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 Scott D. Fogelsanger, Senior Manager of Business Development, Pennsylvania-American Water Company, **PAWC Statement No. 1.**

   ii. Direct Testimony of Michael J. Guntrum, Senior Project Engineer, Pennsylvania-American Water Company, **PAWC Statement No. 2.**

   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. 3**.

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. 4**.

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 Upper Pottsgrove Township's assets, properties and rights related to its wastewater collection and conveyance 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 Upper Pottsgrove Township, Montgomery County and a portion of Douglass Township, Berks County, Pennsylvania.	:	Docket No. A-2020-3021460, *et al.*

DIRECT TESTIMONY OF
SCOTT D. FOGELSANGER
ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY

Date: November 24, 2020

PAWC Statement No. 1

DIRECT TESTIMONY OF
SCOTT D. FOGELSANGER

INTRODUCTION

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

A. My name is Scott D. Fogelsanger and my business address is 852 Wesley Drive, Mechanicsburg, PA 17011.

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

A. I am employed by Pennsylvania-American Water Company ("PAWC") as Senior Manager of Business Development.

Q. WHAT ARE YOUR RESPONSIBILITIES AS SENIOR MANAGER OF BUSINESS DEVELOPMENT?

A. I develop and maintain necessary contacts to stay abreast of new business opportunities. I manage the acquisition from initial contact, responding to Requests for Qualifications, Requests for Proposals, Requests for Bids, preparation of the Application for submission to the Pennsylvania Public Utility Commission ("Commission") and manage the workflows required to close the acquisition. These responsibilities necessitate that I maintain a working knowledge of regulatory and technical developments, new technologies and current trends as they affect the water and wastewater utility industries, and that I be familiar with legislation, regulations and public policy affecting business opportunities.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EDUCATION AND EXPERIENCE.

A. I received a Bachelor of Science in Business Administration (B.S.B.A.) degree in Accounting from Shippensburg University in May of 1987. My experience in the waterworks industry began in September 1987 when I started as a Financial Analyst at AUS Consultants, Inc. During my 25 years at AUS Consultants, I received various promotions to Senior Analyst, Vice President and Principal. I was responsible for preparing various studies and testifying in the disciplines of cost of service, tariff design, bill frequency analysis, rate case preparation, original cost, and depreciation. My clients were investor-owned and municipal utilities in chilled water, electric, gas, steam, telephone, water, and wastewater industries. In May 2013, I started employment at PAWC as Senior Manager of Business Development.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. Yes, I have. A listing of testimony rendered is included as **PAWC Exhibit SDF-1**.

DESCRIPTION OF THE APPLICATION

Q. HAS PAWC FILED AN APPLICATION WITH THE COMMISSION FOR REGULATORY APPROVAL TO ACQUIRE THE WASTEWATER SYSTEM OF UPPER POTTSGROVE TOWNSHIP ("UPPER POTTSGROVE") AND RELATED APPROVALS?

A. Yes. PAWC filed an Application on November 24, 2020 for approval of PAWC's acquisition of Upper Pottsgrove's wastewater conveyance and collection system (the "System"). I will refer to the acquisition in my testimony as the "Transaction."

The Application was prepared and filed under my supervision. As indicated in my Verification attached to the Application, the Application and its numerous appendices are true and correct to the best of my knowledge, information, and belief. We used PAWC's records, as well as the records made available by Upper Pottsgrove, to prepare the Application. For purposes of having a complete evidentiary record in this proceeding upon which the Commission can base its decision, I submit the Application and all its appendices (Appendices A through K) as **PAWC Exhibit SDF-2**.

Q. WHAT IS PAWC SEEKING IN ITS APPLICATION?

A. There are four basic requests. First, PAWC is requesting approval of the acquisition under Section 1102, 66 Pa. C.S. § 1102, similar to many previous requests that have come before the Commission. Specifically, PAWC seeks approval to acquire the System and to obtain the right to begin service in the areas currently served by Upper Pottsgrove ("Service Area"). The Application contains a *pro forma* tariff supplement under which Upper Pottsgrove's rates would be initially adopted.

Second, pursuant to Act 12 of 2016, 66 C.S. § 1329 ("Section 1329"), PAWC is seeking to utilize the fair market value of the System for ratemaking rate base. As explained more fully below, fair market value under Section 1329 is the lesser of the stated purchase price in the Asset Purchase Agreement ("APA"), dated April 28, 2020, or the average of the appraisal of Upper Pottsgrove's Utility Valuation Expert ("UVE") and the appraisal of PAWC's UVE.

Third, PAWC is also seeking confirmation under Section 1329 to collect a distribution system improvement charge ("DSIC") for the new service area and seeking accrual and deferral of certain post-acquisition improvement costs. Specifically, PAWC is seeking the accrual of Allowances for Funds Used During Construction ("AFUDC") for post-acquisition improvements not recovered through its DSIC for book and ratemaking purposes and the deferral of depreciation related to post-acquisition improvements not recovered through DSIC for book and ratemaking purposes. PAWC is also seeking to confirm that, in its next base rate case, it be permitted to include a claim for transaction and closing costs related to the Acquisition.

Fourth, PAWC is seeking a Certificate of Filing or approval under Section 507, 66 Pa. C.S. § 507, for the APA and two agreements that will be assumed at closing of the Transaction.

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

A. Yes. PAWC's Application has been prepared in accordance with the fair market value provisions of Section 1329. Specifically, PAWC is requesting that the ratemaking rate base related to the System be based on the lesser of the average of the UVE fair market value appraisals included in the Application or the APA purchase price. I note, however, that PAWC reserves its right to make alternative ratemaking proposals in future proceedings as may be permitted under the Pennsylvania Public Utility Code ("Code") and regulations.

Q. WHAT DOES SECTION 1329 REQUIRE TO BE INCLUDED IN THE APPLICATION?

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

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

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

DESCRIPTION OF TESTIMONY FILED WITH THE APPLICATION

Q. IS PAWC FILING AS PART OF ITS APPLICATION TESTIMONY PREPARED BY UPPER POTTSGROVE?

A. Yes. PAWC's Application includes written direct testimony of Trace Slinkerd, Chairman, Board of Commissioners on behalf of Upper Pottsgrove and written direct testimony of the

Borough's selected UVE, Mr. Harold Walker III, Manager, Financial Studies, for Gannett Fleming Valuation and Rate Consultants, LLC. PAWC is not sponsoring the testimony of Mr. Slinkerd or Mr. Walker, but has included it in the Application as directed by the *Final Supplemental Implementation Order*. PAWC's submission of this testimony should not be considered support for or sponsoring of such testimony. PAWC anticipates that Upper Pottsgrove will intervene in this matter and will sponsor its direct testimony and exhibits. PAWC reserves the right to submit rebuttal testimony regarding Upper Pottsgrove's testimony, as appropriate.

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

A. In addition to my direct testimony, PAWC will submit the written direct testimony of Mr. Michael Guntrum, PAWC Senior Project Engineer (PAWC Statement No. 2) and Mr. Rod P. Nevirauskas, American Water Works Service Company ("AWWSC") Senior Director of Rates and Regulations, Mid-Atlantic Division (PAWC Statement No. 3). PAWC is also sponsoring direct testimony by its selected UVE, Mr. Jerome C. Weinert, Principal and Director of AUS Consultants, Inc. (PAWC Statement No. 4).

Mr. Guntrum will describe engineering and environmental challenges associated with the System, support PAWC's technical fitness to operate the System, explain certain commitments and improvements to be made by PAWC and other matters. Mr. Guntrum will also address the anticipated day-to-day operation of the System once it is acquired by

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

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

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

DESCRIPTION OF THE TRANSACTION

Q. PLEASE PROVIDE A DESCRIPTION OF THE TRANSACTION NEGOTIATION PROCESS.

A. On February 5, 2020, Upper Pottsgrove issued the Upper Pottsgrove Township Request for Bids ("RFB") for the sale of the wastewater system assets. On March 16, 2020, PAWC submitted a proposal to acquire the wastewater system assets and subsequently, PAWC submitted a Response to Upper Pottsgrove's best and final offer on March 20, 2020. After

arms-length negotiations, on April 20, 2020, Upper Pottsgrove's Commissioners approved the sale of the wastewater system assets and execution of the APA. On April 28, 2020, Upper Pottsgrove and PAWC entered into the APA for the sale of substantially all the assets, properties, and rights of Upper Pottsgrove's System at an agreed-upon price.

Q. CAN YOU PROVIDE AN OVERVIEW OF THE ASSET PURCHASE AGREEMENT?

A. Yes. The APA is attached as **Appendix A-24-a (CONFIDENTIAL)** to the Application. The APA sets forth the terms and conditions pursuant to which Upper Pottsgrove will sell, transfer and convey all assets of the System, and PAWC will purchase, the System, as well as substantially all properties and rights that Upper Pottsgrove owns and uses in connection with the System. The APA sets forth the entire understanding of the parties with respect to the Transaction. Under the APA, the closing of the Transaction will occur after all applicable governmental approvals, including approvals from this Commission, have been obtained and after all applicable conditions have been met (or waived) by the parties.

