Appendix A an extensive list of specific Section 1329 “Filing Requirements”
20 for items to include with an Application for it to be processed in a six-month time frame.
21 PAWC’s Application is structured around those Filing Requirements. Appendix A to the
22 Application and its sub-appendices directly address each of the Filing Requirements.

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

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

10
11 **Q. IS PAWC PROPOSING THAT ITS APPLICATION BE EVALUATED USING THE**
12 **FAIR MARKET VALUE PROVISION OF SECTION 1329?**

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

19
20 **Q. ASIDE FROM AUTHENTICATING THE APPLICATION FOR ITS ADMISSION**
21 **INTO THE EVIDENTIARY RECORD AND IDENTIFYING ITS REQUESTS FOR**
22 **RELIEF, WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
23 **PROCEEDING?**

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

5
6 **Q. PLEASE IDENTIFY THE OTHER PAWC WITNESSES WHO WILL BE**
7 **PROVIDING WRITTEN DIRECT TESTIMONY AND THEIR SUBJECT**
8 **MATTER AREAS.**

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

20 Mr. Guntrum will also describe engineering and environmental issues associated
21 with the System, support PAWC's technical fitness to operate the Wastewater System, and
22 explain certain commitments made by PAWC in the APA. Mr. Guntrum will also address
23 the anticipated day-to-day operation of the Wastewater System once it is acquired by

1 PAWC, including staffing and the customer service enhancements that PAWC intends to
2 implement for the benefit of Valley’s customers. Mr. Nevirauskas will address the initial
3 rates, rules, and regulations for Valley’s customers as well as the impact of the Transaction
4 on PAWC’s existing customers. Mr. Nevirauskas will also discuss the financing of the
5 Transaction and the overall financial fitness of PAWC. Mr. Weinert will provide
6 supporting testimony for his fair market valuation report.

7
8 **DESCRIPTION OF THE TRANSACTION**

9 **Q. PLEASE PROVIDE A DESCRIPTION OF THE TRANSACTION NEGOTIATION**
10 **PROCESS.**

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

21 On October 18, 2019, PFM issued, on behalf of Valley, the Request for Bids
22 (“RFB”); the second step of the process, which indicated that proposals were due on
23 November 15, 2019. The RFB was later modified to require that proposals were due on

1 November 18, 2019. PAWC submitted its proposal timely on November 18, 2019 and was
2 notified by PFM later that day that PAWC was the only bidder. On November 19, 2019,
3 PFM presented PAWC's offer to Valley's Supervisors. PAWC then attended a Valley
4 Board of Supervisors' Meeting on December 17, 2019, at the request of PFM. At this
5 meeting, PFM presented, and the Board opened the meeting for public discussion. PAWC
6 assisted in answering questions from the members of the public in attendance and at the
7 conclusion of the public discussion the Board of Supervisors approved and signed the APA.

8 Pursuant to Section 1329, PAWC and Valley retained the services of Pennoni
9 Associates, Inc. on February 12, 2020, for the completion of The Engineer's Assessment
10 of Tangible Assets, which is included as **Appendix A-15-a** of this Application. Also
11 pursuant to Section 1329, on or about August 23, 2019, and April 20, 2020, PAWC and
12 Valley, respectively, retained their UVEs to use The Engineer's Assessment of Tangible
13 Assets in preparing their fair market valuation reports. These reports and electronic
14 working papers are included as **Appendix A-5-a** and **Appendix A-5-b** of this Application.
15 To complete these reports, PAWC retained the services of AUS Consultants, Inc. and
16 Valley retained the services of Gannett Fleming Valuation and Rate Consultants, LLC.
17 These reports value the System as of December 17, 2019, and March 31, 2020,
18 respectively. The average of these two appraisals is \$19,463,530. The arms-length
19 negotiated purchase price for the Wastewater System, as provided for in the APA, is
20 \$13,950,000.

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

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

10 Upon closing of the Transaction, PAWC will take ownership of the Wastewater
11 System and begin rendering Wastewater service to Valley's current customers and Valley
12 will permanently discontinue providing or furnishing Wastewater service to the public
13 within Valley and limited portions of West Caln, Sadsbury and East Fallowfield
14 Townships, Chester County, Pennsylvania.

15

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

18 **A.** The terms of purchase of specific properties, assets and rights to be transferred to PAWC
19 are defined and described in the APA's Section 2.01. Generally, the APA states that every
20 asset, property and right owned by Valley, and used in the provision of wastewater service,
21 whether real, personal, mixed, tangible or intangible, and including all the physical plant,
22 property, equipment and facilities comprising the Wastewater System owned by Valley
23 shall be conveyed to PAWC. All interests in real estate, including leases, easements and

1 access to public rights-of-way, owned by Valley and relating to the Wastewater System, as
2 well as all assigned contracts, which are listed in the APA's Schedule 4.13, also will be
3 conveyed to PAWC.

4 Section 2.02 and Schedule 2.02(h) of the APA provide a list of assets not included
5 in the sale. They generally exclude: any contracts, licenses and leases that are not otherwise
6 Assigned Contracts; the seals, organizational documents, minute books, or other records
7 having to do with the organization of the Seller; cash and cash equivalents; insurance
8 policies of Seller; all rights to any outstanding lien related to a non-payment by a System
9 customer existing at or prior to the Closing Date; any assets, properties and rights used by
10 Seller other than those that primarily relate to the Wastewater System; the MS4 system real
11 property and any and all connecting facilities originating from the Seller's terminus point
12 of the collection facilities at the edge-of-road or curb-line when the facilities are located
13 within a public right-of-way or the edge of an easement when the collection facilities are
14 located within private property to and throughout the customer's property.

15
16 **Q. HAS PAWC AGREED TO ASSUME ANY LIABILITIES OF VALLEY'S AS PART**
17 **OF THE TRANSACTION?**

18 **A.** Yes, PAWC is accepting certain "Assumed Liabilities" as part of this Transaction on the
19 day of closing. Per Section 2.04 of the APA, PAWC will assume any and all liabilities and
20 obligations: (1) arising under Valley's NPDES Permits (arising from, related to or based
21 on events or circumstances occurring on or after the Closing Date) and (2) arising out of
22 or relating to the System or the Acquired Assets on or after the Closing including: (a) all
23 liabilities and obligations under the Assigned Contracts and Authorizations and Permits

1 resulting from events that occur or conditions that arise on or after the Closing; (b) any
2 litigation against Valley related to the System or the Acquired Assets resulting from events
3 that occur on or after the Closing; (c) all liabilities and obligations for Taxes related to the
4 System, its operation, and the Acquired Assets on or after the Closing.

