


COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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December 23, 2020

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Application of Pennsylvania-American
Water Company Pursuant to Sections
507, 1102, and 1329 of the Public
Utility Code for Approval of its
Acquisition of the Valley Township
Wastewater Treatment and Distribution
System
Docket No. A-2020-3020178 (WW)

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Protest and Public Statement in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

/s/ Santo G. Spataro
Santo G. Spataro
Assistant Consumer Advocate
PA Attorney I.D. # 327494
E-Mail: SSpataro@paoca.org

Enclosures:

cc: Office of Administrative Law Judge (**email only**)
Office of Special Assistants (**email only**: ra-OSA@pa.gov)
Bureau of Technical Utility Services (**email only**)
Certificate of Service

*301343

CERTIFICATE OF SERVICE

Re: Application of Pennsylvania-American :
Water Company Pursuant to Sections :
507, 1102, and 1329 of the Public : Docket No. A-2020-3020178 (WW)
Utility Code for Approval of its :
Acquisition of the Valley Township :
Wastewater Treatment and Distribution :
System :

I hereby certify that I have this day served a true copy of the following document, the Office of Consumer Advocate's Protest and Public Statement, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 23rd day of December 2020.

SERVICE BY E-MAIL ONLY

Erika L. McLain, Esquire
John M. Coogan, Esquire
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/s/ Santo G. Spataro
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Dated: December 23, 2020
*301341

Harrison W. Breitman
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PA Attorney I.D. # 320580
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

In re: Application of Pennsylvania-American :
Wastewater Company Pursuant to Sections :
507, 1102, and 1329 of the Public Utility :
Code for Approval of its Acquisition of the : Docket No. A-2020-3020178
Valley Township Wastewater Treatment and :
Distribution System. :

PROTEST OF THE
OFFICE OF CONSUMER ADVOCATE

The Office of Consumer Advocate (OCA) files this Protest in the above-captioned Application pursuant to the provisions of the Rules of Practice and Procedure of the Pennsylvania Public Utility Commission (PUC or Commission), 52 Pa. Code §§5.51-5.53, and Chapter 11 and Section 1329 of the Public Utility Code, 66 Pa. C.S. § 1101, *et seq.* and 66 Pa. C.S. § 1329. Through this Application, filed on October 9, 2020, Pennsylvania-American Water Company (PAWC or Company) seeks Commission approval for the acquisition of the wastewater collection system (System) of Valley Township (Valley or Township), and the right of PAWC to begin to offer, render, furnish and supply wastewater service in the areas served by the Township in the requested territory. Application at ¶ 1. PAWC also seeks approval of the ratemaking rate base of the assets as determined under Section 1329 of the Public Utility Code. Application at ¶ 2. In addition, PAWC requests the approval of the Asset Purchase Agreement (APA) with the Township pursuant to Section 507 of the Public Utility Code. Application at ¶ 3. Valley furnishes wastewater service to approximately 3,125 customers including, 2,982 residential, 128 commercial, and 12 industrial and 3 other customer connections. Application at ¶ 8; Appendix A-17-a. The system supplies wastewater service in the areas served by Valley in

Valley Township and in a portion of East Fallowfield Township, Sadsbury Township, and West Caln Township, Chester County Pennsylvania. Application at ¶ 1. The OCA files this Protest in order to ensure that the application is approved only if (1) it is found to be in the public interest; (2) it provides substantial, affirmative benefits to the public, and (3) it is in accordance with the Public Utility Code and applicable Commission rules and regulations.

Specifically, the OCA avers as follows:

1. The Protestant is Tanya J. McCloskey, Acting Consumer Advocate, 555 Walnut Street, 5th Floor, Forum Place, Harrisburg, PA 17101-1923. Protestant's attorney for the purpose of receiving service of all documents in this proceeding is Christine Maloni Hoover, Senior Assistant Consumer Advocate.

2. The OCA is authorized by law to represent the interests of utility ratepayers in all proceedings before the Commission. 71 P.S. §§ 309-1, *et seq.* This Protest is filed by the OCA to ensure that the interests of PAWC's existing and acquired customers are protected.

3. Section 1102 of the Public Utility Code requires that the Commission issue a Certificate of Public Convenience as a legal prerequisite to an entity offering service, abandoning service, and certain property transfers by public utilities or their affiliated interests. 66 Pa. C.S. §1102(a)(1)-(3).

