

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re: Application of Pennsylvania-American Water :
Company under Section 1102(a) of the Pennsylvania :
Public Utility Code, 66 Pa C.S. § 1102(a), for approval :
of (1) the transfer, by sale, of substantially all of Valley :
Township’s assets, properties and rights related to its :
water treatment and distribution system to Pennsylvania- : Docket No. A-2020-3019859 *et al.*
American Water Company, and (2) the rights of :
Pennsylvania-American Water Company to begin to offer :
or furnish water service to the public in Valley Township, :
and in a portion of West Caln and East Fallowfield :
Townships, Chester County, Pennsylvania :

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

Dated: October 9, 2020

Amended PAWC Statement No. 1W

**DIRECT TESTIMONY OF
KEITH E. GABAGE**

INTRODUCTION

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

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

4

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

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

8

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

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

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

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

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

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

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

4

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

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

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

17

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

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

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

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

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

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

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

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

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

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

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

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

² Valley Township Authority was subsequently disbanded.

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

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

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

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

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

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

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

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

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

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

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

11
12 **DESCRIPTION OF THE TRANSACTION**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5
6 **PAWC’S LEGAL, FINANCIAL AND TECHNICAL FITNESS**

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

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

12
13 **Q. CAN YOU EXPLAIN WHY PAWC IS FINANCIALLY FIT TO ACQUIRE AND**
14 **OPERATE THE SYSTEM?**

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

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

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

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

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

14
15 **SERVICE TERRITORY**

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

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

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

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

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

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

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

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

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

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

CONCLUSION

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Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

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

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

Case	Docket
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.	Docket No. A-2013-2395998
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.	Docket No. A-2014-2441953
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.	Docket No. A-2015-2460981
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.	Docket No. A-2015-2460981
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	Docket No. A-2018-3004189

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