5
6 **Q. CAN YOU PLEASE SUMMARIZE THE APA'S PROVISIONS GOVERNING THE**
7 **NEGOTIATED PURCHASE PRICE OF THE TRANSACTION?**

8 **A.** The consideration for the purchase of the System is set forth in Section 3.01 of the APA.
9 The arm's length negotiated purchase price is \$13,950,000.

10
11 **Q. PLEASE EXPLAIN THE RATES THAT WILL APPLY TO VALLEY'S**
12 **CUSTOMERS FOLLOWING THE CLOSING OF THE TRANSACTION.**

13 **A.** As set forth in Section 7.03 of the APA and as will be explained more-fully in the Direct
14 Testimony of Mr. Nevirauskas, PAWC Statement No. 3 WW, PAWC will adopt Valley's
15 rates at the time of Closing of the Transaction. Moreover, the parties recognize that
16 ratemaking authority is vested with the Commission. Other charges, such as PAWC's
17 DSIC and State Tax Adjustment Surcharge, will apply and may be subject to increases.
18 PAWC will bill all Valley customers on a monthly basis, effective following closing. The
19 effective rates are shown in the APA **Appendix A-24-a (CONFIDENTIAL)**, Schedule
20 7.03, and referenced in **Appendix A-18-a through A-18-c** to the Application (**PAWC**
21 **Exhibit KEG-2 WW**).

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

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

7

8 **TRANSACTION IS IN THE PUBLIC INTEREST**

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

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

20 PAWC currently employs approximately 1,100 professionals with expertise in all
21 areas of water and wastewater utility operations, including engineering, regulatory
22 compliance, water and wastewater treatment plant operation and maintenance, distribution
23 and collection system operation and maintenance, materials management, risk

1 management, human resources, legal, accounting and, most importantly, customer service.
2 PAWC has the expertise, the record of environmental compliance, the commitment to
3 invest in necessary capital improvements and resources, and experienced managerial and
4 operating personnel necessary to provide safe and reliable wastewater service to the residents
5 of Valley and surrounding areas.

6
7 **Q. PLEASE DESCRIBE PAWC’S HISTORICAL RELATIONSHIP WITH VALLEY.**

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

20
21 **Q. HOW MANY CUSTOMERS DOES VALLEY’S SYSTEM CURRENTLY SERVE**
22 **AND HOW MANY CUSTOMERS DOES PAWC CURRENTLY SERVE?**

23 **A.** As of December 31, 2020, Valley furnished wastewater service to 3,125 customers.

1 As of August 31, 2020 PAWC, furnished wastewater services to approximately 75,253
2 customers in Pennsylvania, inclusive of 69,692 residential customers, 5,303 commercial
3 customers, 203 municipal customers, 44 industrial customers, and 11 bulk customers.
4

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

7 **A.** The Transaction will result in affirmative public benefits of a substantial nature. First,
8 PAWC, as a large and long-established public utility, has the managerial, technical, and
9 financial fitness to operate the System in a safe and efficient manner in compliance with
10 the Code, the Pennsylvania Clean Streams Law, and all other applicable statutory and
11 regulatory requirements. PAWC has extensive experience in the operation of wastewater
12 collection, treatment, transportation and disposal systems. The acquisition fosters the
13 Commission's stated goal of regionalizing wastewater systems to provide greater
14 environmental and economic benefits to customers.

15 Second, Valley's current customers will benefit in several ways from becoming
16 PAWC customers. PAWC is a large, financially-sound company that has the capacity to
17 finance necessary capital additions and improvements that will benefit its customers. In
18 addition, given its size, its access to capital, and its recognized strengths in system
19 planning, capital budgeting, and construction management, PAWC is well-positioned to
20 ensure that high quality wastewater service meeting all applicable state and federal
21 regulatory requirements is provided to Valley's customers. Additionally, PAWC is subject
22 to the jurisdiction of the Commission and must comply with the Code. Valley is not
23 regulated by the Commission and does not need to comply with the Code.

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

7 Finally, the Transaction will benefit PAWC's existing customers and Valley's
8 current customers in the long-term by expanding PAWC's customer base. There will be
9 no immediate rate impact on PAWC's existing customers, and we expect that the
10 Transaction will help PAWC maintain reasonable rates for all its customers going forward.
11 Moreover, by adding additional connections to the entire PAWC system, there are more
12 customers to share future infrastructure investment cost, which promotes stable rates across
13 the entire PAWC system. Customers who benefit from near-term improvements will one
14 day help pay for improvements on behalf of other customers on other parts of the PAWC
15 system. Being able to spread the costs of investing in and maintaining public wastewater
16 systems over a growing customer base, particularly in a time of increased environmental
17 requirements, is essential to the continued success of wastewater systems and maintaining
18 reasonable rates for customers. There is also a clear legislative intent associated with
19 Section 1329 and its allowance of fair market valuation for ratemaking purposes. The
20 General Assembly intended to facilitate the acquisition of municipal water and wastewater
21 systems by investor-owned utilities for the benefit of municipal corporations and their
22 customers.

1 **PAWC’S LEGAL, FINANCIAL AND TECHNICAL FITNESS**

2 **Q. CAN YOU PLEASE TELL US WHY PAWC IS LEGALLY FIT TO ACQUIRE AND**
3 **OPERATE THE SYSTEM?**

4 **A.** Yes. PAWC is a Commission-regulated public utility with a good compliance history.
5 There are no pending legal proceedings that would suggest that PAWC is not legally fit to
6 provide service to customers on Valley’s System.

7
8 **Q. CAN YOU EXPLAIN WHY PAWC IS FINANCIALLY FIT TO ACQUIRE AND**
9 **OPERATE THE SYSTEM?**

10 **A.** Yes. PAWC is the largest water and wastewater provider in Pennsylvania. It has a long-
11 demonstrated history with the Commission of financial stability.

12 As part of the Application, PAWC provided the audited internal balance sheet, as
13 of December 31, 2019, for PAWC (**Appendix D to PAWC Exhibit KEG-2 WW**), as well
14 as the audited income statement, as of December 31, 2019 for PAWC (**Appendix F to**
15 **PAWC Exhibit KEG-2 WW**). Those documents show that PAWC had total assets of
16 approximately \$5.3 billion as of December 31, 2019. Further, they show that PAWC had
17 net income of approximately \$187 million for the 12 months ending December 31, 2019.
18 These figures further demonstrate that PAWC has the financial stability and wherewithal
19 to acquire the System and operate it in the public interest. My colleague, Mr. Nevirauskas,
20 will provide additional details in PAWC Statement No. 3 on the financial health of PAWC
21 and its ability to access capital.