4. The Code further requires that a certificate shall only be granted upon findings that the granting of such certificate is "necessary or proper for the service, accommodation, convenience or safety of the public." 66 Pa. C.S. § 1103(a). See City of York v. Pa. P.U.C., 449 Pa. 136, 141, 295 A.2d 825, 828 (1973); see also Popowsky v. Pa. P.U.C., 594 Pa. 583; 937 A.2d 1040 (2007).

5. Section 1103 explicitly allows the Commission to impose conditions upon the issuance of a Certificate of Public Convenience. 66 Pa. C.S. § 1103(a). Section 1103(a) of the

Code provides: “The Commission, in granting such a certificate, may impose such conditions as it may deem to be just and reasonable.” The OCA submits that the Commission may wish to consider the imposition of conditions in order to ensure that the public interest standard is met.

6. Section 1329 of the Public Utility Code, *inter alia*, enables a public utility to use fair market valuation to determine whether the fair market valuation or the purchase price, whichever is less, will be reflected in rate base. 66 Pa. C.S. § 1329(c)(2). This recently added provision is an alternative to the use of original cost, less depreciation for ratemaking purposes, when a public utility acquires municipal water and wastewater assets. PAWC proposes to pay a purchase price of \$13,950,000, for the wastewater system. PAWC St. No. 1 WW at 9. The original cost of the assets, as determined by the engineer’s report, is \$13,389,110, and the original cost less depreciation is \$9,214,738. Appendix A-5.1.

7. An increase in rates involves a substantial property right and ratepayers are entitled to notice and opportunity to be heard regarding a Commission administrative proceeding in which a decision is made regarding rates under the 14th Amendment of the United States Constitution (U.S. Const. amend. XIV, § 1), 52 Pa. Code Section 53.45(b)(1-4) and the order entered in McCloskey v. Pa. P.U.C., 1624 CD 2017 (Oct. 11, 2018), as well as the Commission’s Final Supplemental Implementation Order entered on February 8, 2019 at Docket No. M-2016-2543193. The OCA requests that a public input hearing be scheduled with notice to PAWC’s existing customers and to Valley’ existing customers. Moreover, the OCA requests that a public input hearing be held no later than approximately four weeks after the issuance of the Secretarial Letter indicating final acceptance. Expediting the scheduling of the public input hearing will ensure that both the existing and acquired customers have a reasonable opportunity to be heard.

8. The Township’s Utility Valuation Expert (UVE) appraisal conducted by Gannett Fleming Valuation and Rate Consultants, LLC (Gannett Fleming) indicated a fair market value

of \$19,846,000. PAWC St. No. 2 WW at 26; Appendix A-5.2. PAWC's UVE appraisal conducted by AUS Consultants, Inc. (AUS Consultants) indicated a fair market value of \$19,081,000. PAWC St. No. 4 WW at 3; Appendix A-5.1. The average of the fair market value appraisals of the buyer's UVE and the seller's UVE is \$19,463,530. PAWC St. No 1 WW at 9; Appendix A-11. As the purchase price of \$13,950,000 is lower, PAWC requests approval to include \$13,950,000 in its ratemaking rate base. Appendix A-11. The valuation experts were paid \$30,000 to date for Gannett Fleming and approximately \$25,200 for AUS Consultants for the appraisals. PAWC St. 2 WW at 8; PAWC St. No 4 WW at 2. PAWC estimates that it will incur transaction and closing costs of approximately \$534,000 to \$749,000. Appendix A-10.

9. PAWC and Valley agreed that PAWC will initially adopt Valley's rates in effect at the time of closing of the Transaction.. Application at ¶ 13.

10. Copies of the notices that will be sent to customers of PAWC and to customers of Valley describing the filing and the anticipated effect on rates were provided in the Application. See Appendix-18-d.

11. PAWC claims that the rate commitments discussed in the APA do not fall within the definition of "rate stabilization plan" as defined by 66 Pa. C.S. Section 1329 because Valley is not included in PAWC's currently pending base rate case, there is no contractual restriction, and the Company does not anticipate that rates for existing Valley customers will be held constant after the next base rate case. See Application at ¶ 13, note 3; see also PAWC St. No. 3 WW at 17. As such, base rates for the Valley customers may be adjusted in PAWC's first base rate case which includes the Township's system. See PAWC St. No. 3 WW at 17.