Upon closing of the Transaction, PAWC will take ownership of the System and begin rendering wastewater service to Upper Pottsgrove's current customers and Upper Pottsgrove will permanently discontinue providing or furnishing wastewater service to the public within the township and a portion of Douglass Township. Additionally, Upper Pottsgrove will assign its bulk wastewater service agreement with the Pottstown Borough Authority to PAWC upon closing of the Transaction.

1 **Q. CAN YOU PLEASE PROVIDE A SUMMARY OF THE APA'S PROVISIONS**
2 **GOVERNING THE TRANSFER OF ASSETS?**
3 **A.** The specific properties, assets, and rights to be transferred to PAWC are defined and
4 described in the APA's Section 2.01, while excluded assets are defined in Section 2.02.
5 Generally, the APA states that every asset, property, business, goodwill and rights owned
6 by Upper Pottsgrove and used in the provision of wastewater service, whether real,
7 personal, mixed, tangible or intangible, and including all the physical plant, property,
8 equipment and facilities comprising the System owned by Upper Pottsgrove shall be
9 conveyed to PAWC. The Engineering Assessment (**Appendix A-15-a**) contains a list of
10 the wastewater system inventory used in connection with the System to be conveyed to
11 PAWC. All interests in real estate, including leases, easements, and access to public rights-
12 of-way, owned by Upper Pottsgrove and relating to the System are defined and described
13 in Schedule 4.09 as well as assigned contracts to be conveyed to PAWC in Schedule 4.13.
14
15 Items that will not be transferred include: Upper Pottsgrove's cash and cash equivalents,
16 including accounts receivable; wastewater laterals from the edge of the road or mains to
17 and throughout each customer's property; any and all stormwater facilities; Upper
18 Pottsgrove's insurance policies; all rights to any action, suit or claims being pursued by
19 Upper Pottsgrove, all assets, properties and rights used by Upper Pottsgrove other than
20 those which primarily relate to the operations of the System; and, certain Agreements.
21
22 **Q. HAS PAWC AGREED TO ASSUME ANY LIABILITIES OF UPPER**
23 **POTTSGROVE AS PART OF THE TRANSACTION?**

1 **A.** Yes. PAWC is accepting certain "Assumed Liabilities" as part of this Transaction on the
2 day of and after closing of the Transaction. Pursuant to Section 2.04 of the APA, PAWC
3 will assume: (i) all liabilities and obligations under the Assigned Contracts and
4 authorizations and permits resulting from events that occur or conditions that arise on or
5 after closing of the Transaction; (ii) liabilities and obligations of Upper Pottsgrove related
6 to or arising out of its Act 537 Plan; (iii) any litigation initiated against Upper Pottsgrove
7 related to the System or the acquired assets resulting from events that occur on or after
8 closing or conditions that arise on or after closing; (iv) all liabilities and obligations for
9 taxes relating to the System, its operations, the acquired assets and the assumed liabilities
10 attributable to the period after the closing date; (v) all other liabilities and obligations
11 arising out of or relating to PAWC's ownership or operation of the System and acquired
12 assets on or after closing. However, PAWC will not assume or be liable to pay any
13 liabilities or obligations relating to excluded liabilities or other liabilities or obligations that
14 are not assumed liabilities.
15
16 **Q. CAN YOU PLEASE SUMMARIZE THE APA'S PROVISIONS GOVERNING THE**
17 **PURCHASE PRICE OF THE TRANSACTION?**
18 **A.** The purchase price of the System as set forth in Section 3.01 of the APA is $13,750,000.
19
20 **Q. PLEASE EXPLAIN THE RATES THAT WILL APPLY TO UPPER**
21 **POTTSGROVE'S CUSTOMERS FOLLOWING THE CLOSING OF THE**
22 **TRANSACTION.**

1 **A.** As set forth in Section 7.03 of the APA and as will be explained more fully in the Direct
2 Testimony of Mr. Nevirauskas, PAWC Statement No. 3, PAWC has committed to
3 implement, upon closing of the Transaction, Upper Pottsgrove's wastewater rates then in
4 effect at closing, as set forth on Schedule 7.03(a). Immediately upon closing, Upper
5 Pottsgrove's customers will be subject to PAWC's prevailing wastewater tariff on file with
6 the Commission with respect to miscellaneous fees and charges, rules and regulations for
7 wastewater service. All Upper Pottsgrove customers will be billed on a monthly basis.
8 The monthly rates are shown in PAWC's *pro forma* tariff in **Appendix A-12** to the
9 Application.
10
11 **DESCRIPTION OF PAWC AND THE UPPER POTTSGROVE SYSTEM**
12 **Q. PLEASE PROVIDE AN OVERVIEW OF PAWC.**
13 **A.** PAWC, a subsidiary of American Water Works Company Inc. ("American Water"), is the
14 largest regulated public utility corporation duly organized and existing under the laws of
15 the Commonwealth of Pennsylvania, engaged in the business of collecting, treating,
16 storing, supplying, distributing, and selling water to the public, and collecting, treating,
17 transporting and disposing of wastewater for the public. Water and wastewater services
18 are furnished by PAWC to the public in a service territory encompassing more than
19 400 communities in 36 counties, including Montgomery County and the nearby counties
20 of Berks and Chester. Overall, PAWC serves a combined population of over 2,400,000
21 across the Commonwealth and is American Water's largest subsidiary with nearly 21
22 percent of American Water's regulated customer base.

PAWC currently employs approximately 1,100 professionals with expertise in all areas of water and wastewater utility operations, including engineering, regulatory compliance, water and wastewater treatment plant operation and maintenance, distribution and collection system operation and maintenance, materials management, risk management, human resources, legal, accounting, and customer service. PAWC has the expertise, the record of environmental compliance, the commitment to invest in necessary capital improvements and resources, and the experienced managerial and operating personnel necessary to provide safe and reliable wastewater services to the residents of the Township and surrounding areas.

Q. HOW MANY CUSTOMERS DOES THE WASTEWATER SYSTEM CURRENTLY SERVE AND HOW MANY CUSTOMERS DOES PAWC CURRENTLY SERVE?

A. As of December 31, 2019, Upper Pottsgrove furnished wastewater services to approximately 1,447 customers, including two residents of Douglass Township.[1] As of September 30, 2020, PAWC served approximately 671,943 water customers across Pennsylvania, inclusive of 618,810 residential, 45,872 commercial, 534 industrial, 2,402 municipal, 24 sales for resale ("SFR"), 4,323 fire protection and 2 other customers in 36 Pennsylvania counties. As of September 30, 2020, PAWC furnished wastewater services to approximately 75,341 customers, inclusive of 69,774 residential, 5,308 commercial, 45 industrial, 203 municipal, and 11 bulk customers.

[1] These two customers were the subject of a Petition for Declaratory Order filed by Upper Pottsgrove at Docket No. P-2020-3021526, in which Upper Pottsgrove sought a declaratory order that service to these customers does not constitute the provision of public utility service to the public pursuant to Section 102 of the Code. The Commission issued the requested Declaratory Order on October 8, 2020.

THE TRANSACTION IS IN THE PUBLIC INTEREST

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

A. Yes. The Transaction will result in affirmative public benefits of a substantial nature. First, PAWC, as a large and long-established public utility, has the managerial, technical, and financial fitness to operate the Upper Pottsgrove System in a safe and efficient manner in compliance with the Code, the Pennsylvania Clean Streams Law, and all other applicable statutory and regulatory requirements. PAWC has extensive experience in the operation of wastewater treatment and collection systems including specific experience with the types of treatment technologies employed in the Upper Pottsgrove System. PAWC continues to develop expertise for the benefit of the Commonwealth through its current operation of 22 wastewater treatment plants providing service to approximately 75,341 customers in 12 Pennsylvania counties. The Transaction fosters the Commission's stated goal of consolidating and regionalizing wastewater systems within the Commonwealth and providing greater environmental and economic benefits to customers. PAWC can draw upon a much broader range of engineering and operational experience, as well as deeper financial resources, to address operational challenges and support growth and redevelopment. Additionally, given PAWC's existing nearby regional area operations, PAWC is better positioned than Upper Pottsgrove to provide utility services on a long-term, cost-effective basis.

Second, Upper Pottsgrove's current customers will benefit in several ways from becoming PAWC wastewater customers. PAWC is a large, financially-sound company that has the

capacity to finance necessary capital additions and improvements that will benefit its customers. In addition, given its size, its access to capital, and its recognized strengths in system planning, capital budgeting, and construction management, PAWC is well-positioned to ensure that high quality wastewater service meeting all applicable state and federal regulatory requirements is provided to Upper Pottsgrove's customers. There is also a general public benefit being that PAWC is subject to the jurisdiction of the Commission requiring PAWC to provide adequate, efficient, safe, and reliable service at just and reasonable rates. Currently, Upper Pottsgrove has no such regulatory oversight.