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

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

11

12 **SERVICE TERRITORY**

13 **Q. PLEASE EXPLAIN THE SERVICE TERRITORY SOUGHT BY PAWC IN THE**
14 **APPLICATION.**

15 **A.** As part of its Application, PAWC is seeking the right to provide service in the service area
16 served by Valley as shown in the maps and descriptions attached as **Appendix A-16-a**
17 **through A-16-f to PAWC Exhibit KEG-2 WW.** No municipal authority, corporation,
18 partnership or individual other than Valley is now furnishing or has corporate or franchise
19 rights to furnish service similar to that to be rendered by PAWC in the Service Area covered
20 by the Application, and no competitive condition will be created. As discussed above,
21 upon closing of the Transaction, Valley will permanently discontinue all wastewater
22 service to the public.

1 Valley also provides wastewater service in limited portions of West Caln, East
2 Fallowfield and Sadsbury Townships which are also served by PAWC. The agreements
3 related to these communities are included in **Appendix A-25-a** and identified on Schedule
4 4.13 to the APA. The agreements will terminate after closing on the Transaction with
5 Valley.

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

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

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

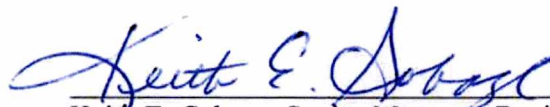
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2
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4

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: 10 - 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 :
wastewater collection and conveyance : Docket No. A-2020-3020178
system to Pennsylvania-American Water :
Company, and (2) the rights of Pennsylvania-American :
Water Company to begin to offer or furnish wastewater :
service to the public in Valley Township, and limited :
portions of East Fallowfield Township, :
Sadsbury Township and West Caln Township, :
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. 2WW

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

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

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

3

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

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

7

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

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

12

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

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

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

3
4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
5 **PUBLIC UTILITY COMMISSION?**

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

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

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

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

17 **A.** The Valley system is a sanitary sewer collection system only that discharges all sewage
18 into PAWC’s Coatesville wastewater system for final treatment. Valley’s sewer system is
19 comprised of approximately 44 miles of interceptors, force mains, and tributary collection
20 sewers divided into three drainage basins. There are also three intermunicipal connections
21 in which wastewater is conveyed through the Township’s sewer system via existing
22 conveyance agreements with PAWC. There are six sewage pumping stations in Valley’s

1 sewer system. The pumping station at the Coatesville Country Club, located in West Caln
2 Township, will remain a private pump station and will not be dedicated to PAWC.

3
4 **Q. WHAT IS AN “MS4” SYSTEM?**

5 **A.** An MS4 system is a “municipal separate storm sewer system.”

6
7 **Q. IS PAWC ACQUIRING AN MS4 SYSTEM?**

8 **A.** No. PAWC will not be acquiring the MS4 system of Valley.

9
10 **Q. IS THE VALLEY SYSTEM A COMBINED SEWER SYSTEM?**

11 **A.** No. The Valley System is not a combined sewer system.

12
13 **Q. DOES THE SYSTEM HAVE AN INDUSTRIAL PRETREATMENT PROGRAM?**

14 **A.** There are no significant or categorical industrial users in the System. Therefore, the
15 Township does not have an Industrial Pretreatment Program (“IPP”).

16
17 **Q. PLEASE DESCRIBE PIPE SIZES AND MATERIALS USED FOR THE**
18 **CONSTRUCTION OF THE COLLECTION SYSTEM.**

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

Pipe Diameter and Material	Approximate Pipe Length
Force Mains and Low-Pressure Sewers	28,661 ft
6-inch SDR 35	207 ft
8-inch Asbestos Cement	69,164 ft
8-inch DIP	191 ft
8-inch SDR 35	109,601 ft
8-inch VCP	4,431 ft
10-inch Asbestos Cement	6,933 ft
10-inch DIP	123 ft
10-inch SDR 35	7,044 ft
12-inch Asbestos Cement	742 ft
12-inch SDR 35	196 ft
15-inch Asbestos Cement	6,097 ft
18-inch Asbestos Cement	62 ft
TOTAL	233,452 ft

1

2 **Q. PLEASE STATE WHETHER THE SYSTEM CAN PROVIDE ADEQUATE**
3 **CONVEYANCE CAPACITY TO MEET PRESENT AND FUTURE CUSTOMER**
4 **DEMANDS.**

5 **A.** Based on the population projections and demand projections as provided in Valley's latest
6 Chapter 94 Report included in **Appendix A-20-c**, the conveyance capacity is adequate to
7 meet present and future customer demands.

1 **Q. PLEASE STATE THE ELEVATIONS OF THE MAJOR FACILITIES.**

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

4
5 **Q. DOES PAWC PROVIDE WASTEWATER SERVICE TO WEST CALN,
6 SADBURY TOWNSHIP AND EAST FALLOWFIELD TOWNSHIPS?**

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

10
11 **Q. PLEASE PROVIDE AN OVERVIEW OF PAWC'S EXISTING WATER
12 OPERATIONS FACILITIES IN THE VALLEY AREA.**

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

15
16 **Q. PLEASE DESCRIBE HOW PAWC WILL MANAGE THE DAY-TO-DAY
17 OPERATIONS OF THE SYSTEM ONCE IT IS ACQUIRED?**

18 **A.** The System will be managed as part of PAWC's Coatesville wastewater department within
19 PAWC's Southeast Area operations. The Southeast Area provides a range of shared
20 support services -- including purchasing, environmental compliance, health, and safety,
21 meter reading, customer service work and PA One Call. The water and wastewater
22 operations in Valley will both be supported by common shared support services.

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

3 **A.** Yes. Current PAWC employees in this area 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-1 WW.**

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 wastewater
7 services. As a leading wastewater provider in Pennsylvania, PAWC brings industry
8 leading expertise and has extensive technical experience in upgrading, operating and
9 maintaining sewer facilities. PAWC is a recognized leader in providing communities in
10 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
14 PAWC currently employs approximately 1,100 professionals with expertise in all areas of
15 water and wastewater utility operations including engineering, regulatory compliance,
16 water and wastewater treatment plant operation and maintenance, distribution and
17 collection system operation and maintenance, material management, risk management,
18 human resources, legal, accounting, and customer service. As a subsidiary of American
19 Water, PAWC has available to it additional resources of highly trained professionals who
20 have expertise in various specialized areas. American Water currently owns or operates
21 approximately 200 wastewater operations through its subsidiaries in a number of states.
22 American Water's experience includes the full breadth of treatment processes, from
23 facultative ponds to membrane biological reactors in every climate zone across the U.S.

