



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH KEYSTONE BUILDING
400 NORTH STREET, HARRISBURG, PA 17120

BUREAU OF
INVESTIGATION
&
ENFORCEMENT

February 10, 2021

Via Electronic Filing

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 Wastewater System Assets of Royersford Borough
Docket No.: A-2020-3019634
I&E Pre-Served Testimony and Exhibits

Dear Secretary Chiavetta:

Per ALJ Guhl's February 5, 2021 Interim Order, enclosed for electronic filing please find the following: **one copy of ALJ Guhl's February 5, 2021 Interim Order and the Pre-Served Testimony and Exhibits** of the Bureau of Investigation & Enforcement's (I&E) witnesses in the above captioned proceeding:

D. C. Patel: I&E Statement No. 1
I&E Exhibit No. 1
I&E Statement No. 1-SR
Signed Verification

Ethan H. Cline: I&E Statement No. 2
I&E Statement No. 2-SR
Signed Verification

Copies of this letter are being served on parties of record per the attached Certificate of Service. *Due to the temporary closing of the PUC's offices, I&E is only providing electronic service.* Should you have any questions, please do not hesitate to contact ermclain@pa.gov and jcoogan@pa.gov.

Sincerely,

Erika L. McLain
Prosecutor
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PA Attorney ID No. 320526

ELM/ac
Enclosures

cc: Honorable Marta Guhl (*Cover Letter and Certificate of Service only*)
Pamela McNeal, Legal Assistant (*Cover Letter and Certificate of Service only*)
Per Certificate of Service (*Cover Letter and Certificate of Service only*)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Application of Pennsylvania-American Water :
Company Pursuant to Sections 507, 1102 and :
1329 of the Public Utility Code for Approval : Docket No.: A-2020-3019634
of its Acquisition of the Wastewater System :
Assets of Royersford Borough :

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Pre-Served Testimony and Exhibits**
dated February 10, 2021, in the manner and upon the persons listed below:

Served via Electronic Mail Only

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Application of Pennsylvania-American Water :
Company-Wastewater Division under Section 1329 :
of the Pennsylvania Public Utility Code, 66 Pa. C.S.: A-2020-3019634
§ 1329, for the Acquisition of Royersford :
Borough's Wastewater System Assets :

**INTERIM ORDER
GRANTING JOINT STIPULATION
FOR ADMISSION OF EVIDENCE**

Via electronic service only due to Emergency Order at M-2020-3019262

On January 29, 2021, Pennsylvania American Water Company (PAWC), the Office of Consumer Advocate (OCA), the Bureau of Investigation and Enforcement (I&E), The Office of Small Business Advocate (OSBA) and Royersford Borough (Royersford), all parties in the above-captioned proceeding (hereinafter collectively referred to as the "Stipulating Parties"), filed a "Joint Stipulation for Admission of Evidence" (Stipulation) in the above-captioned proceeding. Each of the Stipulating Parties stipulated to the authenticity of the filings, statements, and exhibits listed in the Stipulation and requested that they be admitted into the record of this proceeding on the terms and conditions set forth in the Stipulation. The Stipulation is attached to this Order.

As this request is reasonable, it will be granted.

THEREFORE,

IT IS ORDERED:

1. That the Stipulation, filed on January 29, 2021, and the filings, statements, and exhibits, as well as verifications, listed therein are admitted into the record of this proceeding

on the terms and conditions set forth in the Stipulation; and

2. That one electronic copy of each filing, statement and exhibit listed in the Stipulation, together with accompanying verifications and a copy of this Order, be filed with the Secretary's Bureau of the Commission, within 30 days of the date of this Order, unless previously filed; and,

3. That all filings designated as "Confidential" be placed in non-public folders by the Secretary's Bureau of the Commission.

Date: February 5, 2021

/s/
Marta Guhl
Administrative Law Judge

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Administrative Law Judge
Marta Guhl**

Application of Pennsylvania-American Water :
Company-Wastewater Division under Section 1329 :
of the Pennsylvania Public Utility Code, 66 Pa. C.S. : Docket No. A-2020-3019634, *et al.*
§ 1329, for the Acquisition of Royersford :
Borough’s Wastewater System Assets :

JOINT STIPULATION FOR ADMISSION OF EVIDENCE

Pennsylvania-American Water Company (“PAWC”), the Office of Consumer Advocate (“OCA”), the Pennsylvania Public Utility Commission’s Bureau of Investigation & Enforcement (“I&E”), the Office of Small Business Advocate (“OSBA”) and Royersford Borough (“Royersford”), all active parties to the above-captioned proceeding¹ (hereinafter, collectively referred to as the “Stipulating Parties”), file this “Joint Stipulation for Admission of Evidence” (“Stipulation”) in the above-captioned proceeding.² In support of the Stipulation, the Stipulating Parties represent as follows:

I. Background

1. Paragraphs 1 through 19 (regarding “Background”) of the Settlement are hereby incorporated by reference.

¹ The only other active party to this proceeding, Robert Redinger, Jr., has not yet submitted any evidence in this proceeding.