Third, Upper Pottsgrove's current customers will benefit from the enhanced and proven customer service that PAWC provides. My colleague, Michael Guntrum, discusses these customer service enhancements in more detail in PAWC Statement No. 2; however, I would like to note that they include, but are not limited to, extended customer service and call center hours, and enhanced customer information and educational programs and access to PAWC's customer assistance program. Additionally, through community giving, partnerships and volunteering, PAWC demonstrates its commitment to programs that address community-specific needs. One example is PAWC's H2O – Help to Others Program, which for more than twenty-five years has assisted low-income customers. In 2011, the program was expanded to include wastewater customers, and those who qualify can receive a grant up to $500 and a 20% discount on their total wastewater charges.

Finally, the Transaction will benefit PAWC's existing customers in the long-term by expanding PAWC's customer base. There will be no immediate rate impact on PAWC's

existing customers. In the long-term, the Transaction will help PAWC keep rates reasonable for all of its customers. By adding additional connections to the entire PAWC system, there are more customers to share future infrastructure investment costs which promotes stable rates across the entire PAWC system. Customers who benefit from near-term improvements will one day help pay for improvements on behalf of other customers on other parts of the PAWC system. Being able to spread the costs of investing in and maintaining public wastewater systems over a growing customer base, particularly in a time of increased environmental requirements, is essential to the continued success and longevity of wastewater systems and maintaining reasonable rates for customers. As a matter of public policy, the Pennsylvania Legislature recognized the importance of consolidation and cost sharing in the passage of Act 11 of 2012. There is also a clear legislative intent associated with Section 1329 and its allowance of fair market valuation for ratemaking purposes. The General Assembly intended to facilitate the acquisition of municipal water and wastewater systems by investor-owned utilities for the benefit of municipal corporations and their customers.

PAWC'S LEGAL, FINANCIAL, AND TECHNICAL FITNESS

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

A. Yes. PAWC is a Commission-regulated public utility with a good compliance history. There are no pending legal proceedings that would suggest that PAWC is not legally fit to provide wastewater service to customers on the Upper Pottsgrove System.

1 **Q. CAN YOU PLEASE EXPLAIN WHY PAWC IS FINANCIALLY FIT TO**
2 **ACQUIRE AND OPERATE THE WASTEWATER SYSTEM?**
3 **A.** Yes. PAWC is the largest water and wastewater provider in Pennsylvania. It has a long-
4 demonstrated history with the Commission of financial stability.
5
6 As part of the Application, PAWC provided the audited internal balance sheet, as of
7 December 31, 2019, for PAWC **(Appendix D)**, as well as the audited income statement,
8 as of December 31, 2019, for PAWC **(Appendix F)**. Those documents show that PAWC
9 had total assets of approximately $5.3 billion as of December 31, 2019. Further, they show
10 that PAWC had net income of approximately $187 million for the 12 months ending
11 December 31, 2019. These figures are further demonstration that PAWC has the financial
12 stability and wherewithal to acquire the Upper Pottsgrove System and operate it in the
13 public interest. My colleague, Rod Nevirauskas, will provide additional details in PAWC
14 Statement No. 3 on the financial health of PAWC and its ability to access capital.
15
16 **Q. PLEASE EXPLAIN WHY PAWC IS TECHNICALLY FIT TO OPERATE THE**
17 **SYSTEM?**
18 **A.** As I discussed earlier, PAWC is engaged in the business of treating and collecting
19 wastewater for the public. We are the largest investor-owned water and wastewater utility
20 in the Commonwealth of Pennsylvania and we already have significant water and
21 wastewater operations throughout Pennsylvania. PAWC is experienced in undertaking and
22 completing water and wastewater system acquisitions with public and private sector
23 owners and successfully integrating those assets into our business operations. In fact,

PAWC is often called upon by the Commission to step in and resolve troubled water and wastewater systems, resolving compliance issues and providing the excellent service that customers expect and deserve. My colleague, Michael Guntrum, will explain in greater detail in PAWC Statement No. 2, specifically how PAWC intends to operate the Upper Pottsgrove System once acquired.

DESCRIPTION OF THE SERVICE AREA

Q. PLEASE EXPLAIN THE SERVICE AREA SOUGHT BY PAWC IN THE APPLICATION.

A. As part of its Application, PAWC is seeking the right to provide service to the customers currently served by Upper Pottsgrove as shown in the maps and descriptions attached as **Appendix A-16-a through h (Appendix A-16-f** is **CONFIDENTIAL)** No municipal authority, corporation, partnership or individual other than Upper Pottsgrove is now furnishing or has corporate or franchise rights to furnish service similar to that to be rendered by PAWC in the Service Area covered by the Application, and no competitive condition will be created. As discussed above, upon closing of the Transaction, Upper Pottsgrove will permanently discontinue all wastewater service to the public.

APPROVAL OF CONTRACTS WITH MUNICIPAL CORPORATIONS

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

A. Yes. In addition to the approvals sought under Code Sections 1102(a) and 1329, 66 Pa. C.S. §§ 1102(a), 1329, the APA must, according to PAWC's counsel, be filed with the

1 Commission pursuant to Code Section 507, 66 Pa. C.S. § 507. In addition, Upper
2 Pottsgrove will assign to PAWC: (i) the September 13, 2004 Sewage Treatment Agreement
3 between Upper Pottsgrove Township, Borough of Pottstown and Pottstown Borough
4 Authority; and (ii) the March 28, 1994 Joint Sewage Transportation Agreement between
5 Upper Pottsgrove Township and Lower Pottsgrove Township. These agreements are
6 reasonable and otherwise lawful. PAWC requests that the Commission issue a Certificate
7 of Filing or otherwise approve them.
8
9 **CONCLUSION**
10 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**
11 **A.** Yes. However, I reserve the right to supplement my testimony as additional issues or facts
12 arise during the course of this proceeding.

PAWC EXHIBIT SDF-1

SCOTT D. FOGELSANGER
SUMMARY OF TESTIMONY

Pennsylvania Public Utility Commission:	
Appalachian Utilities, Inc.	R-00963557
Borough of Media – Water Works	R-912150
Borough of Hanover	R-00027522
Borough of Quakertown	R-2011-2251181
Citizens Water Company of Confluence	R-00932746
City of DuBois – Bureau of Water	R-00050671
Columbia Water Company	R-00061496
Columbia Water Company	R-2008-0245157
Country Place Waste Treatment Co., Inc.	R-00932568
Emporium Water Company	R-00932567
Emporium Water Company	R-00005050
Emporium Water Company	R-00061297
Mercer Water Company	R-901689
National Utilities, Inc.	R-00932828
National Utilities, Inc.	R-00953416
Newtown Artesian Water Company, The	R-2008-2042293
NRG Energy Center Harrisburg LLC	R-2008-2028395
NRG Energy Center Pittsburgh LLC	R-00061435
Pennsylvania American Water Company	A-2019-3006880
Pittsburgh Thermal, L.P.	R-00994641
Redstone Water Company, Inc.	R-00974227
Rockwood Water Company	R-00932771
Total Environmental Solutions, Inc. – Treasure Lake W	R-00072493
Total Environmental Solutions, Inc. – Treasure Lake S	R-00072495
Trigen – Philadelphia Energy Corporation	R-2009-2111011
Tri-Valley Water Supply, Inc.	R-00963806
Valley Energy, Inc.	R-00049345
Delaware Public Service Commission:	
Tidewater Utilities, Inc.	11-397
United Water Delaware	04-121
New Jersey Board of Public Utilities:	
Middlesex Water Company	WR12010027

VERIFICATION

I, Scott Fogelsanger 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).

Scott Fogelsanger, Senior Manager of Business Development
Pennsylvania-American Water Company

Dated: 11/18/20

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 Upper Pottsgrove Township's assets, properties and rights related to its wastewater collection and conveyance rights related to its wastewater collection and conveyance system to Pennsylvania-American Water Company, and (2) the rights of Pennsylvania-American Water Company to being to offer or furnish wastewater service to the public in Upper Pottsgrove Township, Montgomery County and a portion of Douglass Township, Berks County, Pennsylvania.	:	Docket No. A-2020-3021460

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

Date: November 24, 2020

PAWC Statement No. 2

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

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

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

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

A. I am employed by Pennsylvania-American Water Company ("PAWC" or the "Company") as a Senior Project Engineer.

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

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

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EDUCATION AND EXPERIENCE.

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

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

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION?

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

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

A. My testimony will describe the wastewater collection and conveyance system ("System") currently owned by Upper Pottsgrove Township ("Upper Pottsgrove" or the "Township") that PAWC has agreed to acquire (the "Transaction"). I will also explain how the acquired system will be integrated into PAWC's existing operations, describe PAWC' s technical fitness to run the system, and discuss the benefits of the Transaction.