1 More-advanced technologies allow a number of American Water's plants to utilize effluent
2 for reuse applications, eliminating discharge to receiving streams. These diverse facilities
3 have provided American Water operators and process experts with deep experience in the
4 operation and maintenance of every possible type of wastewater treatment technology, as
5 well as the experience available to support PAWC's operations staff and facilities. A 50-
6 person team of American Water corporate engineers has handled a wide variety of system
7 evaluations, selecting treatment processes and establishing critical design criteria for water
8 and wastewater treatment systems in order to improve operations and prioritize capital
9 improvements.

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

1 **Q. PLEASE DESCRIBE PAWC'S TECHNICAL FITNESS TO PROVIDE**
2 **WASTEWATER SERVICE TO VALLEY'S CUSTOMERS.**

3 **A.** PAWC has approximately 75,087 active wastewater customers across the Commonwealth,
4 with customers in Adams, Beaver, Chester, Clarion, Cumberland, Lackawanna, Monroe,
5 Northumberland, Pike, Washington, and York counties. A map of PAWC's current service
6 territories is attached to my testimony as **PAWC Exhibit MJG-2 WW**. PAWC has had
7 no material issues in complying with the Pennsylvania Public Utility Code ("Code"), the
8 Clean Streams Law, or other regulatory requirements. Moreover, PAWC has the resources,
9 skill and expertise to respond to ever-increasing environmental standards for the treatment
10 of wastewater and to manage the long-term infrastructure issues inherent in wastewater
11 systems.

12
13 **Q. DOES PAWC MAINTAIN CYBER SECURITY, PHYSICAL SECURITY,**
14 **BUSINESS CONTINUITY, AND EMERGENCY PLANS?**

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

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

- 1 • Physical Security Plan - Operational Risk Management Security (American
2 Water Works Service Company, Inc. (“AWWSC”))
3
- 4 • Cyber Security Plan - Operational Risk Management Security (AWWSC)
5 Emergency Response Plan - Operations (PAWC)
- 6 • Business Continuity Plan - Operational Risk Management (PAWC) and
7 Operations (PAWC)
8

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

15
16 **Q. PLEASE DESCRIBE PAWC’S RELATIONSHIPS WITH COMMISSION
17 EMERGENCY RESPONSE STAFF, PENNSYLVANIA EMERGENCY
18 MANAGEMENT AGENCY STAFF, AND LOCAL FIRST RESPONDERS.**

19 **A.** PAWC has a strong working relationship with the Commission’s Emergency Response
20 Staff. PAWC provides the Commission with emergency response numbers for all PAWC
21 operating areas each year. The Commission provides emergency numbers for its staff,
22 which PAWC distributes to all of PAWC’s operating areas for inclusion in the PAWC
23 Emergency Response Plans. For those emergencies that warrant communication to the
24 Commission’s Emergency Preparedness Liaison Officer (“EPLO”), PAWC has contacted
25 Commission staff numerous times in the past to advise of situations and actions taken by
26 PAWC. Each year PAWC conducts emergency response tabletop exercises to test response
27 to emergency situations, including weather emergencies, contamination of supply, damage

1 to facilities, cyber-attack, and other perils. The Commission’s emergency response staff
2 has participated in those exercises each year since 2006. We also invite local first
3 responders to participate, such as fire departments, police departments, hazmat responders,
4 local prison personnel, as well as the Pennsylvania Department of Environmental
5 Protection (“DEP”), and the Pennsylvania Governor’s Office of Homeland Security
6 (“OHS”) personnel. PAWC has participated in Pennsylvania Water/Wastewater Agency
7 Response Network (“PaWARN”) and Pennsylvania Emergency Management Agency
8 (“PEMA”) sponsored exercises over the years. Our current relationship with PEMA is
9 through the Commission EPLO and PaWARN.

10
11 **Q. PLEASE DESCRIBE PAWC’S PARTICIPATION IN PENNSYLVANIA’S “ONE**
12 **CALL” SYSTEM AND THE RESOURCES THAT PAWC DEDICATES TO THE**
13 **PROGRAM.**

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

19
20 **Q. DOES PAWC HAVE AN EMPLOYEE SAFETY PROGRAM?**

21 **A.** Yes. American Water and PAWC have made safety a value and not just a goal. It is very
22 important to us that every employee and contractor return home safely every day. We
23 make safety a value instead of a goal because goals change, but values do not change.

1 Safety performance is fundamental to our Company's culture and key to its success.
2 Employees are expected to conduct themselves in a safe manner, in accordance with our
3 Health and Safety policy and with the Health and Safety Procedures and Practices Manual.
4 PAWC establishes, implements, promotes and manages safety programs, activities and
5 training that enable continued safety improvement, injury reduction and compliance with
6 applicable Federal, State and local requirements. Safety programs are developed and
7 implemented in accordance with Company policy and applicable practices and include:

- 8 • Supporting practices that are developed, reviewed and updated to provide
9 guidance on safe performance of activities in the workplace and are reflective of
10 changes in organizational, operational and regulatory needs;
- 11 • Strategic and priority development and implementation of safety improvements
12 based on risk analysis of workplaces, work tasks and related potential injuries and
13 incidents;
- 14 • Development of, and measurement against, specific Company and external safety
15 performance targets and safety accountabilities for all employees;
- 16 • Ongoing assessment and review of safety processes, activities and supporting
17 programs (including those related to other Company policies, such as the
18 Workplace Conduct and Behavior Policy) to gauge effectiveness, identify
19 program gaps and pinpoint opportunities for continued improvement;
- 20 • Consistency of implementation and compliance with Company and regulatory
21 requirements across the enterprise; and;
- 22 • Defined and monitored contractor qualifications and requirements for safety
23 performance in accordance with approved contract documents, applicable laws
24 and regulations.
25

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

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

1 **Q. WHAT, IF ANY, CUSTOMER ENHANCEMENTS CAN ALLEY CUSTOMERS**
2 **EXPECT AS A RESULT OF THE TRANSACTION?**

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

7
8 **Q. CAN YOU PLEASE PROVIDE ADDITIONAL DETAIL ON EACH OF THESE**
9 **CUSTOMER SERVICE ENHANCEMENTS?**

10 **A.** Yes. *Customer Service.* Our call center is available from 7:00 a.m. to 7:00 p.m., Monday
11 through Friday. Customers can also reach a customer service representative via email at
12 infopa@amwater.com. In addition, our customers have the ability to manage their account
13 via PAWC's "My H20" online portal. Finally, PAWC offers emergency support 24 hours
14 a day, seven days a week. All of this means that we are very responsive to our customers
15 and any issues they may have and will provide the same responsive approach to Valley's
16 customers once PAWC acquires the System.

