

**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**

**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

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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

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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

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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.

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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**.

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CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

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

Previous Testimony Before the Pennsylvania Public Utility Commission From May 2013-Present

| Case | Docket |
|--|----------------------------------|
| <p>Application of Pennsylvania-American Water Company (PAWC) for approval of: (1) the transfer, by sale, of substantially all of Paint-Elk Joint Sewer Authority (PEJSA) properties and rights related to its wastewater system to PAWC, and (2) the rights of PAWC to begin to offer or furnish wastewater service to the public in portions of Paint Township and Elk Township, Clarion County, Pennsylvania.</p> | <p>Docket No. A-2013-2395998</p> |
| <p>Application of Pennsylvania-American Water Company-Wastewater Division (PAWC-WD) for approval of: (1) the transfer, by sale, of substantially all of Shippenville Borough properties and rights related to its wastewater system to PAWC-WD, and (2) the rights of PAWC-WD to begin to offer or furnish wastewater service to the public in Shippenville Borough and an additional portion of Elk Township, Clarion County, Pennsylvania.</p> | <p>Docket No. A-2014-2441953</p> |
| <p>Application for approval of: 1) the transfer, by sale, of substantially all of the water system property and rights of the McEwensville Municipal Authority to PAWC, and 2) the right of PAWC to begin to offer or furnish water service to the public in McEwensville Borough and an additional portion of Delaware Township, Northumberland County, PA.</p> | <p>Docket No. A-2015-2460981</p> |
| <p>Application for approval of: 1) the transfer, by sale, of substantially all of the wastewater system assets and rights of the McEwensville Municipal Authority to PAWC-WD, and 2) the right of PAWC-WD to begin to offer or furnish wastewater service to the public in McEwensville Borough, Northumberland County, PA.</p> | <p>Docket No. A-2015-2460981</p> |
| <p>Application of PAWC for approval of 1) the transfer, by sale, of substantially all of the Borough of Turbotville's assets, properties and rights related to its wastewater collection and treatment system to PAWC, and 2) the right of PAWC to begin to offer or furnish wastewater service to the public in the Borough of Turbotville, Northumberland County Pennsylvania</p> | <p>Docket No. A-2018-3004189</p> |

Exhibit KEG-1

| | |
|---|---------------------------|
| Application of Pennsylvania-American Water Company for approval of the transfer, by sale, of substantially all the Municipal Authority of the Borough of Turbotville's assets, properties and rights related to its water treatment and distribution system, to Pennsylvania-American Water Company | Docket No. A-2018-3004191 |
| Section 1329 Application of Pennsylvania-American Water Company–Wastewater Division for the Acquisition of Sadsbury Township's Wastewater System Assets | Docket No. A-2018-3002437 |