Q. CAN YOU PLEASE DESCRIBE THE SYSTEM?

A. The Upper Pottsgrove System is a sanitary sewer collection only system that discharges all sewage into the Pottstown Borough Authority ("PBA") collection system for final treatment. All wastewater generated within the Township is conveyed to the PBA by means of direct connections to the PBA's collection system or through the Lower Pottsgrove Township collection system which also discharges to the PBA's collection system for treatment at PBA's wastewater treatment plant. Upper Pottsgrove Township is currently party to a Sewage Treatment Service Agreement with the PBA under which the

Township's flow is transported to PBA's treatment plant where it is ultimately treated. Upper Pottsgrove Township has purchased capacity from the PBA, the initial purchase of 350,000 gpd in 1994 has grown by successive purchase agreements, to 608,600 gpd in 2017. Upper Pottsgrove Township conveys wastewater to the PBA through separately metered manholes. Upper Pottsgrove's sewer system is comprised of approximately 22.8 miles of interceptors, force mains, and tributary collection sewers, and approximately 534 manholes. There are four sewage pumping stations in Upper Pottsgrove's sewer system.

Q. DOES UPPER POTTSGROVE HAVE ANY OUTSTANDING COMMITMENTS UNDER ITS ACT 537 PLAN?

A. Yes. Under Upper Pottsgrove's latest Act 537 Plan, there are five line extension projects that remain to be completed. Pursuant to the APA, Upper Pottsgrove will be responsible for completing two of the extension projects: Regal Oak 2A and Ming Drive/Moyer Road and PAWC will be responsible for completing three of the extension projects: Regal Oaks 2B, Continental Drive/Old Orchard Road, and Horsehoe/Bruce Drive. PAWC will include these projects in its Act 537 Plan. PAWC's Act 537 Plan Update will also reflect the change in ownership in the System. Upper Pottsgrove's Act 537 Plan service area includes the areas that will be served by these line extensions. PAWC's applied-for Certificated Territory also includes these areas.

Q. WHAT IS AN "MS4" SYSTEM?

A. An MS4 system is a "municipal separate storm sewer system."

Q. IS PAWC ACQUIRING AN MS4 SYSTEM?

A. No. PAWC will not be acquiring the MS4 system of Upper Pottsgrove.

Q. IS THE UPPER POTTSGROVE SYSTEM A COMBINED SEWER SYSTEM?

A. No. The Upper Pottsgrove System is not a combined sewer system.

Q. DOES THE SYSTEM HAVE AN INDUSTRIAL PRETREATMENT PROGRAM?

A. There are no significant or categorical industrial users in the System. Therefore, the Township does not have an Industrial Pretreatment Program ("IPP"). BPA has an IPP to manage industrial customers in their system.

Q. PLEASE DESCRIBE PIPE SIZES AND MATERIALS USED FOR THE CONSTRUCTION OF THE COLLECTION SYSTEM.

A. Based on the mapping that was available and provided by Upper Pottsgrove, the collection system is primarily constructed from PVC pipe. The approximate sizes and lengths are listed in the table below.

Pipe Diameter	Approximate Pipe Length
4-inch and under force main	8,805 ft
6-inch to 8-inch force main	9,296 ft
6-inch to 8-inch gravity main	87,542 ft
10-inch to 12-inch gravity main	11,532 ft
13-inch and over gravity main	3,178 ft
TOTAL	120,353 ft

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

A. Based on the population projections and demand projections as provided in Upper Pottsgrove's 2019 Sewer System Questionnaire which was submitted to the Borough of Pottstown for inclusion in its Chapter 94 Report included in **Appendix A-20-c**, the conveyance capacity is adequate to meet present and future customer demands.

Q. PLEASE STATE THE ELEVATIONS OF THE MAJOR FACILITIES.

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

Q. PLEASE PROVIDE AN OVERVIEW OF PAWC'S EXISTING WATER OPERATIONS FACILITIES IN THE UPPER POTTSGROVE AREA.

1 **A.** PAWC's Glen Alsace operations center is located within 15 miles from Upper Pottsgrove.
2 PAWC's Royersford operations center is located within 10 miles from Upper Pottsgrove.
3 Both operations centers house both the local operations team and operations support staff.
4
5 **Q. PLEASE DESCRIBE HOW PAWC WILL MANAGE THE DAY-TO-DAY**
6 **OPERATIONS OF THE SYSTEM ONCE IT IS ACQUIRED?**
7 **A.** The System will be managed as part of PAWC's Exeter wastewater department within
8 PAWC's Southeast Area operations. The Southeast Area provides a range of shared
9 support services -- including purchasing, environmental compliance, health and safety,
10 meter reading, customer service work and PA One Call. The wastewater operations in
11 Upper Pottsgrove will both be supported by common shared support services.
12
13 **Q. ARE OTHER PAWC EMPLOYEES AVAILABLE TO ASSIST WITH**
14 **WASTEWATER OPERATIONS, AS NEEDED?**
15 **A.** Yes. Current PAWC employees in this area are supported by a shared support team
16 supporting common functions such as payroll, purchasing, environmental compliance,
17 health, and safety. Employees in both the water and wastewater departments will support
18 each other when appropriate and necessary, particularly in emergency situations. As
19 mentioned above, all operations and employees within PAWC and within the broader
20 American Water Works Company, Inc. ("American Water") footprint have access to each
21 other when circumstances require and/or when a very specialized skill or experience is
22 required to support all local issues.
23

1 **Q. WILL THERE BE ANY UNNECESSARY DUPLICATION OF OPERATIONS**
2 **FACILITIES FOLLOWING THE ACQUISITION?**
3 **A.** No, the System will be operated by PAWC's existing Exeter system. It will also have the
4 support of PAWC's surrounding operations as well as PAWC's operations throughout the
5 Commonwealth and American Water's nationwide resources.
6
7 **Q. WHAT ARE THE ESTIMATED CAPITAL COSTS FOR THE SYSTEM?**
8 **A.** The 5-year capital plan for the System is shown on **PAWC Exhibit MJG-1** .
9
10 **Q. IN YOUR OPINION, IS PAWC BETTER EQUIPPED THAN UPPER**
11 **POTTSGROVE TO MAINTAIN ENVIRONMENTAL COMPLIANCE FOR THE**
12 **SYSTEM? WHY?**
13 **A.** Yes. PAWC can draw upon a much broader range of engineering and operational
14 experience, as well as deeper financial resources, to address the environmental compliance
15 challenges of the System. In addition, given PAWC's existing platform in relation to the
16 operation of water and wastewater systems in neighboring communities, I believe that
17 PAWC is best positioned to provide those services on a cost-effective basis.
18 PAWC is the Commonwealth's largest investor-owned provider of water and wastewater
19 services. As a leading wastewater provider in Pennsylvania, PAWC brings industry
20 leading expertise and has extensive technical experience in upgrading, operating and
21 maintaining sewer facilities. PAWC is a recognized leader in providing communities in
22 the Commonwealth with well-maintained and reliable water and wastewater service and

has extensive local knowledge due to our decades of experience providing water service to neighboring communities.

PAWC currently employs approximately 1,100 professionals with expertise in all areas of water and wastewater utility operations including engineering, regulatory compliance, water and wastewater treatment plant operation and maintenance, distribution and collection system operation and maintenance, material management, risk management, human resources, legal, accounting, and customer service. As a subsidiary of American Water, PAWC has available to it additional resources of highly trained professionals who have expertise in various specialized areas. American Water currently owns or operates approximately 200 wastewater operations through its subsidiaries in a number of states. American Water's experience includes the full breadth of treatment processes, from facultative ponds to membrane biological reactors in every climate zone across the U.S. More advanced technologies allow a number of American Water's plants to utilize effluent for reuse applications, eliminating discharge to receiving streams. These diverse facilities have provided American Water operators and process experts with deep experience in the operation and maintenance of every possible type of wastewater treatment technology, as well as the experience available to support PAWC's operations staff and facilities. A 50-person team of American Water corporate engineers has handled a wide variety of system evaluations, selecting treatment processes and establishing critical design criteria for water and wastewater treatment systems in order to improve operations and prioritize capital improvements.

PAWC has an established track record of successfully managing large capital investment projects in order to provide reliable service to the communities it serves. PAWC has an

ongoing program of capital investment focused on systematically replacing and adding new pipes, treatment and pumping facilities, and other water and wastewater infrastructure; thereby minimizing customer disruption caused by infrastructure failure. PAWC has funded in excess of $1 billion in capital construction over the past five years with expenditures expected to total $275 million to $300 million per year for the next five years. Capital planning is performed by in-house engineering staff and operations to establish capacity needs, regulatory impacts, service adequacy and reliability for PAWC's wastewater systems. Project costs, alternatives and risks are also determined. Comprehensive periodic oversight of water and wastewater assets gives PAWC a clear and objective view of needs and potential capital project solutions.

Q. PLEASE DESCRIBE PAWC'S TECHNICAL FITNESS TO PROVIDE WASTEWATER SERVICE TO UPPER POTTSGROVE'S CUSTOMERS.

A. PAWC has approximately 75,341 active wastewater customers across the Commonwealth, with customers in Adams, Beaver, Chester, Clarion, Cumberland, Lackawanna, Monroe, Northumberland, Pike, Washington, and York counties. A map of PAWC's current service territories is attached to my testimony as **PAWC Exhibit MJG-2**. PAWC has had no material issues in complying with the Pennsylvania Public Utility Code ("Code"), the Clean Streams Law, or other regulatory requirements. Moreover, PAWC has the resources, skill and expertise to respond to ever-increasing environmental standards for the treatment of wastewater and to manage the long-term infrastructure issues inherent in wastewater systems.