17 ***Bill Payment Options.*** PAWC offers a number of bill payment options. Customers
18 have the option to receive paper bills through the mail or go paperless and receive their
19 bills electronically via the "My H20" on-line portal. Either way, customers can pay their
20 bill by mail, online, or over the phone with a debit or credit card. They can also pay by e-
21 check or an electronic funds transfer (which can be set up at the "My H20" online portal)
22 or pay in person at multiple authorized payment locations across the state. Additionally,

1 customers will transition from a wastewater quarterly billing to a monthly billing cycle and
2 will receive a combined monthly bill from PAWC for water and wastewater services.

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

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

19
20 **Q. DOES PAWC HAVE A PROGRAM TO PROTECT ITS CUSTOMERS AGAINST**
21 **UTILITY EMPLOYEE IMPOSTERS?**

22 **A.** Yes, PAWC has developed communications tools and programs to regularly educate
23 customers about the tactics used by utility employee imposters and what homeowners need

1 to know to protect themselves. The communications vehicles include bill inserts, news
2 releases, social media posts and website information about imposter-related crimes and
3 precautions that customers can take. In addition, PAWC helped form the Keystone
4 Alliance to Stop Utility Imposters, a coalition of water, gas and electric utilities, along with
5 the Commission, Pennsylvania District Attorneys Association and Pennsylvania Chiefs of
6 Police Association, to launch a public awareness campaign using public service
7 announcements, print materials, posters and community presentations.

8
9 **Q. PLEASE DESCRIBE PAWC'S CUSTOMER DISPUTE RESOLUTION**
10 **PROCEDURE.**

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

21 **Q. TO THE BEST OF YOUR KNOWLEDGE, DO VALLEY'S CUSTOMERS**
22 **CURRENTLY HAVE A PUBLIC OMBUDSMAN TO REPRESENT THEIR**
23 **INTERESTS?**

1 A. No.

2

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

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

12

13 **CONCLUSION**

14

15 **Q. DO YOU BELIEVE PAWC HAS THE ABILITY TO PROVIDE SAFE,**
16 **ADEQUATE, AND RELIABLE WASTEWATER SERVICE TO VALLEY'S**
17 **CUSTOMERS?**