12. Preliminarily, the OCA has identified the following areas that require further consideration by the Commission and must be resolved prior to Commission approval of this application pursuant to Chapter 11 and Section 1329 of the Public Utility Code.

a. The OCA will investigate the data and information provided in support of each valuation. Moreover, the OCA will investigate the information in addition to the valuation information provided with the Application that may be required to determine whether PAWC's ratemaking proposals are reasonable.

b. Regarding the acquired service territory, the OCA will examine the proposed rates and tariffs to determine if they are just, reasonable and in accord with the Public Utility Code. In the customer notices attached to its Application, PAWC estimates the potential, incremental impact of the Valley acquisition on the rates established after its next base rate case, if the acquisition is approved. See Appendix A-18-d. As presented on PAWC's notices to Valley customers, PAWC estimates an across the board increase of 24.6% to the acquired Valley wastewater customers. Id. As presented on PAWC's notice to its current water and wastewater customers, PAWC estimates that residential wastewater customer rates will increase of by 2.3%, or \$1.49 per month, for average usage of 3,630 gallons per month. Id. Additionally, PAWC estimates an across the board increase of 103% to the acquired Valley water customers. Id. As presented on PAWC's notice to its current water customers, PAWC estimates that residential water customer rates will increase by 0.1%, or \$0.06 per month, for average usage of 3,630 gallons per month. Id. The impact that the costs will have on the rates of existing and acquired customers must be determined to assess the benefits and detriments of the acquisition.¹

13. The OCA submits that additional information is necessary to determine if the proposed rates and PAWC's request for an approved ratemaking rate base of \$13,950,000 for Valley's System are reasonable. The OCA reserves the right to raise additional issues as the case

¹Moreover, the rate impact estimates contained in PAWC's and Valley's notices are based on the revenue and allocations approved in PAWC's last rate case and, as such, do not reflect any revenue increases or changes to allocations that may be approved as a result of PAWC's pending request to increase water and wastewater rates.

proceeds and further information is obtained from the Applicant.

14. The OCA submits that additional information is necessary to determine how the transaction will substantially and affirmatively benefit PAWC's existing customers and the acquired customers.

WHEREFORE, the Office of Consumer Advocate respectfully requests that the Pennsylvania Public Utility Commission not approve this Application at this time due to the issues raised above and the need for additional information. The Office of Consumer Advocate further requests that the Pennsylvania Public Utility Commission investigate and hold full hearings, including a public input hearing for the buyer and seller's customers, held approximately four weeks after the Commission issues a Secretarial Letter indicating final acceptance of the Application.

Respectfully submitted,

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Dated: December 23, 2020
*298397

PUBLIC STATEMENT OF THE
OFFICE OF CONSUMER ADVOCATE
PURSUANT TO 71 P.S. SECTION 309-4(e)

Act 161 of the Pennsylvania General Assembly, 71 P.S. § 309-2, as enacted July 9, 1976, authorizes the Consumer Advocate to represent the interests of consumers before the Pennsylvania Public Utility Commission (Commission). In accordance with Act 161, and for the following reasons, the Acting Consumer Advocate determined to file a Protest and participate in proceedings before the Commission involving the proposed acquisition by Pennsylvania-American Water Company (PAWC or Company) of Valley Township's (Valley or Township) water and wastewater assets.

The objective of the Acting Consumer Advocate in filing a Protest in this matter is to protect the interests of PAWC's current customers and the acquired Township's customers. The Acting Consumer Advocate will endeavor to prevent ratepayers from paying costs that are unreasonable or unduly discriminatory, or otherwise violative of the Public Utility Code. The Acting Consumer Advocate will ensure that the ratepayers receive proper notice in accordance with the Public Utility Code and public policy. The Acting Consumer Advocate will investigate the proposed acquisition to determine if there are substantial affirmative public benefits and request the Public Utility Commission order all necessary and proper customer protections which are justified, reasonable, and in accordance with sound ratemaking principles.

PAWC is a regulated public utility company, and furnishes wastewater service to approximately 75,087 customer accounts in Pennsylvania. Valley furnishes wastewater service to approximately 3,125 customer connections. Valley's system supplies wastewater service in the areas served by Valley in Valley Township and in a portion of East Fallowfield Township, Sadsbury Township, and West Caln Township, Chester County Pennsylvania.