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

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

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

- Physical Security Plan - Operational Risk Management Security (American Water Works Service Company, Inc. ("AWWSC"))
- Cyber Security Plan - Operational Risk Management Security (AWWSC)
- Emergency Response Plan - Operations (PAWC)
- Business Continuity Plan - Operational Risk Management (PAWC) and Operations (PAWC)

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

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

Q. PLEASE DESCRIBE PAWC'S PARTICIPATION IN PENNSYLVANIA'S "ONE CALL" SYSTEM AND THE RESOURCES THAT PAWC DEDICATES TO THE PROGRAM.

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

Q. DOES PAWC HAVE AN EMPLOYEE SAFETY PROGRAM?

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

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

- Strategic and priority development and implementation of safety improvements based on risk analysis of workplaces, work tasks and related potential injuries and incidents;

- Development of, and measurement against, specific Company and external safety performance targets and safety accountabilities for all employees;

- Ongoing assessment and review of safety processes, activities and supporting programs (including those related to other Company policies, such as the Workplace Conduct and Behavior Policy) to gauge effectiveness, identify program gaps and pinpoint opportunities for continued improvement;

- Consistency of implementation and compliance with Company and regulatory requirements across the enterprise; and;

- Defined and monitored contractor qualifications and requirements for safety performance in accordance with approved contract documents, applicable laws and regulations.

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

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

Q. WHAT, IF ANY, CUSTOMER ENHANCEMENTS CAN UPPER POTTSGROVE CUSTOMERS EXPECT AS A RESULT OF THE TRANSACTION?

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

1 **Q. CAN YOU PLEASE PROVIDE ADDITIONAL DETAIL ON EACH OF THESE**
2 **CUSTOMER SERVICE ENHANCEMENTS?**
3 **A.** Yes. ***Customer Service***. Our call center is available from 7:00 a.m. to 7:00 p.m., Monday
4 through Friday. Customers can also reach a customer service representative via email at
5 infopa@amwater.com. In addition, our customers have the ability to manage their account
6 via PAWC's "My H20" online portal. Finally, PAWC offers emergency support 24 hours
7 a day, seven days a week. All of this means that we are very responsive to our customers
8 and any issues they may have and will provide the same responsive approach to Upper
9 Pottsgrove's customers once PAWC acquires the System.

10 ***Bill Payment Options.*** PAWC offers a number of bill payment options. Customers
11 have the option to receive paper bills through the mail or go paperless and receive their
12 bills electronically via the "My H20" on-line portal. Either way, customers can pay their
13 bill by mail, online, or over the phone with a debit or credit card. They can also pay by e-
14 check or an electronic funds transfer (which can be set up at the "My H20" online portal)
15 or pay in person at multiple authorized payment locations across the state. Additionally,
16 customers will transition from a wastewater quarterly billing to a monthly billing cycle.

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

wastewater system, conserving water, installing expansion tanks, obtaining Fire Department Grants, and protecting customers from utility imposters.

Customer Assistance Programs. Finally, as new PAWC customers, Upper Pottsgrove's customers will have access to PAWC's customer assistance program called the "H20 Help to Others Program." For wastewater customers, this program offers two main services: (1) grants of up to $500 per year and (2) a 15% discount on total wastewater charges. Additionally, customers who qualify for the program may also qualify to receive a water saving kit which includes, among other things, a low-flow shower head and low-flow faucet aerators.

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

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

1 **Q. PLEASE DESCRIBE PAWC'S CUSTOMER DISPUTE RESOLUTION**
2 **PROCEDURE.**
3 **A.** PAWC is governed by Chapter 14 of the Code, Responsible Utility Customer Protection
4 Act, 66 Pa. C.S. § 1401 *et seq.*, and the Commission's regulations commonly known as
5 Chapter 56, 52 Pa. Code § 56.1 *et seq.* This law and Commission regulations provide the
6 process and procedures for customer billing, collections, payment arrangements, medical
7 certifications, Protection from Abuse Orders, termination of service, reconnection of
8 service, and customer dispute resolution procedures. PAWC has a customer compliance
9 team located in the Mechanicsburg office responsible for ensuring that customer disputes
10 and complaints are resolved in compliance with the Commission's regulations.
11 Additionally, the Company has a customer advocacy team located in the Mechanicsburg
12 office responsible for addressing any customer disputes and escalated concerns.
13
14 **Q. TO THE BEST OF YOUR KNOWLEDGE, DO UPPER POTTSGROVE'S**
15 **CUSTOMERS CURRENTLY HAVE A PUBLIC OMBUDSMAN TO REPRESENT**
16 **THEIR INTERESTS?**
17 **A.** No.
18
19 **Q. DO PAWC'S CUSTOMERS HAVE A PUBLIC OMBUDSMAN TO REPRESENT**
20 **THEIR INTERESTS?**
21 **A.** Yes. The Office of Consumer Advocate ("OCA") represents residential customers of
22 public utilities; the Office of Small Business Advocate ("OSBA") represents small
23 commercial customers of public utilities; and, the Commission's Bureau of Investigation

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

CONCLUSION

Q. DO YOU BELIEVE PAWC HAS THE ABILITY TO PROVIDE SAFE, ADEQUATE, AND RELIABLE WASTEWATER SERVICE TO UPPER POTTSGROVE'S CUSTOMERS?

A. Yes.

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

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

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

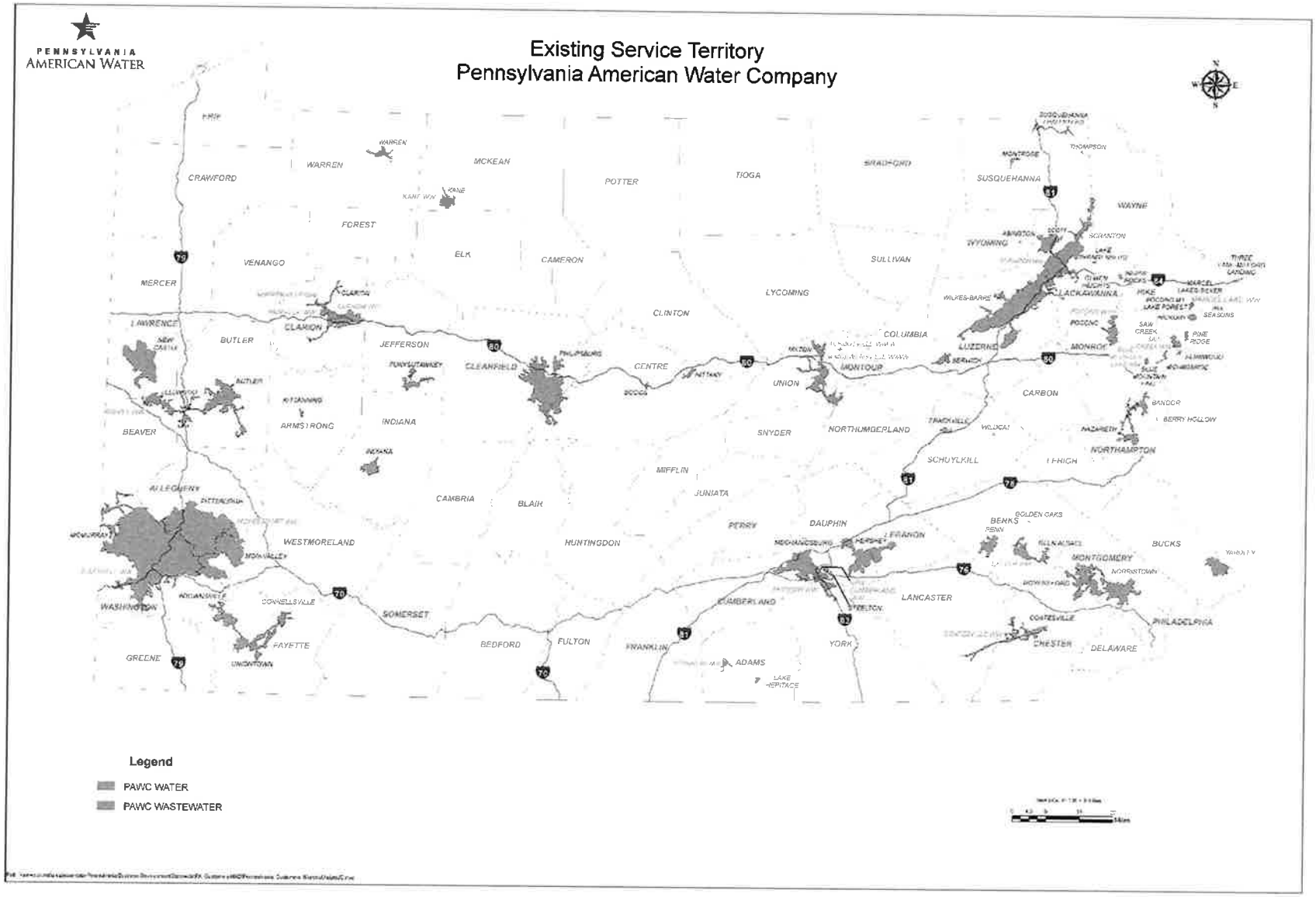
A. Yes. However, I reserve the right to supplement my testimony as additional issues and facts arise during the course of the proceeding. Thank you.