18 A. Yes.

19

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

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

4

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

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

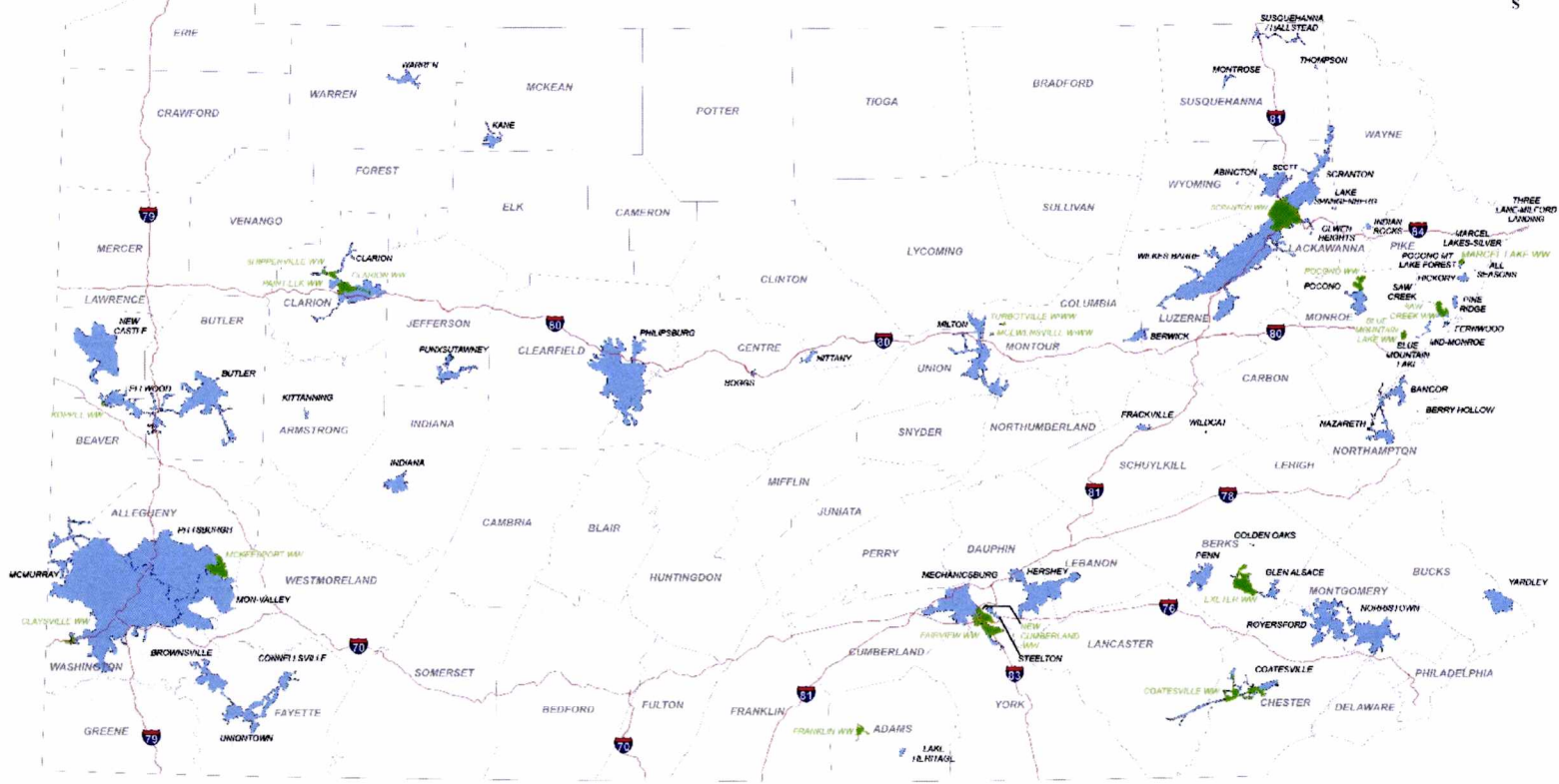
**PAWC EXHIBIT
MJG-1 WW**

Valley Wastewater Capital Plan

Year After Closing	1	2	3	4	5
Capital Improvement					
Safety	\$ 50,000	\$ 50,000			
Security	\$ 50,000	\$ 50,000			
SCADA	\$ 50,000	\$ 150,000			
GIS Survey and Sewer condition based assessment	\$ 170,280	\$ 170,280			
Targeted I/I improvements			\$ 681,120	\$ 681,120	\$ 681,120
Misc. pump station improvements		\$ 100,000	\$ 100,000		
Reoccurring capital improvements	\$ 715,000	\$ 355,000	\$ 365,000	\$ 365,000	\$ 365,000
Total	\$ 320,280	\$ 520,280	\$ 781,120	\$ 681,120	\$ 681,120

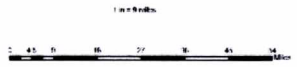
**PAWC EXHIBIT
MJG-2 WW**

Existing Service Territory Pennsylvania American Water Company



Legend

- PAWC WATER
- PAWC WASTEWATER



PAWC is not responsible for the accuracy of the information shown on this map. The information is provided as a general guide only. For more information, contact PAWC at 1-800-442-6242.


**PAWC EXHIBIT
MJG-3WW**

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**

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Company under Section 1102(a) of the Pennsylvania :
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portions of East Fallowfield Township, :
Sadsbury Township and West Caln Township, :
Chester County, Pennsylvania :

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

Date: October 9, 2020

PAWC Statement No. 3WW

**DIRECT TESTIMONY OF
ROD P. NEVIRASKAS**

INTRODUCTION

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

A. Rod P. Neviraskas, 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” or the “Company”).

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 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 wastewater system (“System”) currently owned and operated by Valley Township
17 (“Valley” or the “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.

1 **Line of Credit**

2 PAWC presently has liquidity through a \$400 million line of credit through American
3 Water Capital Corp. (“AWCC”), a wholly owned subsidiary of American Water. PAWC’s
4 strong credit ratings allow PAWC to obtain additional capacity on this line of credit.

5

6 **Long Term Debt Financing**

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

13

14 **Equity Investments**

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

17

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

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

21

22 **Q. WHAT IMPACT, IF ANY, DO YOU ANTICIPATE THAT THE ACQUISITION OF**
23 **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

12
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. 2 WW, 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 Guntrum's
11 testimony in Statement No. 2 WW, this acquisition will enable PAWC to directly provide
12 distribution and collection 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 at \$8,293 per customer.³ The Commission approved the Kane
2 acquisition on June 18, 2020 and the Steelton acquisition on October 3, 2019, finding the
3 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. Valley
10 currently has a policy of providing a 5% discount to customers for early payment of flat
11 rate wastewater bills. PAWC is not assuming that discount, as PAWC intends to apply its
12 standard rules and regulations to Valley customers. Continuation of the 5% discount for
13 Valley customers would be discriminatory towards PAWC's legacy customers who do not
14 receive a quick-pay discount.

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

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

1 **Q. WHAT IMPACT, IF ANY, WILL THERE BE ON THE RATES OF PAWC'S**
2 **CURRENT CUSTOMERS AS A RESULT OF THE ACQUISITION OF THE**
3 **SYSTEM?**

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

13
14 **Q. DO YOU ANTICIPATE THE TRANSACTION HARMING PAWC'S FINANCIAL**
15 **STATUS IN ANY MANNER?**

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

20

21 **CUSTOMER NOTICE**

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

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

6
7 **Q. HOW WERE THE ESTIMATES OF POTENTIAL RATE IMPACTS**
8 **CALCULATED FOR THE NOTICES PROVIDED IN APPENDIX A-18-D?**

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

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

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

⁴ The Valley wastewater system is a current bulk wastewater customer of PAWC. Because the situation of the acquired system being a bulk wastewater 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-1WW reflects the methodology discussed with these parties.

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

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

6
 7 **Q. PLEASE SUMMARIZE THE CALCULATION OF THE POTENTIAL RATE**
 8 **IMPACT SHOWN IN THE NOTICE TO THE TOWNSHIP'S CUSTOMERS.**

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

Valley Township Wastewater 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	\$62.25	\$77.56	25%
Commercial	22,000 gal/month	\$267.99	\$333.92	25%
Industrial	476,000 gal/month	\$5,352.79	\$6,669.58	25%

11
 12 The 25% percentage increase shown in the chart above is calculated as 100% of the
 13 revenue deficiency after the Act 11 allocation to water customers,⁵ divided by the Year
 14 One revenues of the System.⁶ The current average monthly bill is calculated using the

⁵ The allocation of a portion of the wastewater revenue requirement to water customers pursuant to Act 11 of 2012 (66 Pa. C.S. § 1311(c)) is referred to in this testimony as the "Act 11 allocation." For calculating the notice in this case, the Settlement requires PAWC to use the Act 11 allocation from wastewater to water from PAWC's last base rate case. In PAWC's last base rate case, 46% of the wastewater revenue requirement was allocated to water customers under Act 11. See Docket No. R-2017-2595853, Joint Petition for Settlement paragraph 35d and the Summary Proof of Revenues. The Settlement was approved by Order entered December 7, 2017 ("2017 Rate Case"). References herein to PAWC's "most recent base rate" or "last base rate case" are to the 2017 Rate Case and not to PAWC's currently pending base rate case at Docket Nos. R-2020- 3019369 and R-2020-3019371.

⁶ The Valley wastewater system is a current bulk wastewater customer of PAWC. Because the situation of the acquired system being a bulk wastewater customer was not addressed in the Steelton Settlement, the Company discussed the

Township’s existing wastewater rates, which will be adopted by PAWC at closing.⁷ The potential average monthly bill after acquisition is calculated by increasing the current average monthly bill amounts by the 25% percentage increase. This methodology was used to comply with the Settlement at Docket No. A-2019-3006880 (Exhibit G). Please refer to **PAWC Exhibit RPN-1 WW** for the calculation of the customer notice.

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

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

PAWC Existing Wastewater Customers				
Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Current Rates	Average Monthly Bill at PAWC Zone 1 Current Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,630 gal/month	\$64.93	\$66.42	2.3%
Commercial	22,000 gal/month	\$280.22	\$286.67	2.3%
Industrial	476,000 gal/month	\$5,547.08	\$5,674.66	2.3%

The 2.3% percentage increase shown in the chart above is calculated by dividing 100% of the revenue deficiency after the Act 11 allocation to water customers by total wastewater revenues. The “total wastewater revenues” include PAWC’s wastewater revenues from existing customers, which were determined to be \$26,935,197 in PAWC’s

reflection of these bulk revenues in the calculation with I&E, OCA and OSBA prior to filing. The notice contained in PAWC Exhibit RPN-1WW reflects the methodology discussed with these parties.

⁷ 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 18-a**.

1 last base rate case, as well as the Year One revenues from the System (\$2,674,000 as shown
 2 on **Appendix K**). This methodology was used to comply with the Settlement at Docket
 3 No. A-2019-3006880 (Exhibit G). Please refer to **PAWC Exhibit RPN-1WW** for the
 4 calculation of the customer notice.

5
 6 **Q. PLEASE SUMMARIZE THE CALCULATION OF THE POTENTIAL RATE**
 7 **IMPACT SHOWN IN THE NOTICE TO PAWC WATER CUSTOMERS.**

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

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

10
 11 The 0.1% percentage increase shown in the chart above represents the potential
 12 impact on PAWC water customers of the Act 11 allocation to water customers. This
 13 allocation to water customers is divided by PAWC’s applicable water revenues, which
 14 were \$667,585,862 in PAWC’s most recent base rate case.⁸

15 The current average monthly bill is shown at PAWC’s current Zone 1 rates and the
 16 average usage for each customer class as reflected in the filing of PAWC’s most recent

⁸ 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 base rate case (Docket No. R-2017-2595853). The average monthly bill for PAWC Zone
2 1 customers after acquisition is calculated by increasing the current average monthly bill
3 amounts by the 0.1% percentage increase, which was calculated as explained above. This
4 methodology was used to comply with the Settlement at Docket No. A-2019-3006880
5 (Exhibit G). Please refer to **PAWC Exhibit RPN-1WW** for the calculation of the
6 customer notice.

7
8 **Q. DO YOU HAVE ANY FURTHER COMMENTS ON THE CUSTOMER NOTICES**
9 **PAWC IS PROVIDING IN THIS PROCEEDING?**

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

14
15 **TRANSACTION AND CLOSING COSTS**

16 **Q. PLEASE DESCRIBE THE ESTIMATED TRANSACTION AND CLOSING COSTS**
17 **FOR THE TRANSACTION.**

18 **A.** As set forth in the Commission's *Final Implementation Order* at Docket No. M-2016-
19 2543193, transaction and closing costs include the UVE's appraisal fee and the buyer's
20 closing costs, including reasonable attorney fees. In accordance with the *Final*
21 *Implementation Order* and traditional ratemaking principles, reasonable transaction and
22 closing costs are not to be decided in this Application proceeding; instead, PAWC must
23 justify the costs by a "preponderance of the evidence" in a future base rate proceeding.

1 Company intends to bill customers on a monthly basis, and Valley’s existing rates will be
2 prorated for purposes of calculating monthly billing. As discussed earlier, Valley currently
3 provides a 5% discount to customers for early payment of flat rate wastewater bills. PAWC
4 is not assuming this discount. After PAWC closes on the Transaction, System customers
5 will be subject to PAWC’s prevailing wastewater tariff on file with the Commission with
6 respect to all rates other than the minimum charge and consumption charge, including
7 capacity reservation fees (except as discussed below), reconnection fees and the like, as
8 well as non-rate related terms and conditions of service.

9 Certain developers, as detailed on Schedule 7.03(b) of the Asset Purchase
10 Agreement, have purchased sewer treatment capacity from Valley. PAWC will charge
11 these developers only the \$382.92 difference between the Township’s current tapping fee
12 and the amount paid by the developers in 2004. Other than the developers identified on
13 Schedule 7.03(b) of the Asset Purchase Agreement, PAWC will charge a capacity
14 reservation fee of \$4,000 per new equivalent dwelling unit for the allocation of treatment,
15 pumping, and transmission, truck and interceptor main capacity, commencing with the date
16 of Closing.

17 No capacity fee will be charged for any applicant for wastewater service that meets
18 the criteria of a Bona Fide Service Applicant, as defined in 52 Pa. Code § 65.1 (excluding
19 clause (iii) of that definition) if “wastewater” were substituted for “water.”
20

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

1 A. The APA does not set forth or require a “rate stabilization plan” as defined by Section
2 1329(g). Therefore, PAWC is not required under the *Final Implementation Order* at
3 Docket No. M-2016-2543193 to provide testimony, schedules, and work papers in support
4 of a rate stabilization plan.

5 Section 1329(g) defines a “rate stabilization plan” as “[a] plan that will hold rates
6 constant or phase rates in over a period of time after the next base rate case.” As detailed
7 in Section 7.03 of the APA, PAWC will be charging the Township’s current rates (but not
8 other charges, with the exception of the capacity fee for certain developers as discussed
9 above) as the Company’s base rates within the service territory. The APA provides that
10 PAWC will not propose an increase in base rates until after the second anniversary of the
11 Closing Date.

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

18 Moreover, while the APA contractually restricts PAWC from proposing an increase
19 in base rates until after the second anniversary of the Closing Date, nothing in the APA
20 purports to restrict the Commission’s authority to set rates that it considers to be “just and
21 reasonable” in the context of a base rate proceeding or otherwise. As such, the instant
22 Application does not propose a “rate stabilization plan” for approval by the Commission.

1 In a previous Section 1329 proceeding, the Commission stated the following regarding the
2 relationship between rate commitments and rate stabilization plans:⁹

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 of 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. Cmwlth. 2018)
11 (“*Aqua/New Garden*”). PAWC was careful in negotiating the APA to respect the
12 statutory authority of the Commission to set just and reasonable rates.
13

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

⁹ 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 **A.** 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 wastewater.

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. 2 WW, PAWC will be making
18 post-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 Township’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.¹⁰

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

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

¹⁰ See, for example, the Steelton settlement referenced above, paragraph 23.