PAWC EXHIBIT
MJG-1

Upper Pottsgrove Wastewater Capital Plan

	1	2	3	4	5
Collection System					
Pump station and meter improvements	$ 75,000	$ 75,000	$ 75,000		
Safety, security, SCADA	$ 75,000	$ 75,000			
GIS survey and condition based assessment	$100,000	$ 100,000			
Flow Metering and I/I Studies	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000
Targeted Collection System Replacement (1% for first 5 years)		$ 200,000	$200,000	$200,000	$ 200,000
Act 537 projects	$500,000	$1,500,000			
Reoccurring Capital projects	$147,000	$ 67,000	$ 67,000	$ 67,000	$ 67,000
Total	$947,000	$2,067,000	$392,000	$317,000	$ 317,000
Grand Total					**$4,040,000**

PAWC EXHIBIT
MJG-2


PENNSYLVANIA
AMERICAN WATER
Existing Service Territory
Pennsylvania American Water Company
CRAWFORD
WARREN
MCKEAN
POTTER
TIOGA
BRADFORD
SUSQUEHANNA
WAYNE
FOREST
ELK
CAMERON
SULLIVAN
VENANGO
MERCER
LYCOMING
CLINTON
LAWRENCE
BUTLER
JEFFERSON
CLEARFIELD
CENTRE
COLUMBIA
LUZERNE
MONROE
CARBON
UNION
SNYDER
NORTHUMBERLAND
SCHUYLKILL
LEHIGH
NORTHAMPTON
BEAVER
ARMSTRONG
INDIANA
MIFFLIN
JUNIATA
CAMBRIA
BLAIR
PERRY
DAUPHIN
BERKS
BUCKS
MONTGOMERY
WESTMORELAND
HUNTINGDON
LEBANON
LANCASTER
WASHINGTON
SOMERSET
CUMBERLAND
YORK
PHILADELPHIA
GREENE
FAYETTE
BEDFORD
FULTON
FRANKLIN
ADAMS
CHESTER
DELAWARE
Legend
PAWC WATER
PAWC WASTEWATER

PAWC EXHIBIT
MJG-3

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
Pennsylvania-American Water Company Acquisition of Valley Township Water and Wastewater System	Docket No. A-2020-3020178 (Wastewater) Docket No. A-2020-3019859 (Water)

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: 11/18/20

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 Upper Pottsgrove's assets, properties and rights related to its wastewater collection and conveyance 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 Upper Pottsgrove Township, Montgomery County and portions of Douglass Township, Chester County, Pennsylvania.	:	Docket No. A-2020-3021460

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

Date: November 24, 2020

PAWC Statement No. 3

TABLE OF CONTENTS

DIRECT TESTIMONY OF
ROD P. NEVIRAUSKAS

INTRODUCTION

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

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

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

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

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

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION (THE "COMMISSION" OR "PUC")?

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

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

A. My testimony first addresses the financial fitness of PAWC to acquire and operate the wastewater system ("System") currently owned and operated by Upper Pottsgrove Township ("Upper Pottsgrove" or the "Township"), which PAWC has agreed to purchase ("Transaction"). Second, my testimony addresses: (a) the identification of ratemaking rate base as required in 66 Pa. C.S § 1329 for PAWC's acquisition of the System; (b) the customer notices associated with the Transaction; (c) an estimate of the range of transaction and closing costs incurred by PAWC; (d) an overview of the rate provisions contained in the Asset Purchase Agreement ("APA") for PAWC's acquisition of the System; (e) a statement regarding PAWC's intentions with respect to accrual of certain post-acquisition

improvement costs and deferral of related depreciation; and, (f) the authentication of certain Application appendices.

PAWC'S FINANCIAL FITNESS

Q. PLEASE DISCUSS PAWC'S FINANCIAL FITNESS.

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

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

A. Yes. PAWC has strong operating cash flows and net income and, therefore, a strong balance sheet. PAWC's strong operating and financial performance allows it to obtain competitive interest rates for long-term debt financing and access to equity investments from its parent company. PAWC is a financially-sound business that can financially support the acquisition of the System as well as the ongoing operating and investment commitments that will be required to operate, maintain and improve those assets in serving 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 assets is $13,750,000 and the average of the
8 appraisals of the buyer's Utility Valuation Expert ("UVE") and the seller's UVE is
9 $17,320,346. Accordingly, the negotiated purchase price of $13,750,000 is the fair market
10 value for ratemaking purposes under Section 1329 (*i.e.* the lower of the negotiated purchase
11 price and the average of the UVEs' appraisals). Similar to the Company's prior
12 acquisitions under Section 1329, the Company intends to record the transaction as utility
13 plant in service ("UPIS") and accumulated depreciation that equal, on a net basis, the
14 $13,570,000 fair market value ratemaking rate base. The UPIS of $17,868,510 and the
15 accumulated depreciation of $4,118,510 shown on **Appendix A-15-f** are calculated from
16 the AUS appraisal, scaled to equal the fair market value ratemaking rate base of
17 $13,750,000.

18 The fair market value as determined by the Section 1329 process, in addition to the
19 transaction and closing costs described below, becomes part of PAWC's rate base for
20 ratemaking purposes. Note, however, that PAWC reserves its right in future proceedings
21 to make rate base claims related to the acquisition as may otherwise be permitted under the
22 Pennsylvania Public Utility Code ("Code").

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

2 A. The System's customers will be served by a large, financially sound company that has the
3 capability to finance necessary capital additions. PAWC is fit to provide safe and adequate
4 service to the Township's customers. Given its size, access to capital and its recognized
5 strengths in system planning, capital budgeting and construction management, PAWC is
6 well-positioned from a financial, managerial and technical perspective to ensure that high
7 quality wastewater service meeting all federal and state requirements is provided to the
8 Township's customers and maintained for PAWC's existing customers. As discussed in
9 the testimony of PAWC witness Michael J. Guntrum, PAWC's Senior Project Engineer,
10 PAWC Statement No. 2, PAWC plans improvements in the service to the Township's
11 wastewater customers over the next five years. Furthermore, the acquisition furthers the
12 Commission's goals of consolidation and regionalization of wastewater systems within the
13 Commonwealth.

14 The ratemaking rate base of the Transaction equates to an average of approximately
15 $9,502 per customer.[1] This average rate base per customer is similar to the average per-
16 customer ratemaking rate base approved by the Commission in other recent Section 1329
17 applications, including PAWC's recently approved acquisition of the wastewater system
18 assets of the Borough of Kane Authority, at $8,697 per customer,[2] the acquisition of the
19 water system assets of the Steelton Borough Authority at $8,293 per customer, [3] and the

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[1] $13,750,000 purchase price / 1,447 customers = $9,502.
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.

[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.

acquisition of the wastewater assets of Sadsbury Township at $8,317 per customer.[4] The Commission approved the Kane acquisition on June 18, 2020, the Steelton acquisition on October 3, 2019, and the Sadsbury acquisition on October 25, 2018, finding the Settlements of the application proceedings to be in the public interest.

Q. WHAT IMPACT, IF ANY, WILL THERE BE ON THE RATES OF THE TOWNSHIP'S CUSTOMERS AS A RESULT OF THE ACQUISITION OF THE SYSTEM?

A. There is no immediate impact on the rates of the Township's customers because PAWC has committed to adopt, upon closing of the Transaction, the Township's rates in effect at the time of closing. As discussed in more detail below, the Asset Purchase Agreement provides that a rate ordinance decreasing the current rates will be adopted by the Township prior to closing. The rates to be adopted in that ordinance are reflected in the proposed tariff. PAWC expects to propose to move the Township's rates toward consolidated rates in future base rate cases. Subject to Commission approval, PAWC anticipates allocating a portion of its wastewater revenue requirement to the combined water and wastewater customer base, as permitted by 66 Pa. C.S. § 1311(c). As PAWC customers, the cost of service to Township customers can be allocated among a larger group of customers, thereby mitigating the per-customer impact of capital improvements and increases in operating costs.

[4] Docket No. A-2018-3002437, Opinion and Order entered October 25, 2018. $8,300,000 ratemaking rate base approved (Recommended Decision p. 13) / 998 customers (p. 6) = average rate base of $8,317 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 wastewater system in PAWC's future base rate filings. Any
6 impacts on the rates of PAWC's existing customers would occur only upon Commission
7 approval as part of a base rate proceeding. A non-binding estimate of possible rate impacts
8 for existing customers is shown in **Appendix A-18-d** and discussed in the Customer Notice
9 section below. The Township's customers, as part of PAWC's overall customer base, will
10 become part of PAWC's overall cost allocation. Nothing contained in the APA would bind
11 the Commission or other interested parties in future ratemaking proceedings.
12
13 **Q. DO YOU ANTICIPATE THE TRANSACTION HARMING PAWC'S FINANCIAL**
14 **STATUS IN ANY MANNER?**
15 **A.** No, not at all. PAWC does not anticipate that the acquisition of the System will have a
16 negative impact on PAWC's cash flows, credit ratings or access to capital and, therefore,
17 will not deteriorate in any manner PAWC's ability to continue to provide safe, adequate,
18 and reasonable service to its existing customers at just and reasonable rates.
19
20 **CUSTOMER NOTICE**
21 **Q. IS PAWC PROVIDING NOTICE TO CUSTOMERS OF THE ACQUISITION?**
22 **A.** Yes. PAWC is providing notice of the acquisition to existing PAWC water and wastewater
23 customers as well as to the Township's wastewater customers. The notices to PAWC

customers and Township wastewater customers are attached to the application as **Appendix A-18-d**. These notices contain a non-binding estimate of the potential rate impact of the acquisition.