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

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

11 12 **AUTHENTICATION OF APPLICATION APPENDICES**

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

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

17
18 **Q. PLEASE IDENTIFY WHICH APPLICATION APPENDICES WERE PREPARED**
19 **BY YOU OR UNDER YOUR SUPERVISION AND CONTROL?**

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

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

8
9 **Q. HOW WERE APPENDICES A-10, A-12, APPENDICES C THROUGH H, AND**
10 **APPENDIX K PREPARED?**

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

14
15 **Q. ARE APPENDICES A-10, A-12, APPENDICES C THROUGH H, AND APPENDIX**
16 **K TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE,**
17 **INFORMATION, AND BELIEF?**

18 **A.** Yes.

19 **CONCLUSION**

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

¹¹ Valley does not have a separate balance sheet for the wastewater 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.

¹² Valley does not have a separate income statement for the wastewater 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.

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

Valley Township Wastewater Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at Valley Township Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,630 gal/month	\$62.25	\$77.56	\$15.31 or 24.6%
Commercial	22,000 gal/month	\$267.99	\$333.92	\$65.93 or 24.6%
Industrial	476,000 gal/month	\$5,352.79	\$6,669.58	\$1,316.79 or 24.6%

PAWC Current Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 Current Rates	Average Bill at PAWC Zone 1 Current Rates Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,630 gal/month	\$64.93	\$66.42	\$1.49 or 2.3%
Commercial	22,000 gal/month	\$280.22	\$286.67	\$6.45 or 2.3%
Industrial	476,000 gal/month	\$5,547.08	\$5,674.66	\$127.58 or 2.3%

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
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Valley Township Wastewater

Residential		
	Minimum Charge	\$59.67
36.30	1.1200	2.58
34.00		
		\$62.25

Rate Impact 24.6%
 \$15.31
 Total \$77.56

PAWC - Wastewater

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

Rate Impact 2.3%
 \$1.49
 Total \$66.42

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	\$59.67
220.00	1.1200	208.32
34.00		
		\$267.99

Rate Impact 24.6%
 \$65.93
 Total \$333.92

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

Rate Impact 2.3%
 \$6.45
 Total \$286.67

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	\$59.67
4,760.00	1.1200	5,293.12
34.00		
		\$5,352.79

Rate Impact 24.6%
 \$1,316.79
 Total \$6,669.58

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

Rate Impact 2.3%
 \$127.58
 Total \$5,674.66

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

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Estimated Rate Increase

Revenue Requirement Increase (Attachment page 2)	\$ 1,217,780
Act 11 Percentage (R-2017-2595853 Proof of Revenues)	<u>46%</u>
Amount of increase allocated to water through Act 11	560,179
Amount of increase allocated to wastewater customers	\$ 657,601

Increase applied to Valley Township Wastewater Customers	
Revenue Requirement Increase - After Act 11	\$ 657,601
Current Valley Township Wastewater revenues	2,674,000
Estimated Increase to wastewater customers	24.6%

Amount of Increase allocated to wastewater customers and applied to the combined revenues of all PAWC wastewater customers and acquired customers:	
Revenue Requirement Increase	\$ 657,601
Current Valley Township Wastewater revenues	2,674,000
PAWC wastewater customers-excl. Scranton rev. (R-2017-2595853 Proof of Revenues excl. OWR)	<u>26,162,360</u>
Estimated Increase to wastewater customers	2.3%

Amount of Increase allocated to water customers:	
Revenue Requirement Increase	\$ 560,179
PAWC water cust. rev. (R-2017-2595853 Proof of Revenues Excludes OWR & Contract Sales)	650,769,554
Estimated Increase to Water Customers	0.1%

Pennsylvania American Water Company R-2017-2595853 - Proof of Revenues Act 11 Allocation						
	Water Operations	Wastewater Excluding Scranton		Scranton Wastewater	Combined Wastewater	Total Company
Additional Annual Operating Revenue Before Act 11	\$ 51,581,090	\$ 5,290,300		\$ 4,977,893	\$ 10,268,193	\$ 61,849,283
ACT 11 Allocation - WW COS Recovered from Water	4,700,000	(2,383,000)	45%	(2,317,000)	(4,700,000)	46% \$ -
Additional Annual Operating Revenue	56,281,090	2,907,300	55%	2,660,893	5,568,193	54% 61,849,283

**Pennsylvania American Water Company
 Acquisition of Wastewater Assets of the Valley Township
 Docket No. A-2020-3020178**

Revenue Requirement Increase

Rate Base	\$ 13,950,000	Appendix A-11
Rate of Return %	7.12%	See Calculations
Rate of Return	<u>993,000</u>	
O&M	693,000	Appendix K
Taxes Other	28,000	Appendix K
Depreciation	443,000	Appendix K
Taxes	243,000	See Calculations
Revenue Requirement	<u>2,400,000</u>	
Add Bulk Wastewater Revenues (46% of per books 2019)	1,491,780	
Valley Township Wastewater Year-1 Revenues	2,674,000	Appendix K
Total Revenue Deficiency (Rev. Req. + Bulk Rev. - Year 1 Rev.)	1,217,780	

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Valley Township
Docket No. A-2020-3020178

Summary

<u>Revenue Requirement</u>	
Rate Base	\$ 13,950,000
Pretax ROR %	8.86%
Pretax ROR	1,236,000
Plus: O&M Expense	693,000
Taxes Other	28,000
Depreciation	443,000
Total Revenue Requirement	2,400,000

<u>Income Tax Calculation</u>	
Revenues	\$ 2,400,000
Less: O&M Expense	693,000
Taxes Other	28,000
Depreciation	443,000
Interest	396,000
SIT Taxable Income	840,000
State Income Tax Rate	9.99%
State Income Tax	84,000
FIT Taxable Income	756,000
Federal Income Tax Rate	21.00%
Federal Income Tax	159,000
Total Income Taxes	243,000

<u>Interest</u>	
Rate Base	\$ 13,950,000
Weighted Cost of Debt (1.85% + 0.99%)	2.84%
	\$ 396,000

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

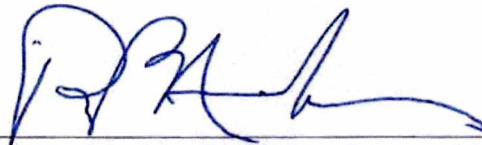
Cost of Equity for Distribution System Improvement Charge (DSIC) 9.90% M-2020-3019868

Capital Structure based on PAWC last wastewater base rate case R-2017-2595853 PAWC Statement No. 13, Exhibit No. 13-A, Schedule 12.

<u>Revenue Multiplier</u>	
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*