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

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

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

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

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

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

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

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

Upper Pottsgrove 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	$65.00	$92.37	42.1%
Commercial	22,000 gal/month	$65.00	$92.37	42.1%
Industrial	476,000 gal/month	$65.00	$92.37	42.1%

The 42.1% increase shown in the chart above is calculated as 100% of the revenue deficiency after the Act 11 allocation to water customers,[5] divided by the Year One revenues of the System. The current average monthly bill is calculated using the Township's existing wastewater rates, which will be adopted by PAWC at closing.[6] The potential average monthly bill after acquisition is calculated by increasing the current average monthly bill amounts by the 42.1% 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** for the calculation of the customer notice.

[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] As discussed in the APA Rate Provisions section below, PAWC intends to bill customers on a monthly basis, and the Township's existing quarterly rates are prorated for purposes of calculating monthly billing. The Township's existing rates are shown in **Appendix 18-a**.

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	$66.23	2.0%
Commercial	22,000 gal/month	$280.22	$285.82	2.0%
Industrial	476,000 gal/month	$5,547.08	$5,658.02	2.0%

The 2.0% 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 last base rate case, as well as the Year One revenues from the System ($1,285,000 as shown on **Appendix K**). This methodology was used to comply with the Settlement at Docket No. A-2019-3006880 (Exhibit G). Please refer to **PAWC Exhibit RPN-1** for the calculation of the customer notice.

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

A. As shown in **Appendix A-18-d**, the notice to PAWC's existing water customers shows the 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%

The 0.1% increase shown in the chart above represents the potential impact on PAWC water customers of the Act 11 allocation to water customers. This allocation to water customers is divided by PAWC's applicable water revenues, which were $667,585,862 in PAWC's most recent base rate case.[7]

The current average monthly bill is shown at PAWC's current Zone 1 rates and the average usage for each customer class as reflected in the filing of PAWC's most recent base rate case (Docket No. R-2017-2595853). The average monthly bill for PAWC Zone 1 customers after acquisition is calculated by increasing the current average monthly bill amounts by the 0.1% increase, which was calculated as explained above. This methodology was used to comply with the Settlement at Docket No. A-2019-3006880 (Exhibit G). Please refer to **PAWC Exhibit RPN-1** for the calculation of the customer notice.

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

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

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

TRANSACTION AND CLOSING COSTS

Q. PLEASE DESCRIBE THE ESTIMATED TRANSACTION AND CLOSING COSTS FOR THE TRANSACTION.

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

As a practical matter, the exact extent of such costs cannot be known at the time of filing the Application and will not be finally known until after closing of the Transaction. The costs depend on a number of variables, including whether this Application is settled or fully-litigated, and whether this Application is consolidated with PAWC's Application to acquire Valley's water system. PAWC will track such costs and incorporate them into rate base in a future base rate proceeding as appropriate. Nevertheless, attached to the Application as **Appendix A-10** is PAWC's estimate of the anticipated range of transaction and closing costs (approximately $553,000 to $763,000).

Q. PLEASE DISCUSS THE PROVISION OF THE APA REGARDING TRANSACTION AND CLOSING COSTS FOR THE TOWNSHIP.

A. Section 3.01 of the APA provides that the Company would pay a deposit of $90,000 to be used for the Township's engineering and legal fees related to the Transaction. This amount will be deducted from the purchase price. As the deposit does not change the total purchase price, it has no ratemaking impact.

APA RATE PROVISIONS

Q. PLEASE PROVIDE AN OVERVIEW OF THE RATE PROVISIONS OF THE APA.

A. Section 7.03 of the APA, dated as of April 28, 2020, contains provisions related to rates. PAWC has committed to adopt, upon closing of the Transaction, the Township's metered and unmetered rates then in effect at the time of closing.

The initial rates to be applicable to the former Township wastewater customers are set forth in the *pro forma* tariff supplement attached as **Appendix A-12** to the Application. System customers will be governed by rates for new Upper Pottsgrove Rate Zone "XX." After PAWC closes on the Transaction, System customers will be subject to PAWC's prevailing wastewater tariff on file with the Commission with respect to all rates other than the customer charge and consumption charge, including capacity reservation fees, reconnection fees and the like, as well as non-rate related terms and conditions of service.

The Township's customers are currently billed quarterly. The Company intends to bill customers on a monthly basis, and the Township's then-existing rates will be prorated for purposes of calculating monthly billing.

PAWC will charge a capacity reservation fee of $4,000 per new equivalent dwelling unit for the allocation of treatment, pumping, and transmission, truck and interceptor main capacity, commencing with the date of Closing. No capacity fee will be charged for any applicant for wastewater service that meets the criteria of a Bona Fide Service Applicant, as defined in 52 Pa. Code § 65.1 (excluding clause (iii) of that definition) if "wastewater" were substituted for "water."

Q. SECTION 7.03 OF THE APA INDICATES THAT THE TOWNSHIP WILL CHANGE ITS BASE RATES PRIOR TO CLOSING. PLEASE DISCUSS THIS PROVISION.

A. Section 7.03 of the APA provides that the Township will adopt the rates shown in Schedule 7.03 of the APA at least 60 days prior to closing. The base rate reflected on Schedule 7.03(a) is a flat quarterly rate per EDU of $195, which is a decrease of $20 per quarter from the Township's current flat quarterly rate. Section 1329(d)(v) of the Public Utility Code provides that the acquisition filing shall include "[a] tariff containing a rate equal to the existing rates of the selling utility at the time of the acquisition." The rates shown in the APA are the rates that will be in effect at the time of acquisition. As such, the rate shown in Schedule 7.03 of the APA is the rate that was used to develop the tariff supplement that is provided as **Appendix A-12**. As stated above, the Company intends to bill customers on a monthly basis, so the $195 quarterly rate is converted to a monthly rate of $65 ($195 / 3) in the proposed tariff supplement.

Q. SCHEDULE 7.03 OF THE APA LISTS TWO CUSTOMERS WHO ARE BILLED BASED ON METERED WATER USAGE. PLEASE DISCUSS THIS PROVISION.

1 **A.** The Township has a special rate available for non-residential customers that meet certain
2 criteria and request to be billed on the basis of metered water consumption. Although the
3 APA lists two customers who are billed in this manner, the Company has learned that there
4 are currently six Township customers who are billed at the special rate. The special billing
5 is calculated by basing a portion of the customer's bill on the number of EDUs allocated
6 to the customer, and a portion of the metered water usage. The calculation for the billing
7 methodology is shown in the proposed tariff supplement. The Company will adopt the
8 special billing methodology.

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

11 **A.** The APA does not set forth or require a "rate stabilization plan" as defined by Section
12 1329(g). Therefore, PAWC is not required under the *Final Implementation Order* at
13 Docket No. M-2016-2543193 to provide testimony, schedules, and work papers in support
14 of a rate stabilization plan.

15 Section 1329(g) defines a "rate stabilization plan" as "[a] plan that will hold rates
16 constant or phase rates in over a period of time after the next base rate case." As detailed
17 in Section 7.03 of the APA, PAWC will be charging the Township's current rates (but not
18 other charges) as the Company's base rates within the service territory. Base rates for the
19 Township's customers will be addressed and adjusted, as appropriate and without any form
20 of contractual restriction, in PAWC's first base rate case in which the System is included.
21 Interested parties will have an opportunity to participate in that rate case and address issues,
22 including cost allocation, as appropriate.

1 PAWC was careful in negotiating the APA to respect the statutory authority of the
2 Commission to set just and reasonable rates.
3 In its pending base rate case, PAWC has asked the Commission to approve tariff
4 provisions allowing for a Regionalization and Consolidation Surcharge ("RCS").[8] The
5 RCS would reduce regulatory lag in the recovery of the capital investment being made by
6 PAWC in order to regionalize and consolidate its system through acquisitions. This
7 regulatory lag results from PAWC's adoption of the rates being charged by the selling
8 municipality at the time of the acquisition pursuant to the requirements of Section 1329 --
9 which, in some instances, are substantially below the costs of providing service to the
10 customers of the acquired system. The proposed RCS would allow PAWC to recover the
11 revenue requirement shortfall resulting from the acquisition in a more-timely manner. The
12 System, however, is not included in PAWC's pending base rate case and, because of
13 Section 1329's requirement to adopt existing rates for acquired customers, the RCS would
14 not apply to System customers under the proposed tariff provisions.
15 Exclusion of Township customers from the RCS does not make Section 703(a) of
16 the APA a rate stabilization plan because, as discussed above, approval is not being
17 requested in this proceeding. *See Application of Aqua Pennsylvania Wastewater, Inc.*
18 *Pursuant to Sections 1102 and 1329 of the Public Utility Code for Approval of its*
19 *Acquisition of the Wastewater System Assets of New Garden Township and the New*
20 *Garden Township Sewer Authority*, Docket No. A-2016-2580061 (Opinion and Order
21 entered June 29, 2017), *reversed on other grounds, McCloskey v. Pa. PUC, 195 A.2d 1055*

[8] As part of a settlement reached with the Commission's Bureau of Investigation and Enforcement ("I&E"), the Company has agreed to withdraw the proposed RCS. However, the Company has requested that, if the Commission does not approve the settlement, the RCS be approved.

(Pa. Cmwlth. 2018), (*"Aqua/New Garden"*). If approved in PAWC's pending base rate case, the RCS would be a tariff provision with the force and effect of law – not a rate stabilization plan. Under Section 1329, PAWC must adopt the existing base rates of the acquired customers – with the specific exclusion of the DSIC (as discussed below). System customers would be exempt from the RCS until the next base rate case because of the mandates of Section 1329 and the Commission-approved tariff adopting the RCS; not as the result of any contractual obligation between PAWC and the Township under the APA.

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

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

POST-ACQUISITION IMPROVEMENT COSTS

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

A. I am advised by counsel that Section 1329(f) allows "an acquiring public utility's post acquisition improvements that are not included in a distribution system improvement

charge [to] accrue allowance for funds used during construction ["AFUDC"] after the date the cost was incurred until the asset has been in service for a period of four years or until the asset is included in the acquiring public utility's next base rate case, whichever is earlier." Section 1329(f) also provides that "[d]epreciation on an acquiring public utility's post acquisition improvements that have not been included in the calculation of a distribution system improvement charge shall be deferred for book and ratemaking purposes."

Q. DOES PAWC INTEND TO ACCRUE AFUDC FOR POST-ACQUISITION IMPROVEMENTS?

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

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

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

AUTHENTICATION OF APPLICATION APPENDICES

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

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

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

A. **Appendix A-10** is the Company's estimate of the anticipated range of transaction and closing costs. The *pro forma* tariff supplement is attached as **Appendix A-12** to the Application. In addition, based on financial statements provided by the Township and on PAWC's audited financial statements, the following appendices were prepared: **Appendix C** (balance sheet of the Township as of December 31, 2019), **Appendix D** (audited balance sheet of PAWC as of December 31, 2019), **Appendix E** (income statement of the Township for the 12 months ended December 31, 2019), **Appendix F** (audited income statement of PAWC for the 12 months ended December 31, 2019), **Appendix G** (*pro forma* balance sheet of PAWC, giving effect to the transfer), **Appendix H** (*pro forma* consolidated income statement of PAWC and the Township for 12 months) and **Appendix K** (estimated annual revenues and expenses).

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

1 **A.** I reviewed the financial information of PAWC, to which I have direct access, and I
2 reviewed the financial and rate information provided by the Township, to which I received
3 access through the Transaction due diligence process.
4
5 **Q. ARE APPENDICES A-10, A-12, APPENDICES C THROUGH H, AND APPENDIX**
6 **K TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE,**
7 **INFORMATION, AND BELIEF?**
8 **A.** Yes.
9
10 **CONCLUSION**
11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**
12 **A.** Yes. However, I reserve the right to supplement my testimony as additional issues and
13 facts arise during the course of the proceeding. Thank you.

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Upper Pottsgrove Township
Docket No. A-2020-3021460

Upper Pottsgrove Township Wastewater Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at Upper Pottsgrove Township Rates at Closing	Potential Average Monthly Bill	Potential Increase		
Residential	3,630 gal/month	$65.00	$92.37	$27.37	or	42.1%
Commercial	22,000 gal/month	$65.00	$92.37	$27.37	or	42.1%
Industrial	476,000 gal/month	$65.00	$92.37	$27.37	or	42.1%

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 Acquistion	Potential Increase		
Residential	3,630 gal/month	$64.93	$66.23	$1.30	or	2.0%
Commercial	22,000 gal/month	$280.22	$285.82	$5.60	or	2.0%
Industrial	476,000 gal/month	$5,547.08	$5,658.02	$110.94	or	2.0%

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 Acquistion	Potential Increase		
Residential	3,630 gal/month	$60.85	$60.91	$0.06	or	0.1%
Commercial	22,000 gal/month	$291.80	$292.09	$0.29	or	0.1%
Industrial	476,000 gal/month	$4,530.44	$4,534.97	$4.53	or	0.1%

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Upper Pottsgrove Township
Docket No. A-2020-3021460

Upper Pottsgrove Township Wastewater

Residential		
	Minimum Charge	$65.00
36.30	0.0000	0.00
		$65.00

Rate Impact	42.1%
	$27.37
Total	$92.37

PAWC - Wastewater

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

Rate Impact	2.0%
	$1.30
Total	$66.23

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	$65.00
220.00	0.0000	0.00
		$65.00

Rate Impact	42.1%
	$27.37
Total	$92.37

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

Rate Impact	2.0%
	$5.60
Total	$285.82

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	$65.00
4,760.00	0.0000	0.00
		$65.00

Rate Impact	42.1%
	$27.37
Total	$92.37

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

Rate Impact	2.0%
	$110.94
Total	$5,658.02

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

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Upper Pottsgrove Township
Docket No. A-2020-3021460

Estimated Rate Increase

Revenue Requirement Increase (Attachment page 2)	$	1,002,000
Act 11 Percentage (R-2017-2595853 Proof of Revenues)		46%
Amount of increase allocated to water through Act 11		460,920
Amount of increase allocated to wastewater customers	$	541,080

Increase applied to Upper Pottsgrove Township Wastewater Customers		
Revenue Requirement Increase - After Act 11	$	541,080
Current Upper Pottsgrove Township Wastewater revenues		1,285,000
Estimated Increase to wastewater customers		**42.1%**

Amount of increase allocated to wastewater customers and applied to the combined revenues of all PAWC wastewater customers and acquired customers:		
Revenue Requirement Increase	$	541,080
Current Upper Pottsgrove Township Wastewater revenues		1,285,000
PAWC wastewater customers-excl. Scranton rev. (R-2017-2595853 Proof of Revenues excl. OWR)		26,162,360
		27,447,360
Estimated Increase to wastewater customers		**2.0%**

Amount of increase allocated to water customers:		
Revenue Requirement Increase	$	460,920
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)	47%	(4,700,000)	46%	$ -
Additional Annual Operating Revenue	56,281,090	2,907,300	55%	2,660,893	53%	5,568,193	54%	61,849,283

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Upper Pottsgrove Township
Docket No. A-2020-3021460

Revenue Requirement Increase

Rate Base	$	13,750,000	Appendix A-11
Rate of Return %		7.12%	See Calculations
Rate of Return		979,000	
O&M		697,000	Appendix K
Taxes Other		34,000	Appendix K
Depreciation		338,000	Appendix K
Taxes		239,000	See Calculations
Revenue Requirement		2,287,000	
Upper Pottsgrove Township Wastewater Year-1 Revenues		1,285,000	Appendix K
Revenue Requirement Increase		1,002,000	

Pennsylvania American Water Company
Acquisition of Wastewater Assets of the Upper Pottsgrove Township
Docket No. A-2020-3021460

Summary

Revenue Requirement		
Rate Base	$	13,750,000
Pretax ROR %		8.86%
Pretax ROR		1,218,000
Plus: O&M Expense		697,000
Taxes Other		34,000
Depreciation		338,000
Total Revenue Requirement		2,287,000

Income Tax Calculation		
Revenues	$	2,287,000
Less: O&M Expense		697,000
Taxes Other		34,000
Depreciation		338,000
Interest		391,000
SIT Taxable Income		827,000
State Income Tax Rate		9.99%
State Income Tax		83,000
FIT Taxable Income		744,000
Federal Income Tax Rate		21.00%
Federal Income Tax		156,000
Total Income Taxes		239,000

Interest		
Rate Base	$	13,750,000
Weighted Cost of Debt (1.85% + 0.99%)		2.84%
	$	391,000

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.

Revenue 'Multiplier	
Statutory State Tax Rate	0.0999
Statutory Federal Tax Rate	0.21
1- State Tax Rate	0.9001
Fed Rate Times (1-State Tax Rate)	0.189021
Effective Tax Rate	0.288921
1-Eff Tax Rate	0.711079
Reciprocal	1.40631

VERIFICATION

I Rod P. Nevirauskas hereby state that the facts above set forth above are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements made herein are made subject to the penalties of 18 Pa. Cons. Stat. §4904 relating to unsworn falsification to authorities.

Rod P. Nevirauskas, Sr. Director Rates and Regulation
Pennsylvania-American Water Company

Dated: 11/20/20