² PAWC, OCA, OSBA, I&E and Royersford are also signatories to the “Joint Petition for Approval of Settlement of All Issues” (“Settlement”) filed contemporaneously with the Stipulation in the above-captioned proceeding.

II. Stipulation

2. The Stipulating Parties hereby jointly stipulate to the authenticity of and admission into the evidentiary record in this matter of the filings, statements, and exhibits listed below.³ All such filings, statements, and exhibits are authenticated by verifications from each supporting witness.

A. Pennsylvania-American Water Company Statements and Exhibits

1. a) PAWC Statement No. 1 – Direct Testimony of Michael Salvo, PAWC Statement No. 1, with PAWC Exhibit MS-1 (this Exhibit is the Application, as amended, which was previously filed with the Secretary of the Pennsylvania Public Utility Commission).

b) PAWC Statement No. 1-R – Rebuttal Testimony of Michael Salvo, PAWC Statement No. 1-R.

2. a) PAWC Statement No. 2 – Direct Testimony of Michael J. Guntrum, P.E. and PAWC Exhibits MJG-1 and MJG-2.

b) PAWC Statement No. 2-R – Rebuttal Testimony of Michael J. Guntrum, P.E.

3. a) PAWC Statement No. 3 – Direct Testimony of Rod P. Nevirauskas, with PAWC Exhibit RPN-1.

b) PAWC Statement No. 3-R – Rebuttal Testimony of Rod P. Nevirauskas.

4. a) PAWC Statement No. 4 – Direct Testimony of Jerome C. Weinert, PE, ASA, CDP, with PAWC Exhibit JCW-1.

b) PAWC Statement No. 4-R – Direct Testimony of Jerome C. Weinert, PE, ASA, CDP, with PAWC Exhibit JCW-2.

5. PAWC Statement No. 5-SR – Surrebuttal Testimony of Ashley E. Everette.

B. Royersford Statements and Exhibits

1. a) Royersford Statement No. 1 – Direct Testimony of Michael A. Leonard.

³ The filings, statements, and exhibits are unchanged from the versions that were previously served upon the Honorable Administrative Law Judge Marta Guhl (“Presiding Officer”) and the parties in this proceeding.

b) Royersford Statement No. 1-R – Rebuttal Testimony of Michael A. Leonard.

2. a) Royersford Statement No. 2 – Direct Testimony of Harold Walker III, with Appendix A.

b) Royersford Statement No. 2-R – Rebuttal Testimony of Harold Walker III, with Exhibit HW-1.

C. **OCA Statements and Exhibits**

1. a) OCA Statement 1 – Direct Testimony of David J. Garrett, with Appendices A through C and OCA Exhibits DJG-1 through DJG-23.

b) OCA Statement 1-S – Surrebuttal Testimony of David J. Garrett.

2. a) OCA Statement 2 – Direct Testimony of Noah D. Eastman, with Appendix A and OCA Exhibit NDE-1 (as adopted by Morgan N. DeAngelo in OCA Statement No. 2-S).

b) OCA Statement 2-S – Surrebuttal Testimony of Morgan N. DeAngelo, with Appendix A.

D. **OSBA Statements**

1. a) OSBA Statement No. 1 – Direct Testimony of Brian Kalcic, with Appendix A.

b) OSBA Statement No. 2-S – Surrebuttal Testimony of Brian Kalcic.

E. **I&E Statements and Exhibits**

1. a) I&E Statement No. 1 – Direct Testimony of D.C. Patel, with I&E Exhibit No. 1.

b) I&E Statement No. 1-SR – Surrebuttal Testimony of D.C. Patel.

2. a) I&E Statement No. 2 – Direct Testimony of Ethan H. Cline.

b) I&E Statement No. 2-SR – Surrebuttal Testimony of Ethan H. Cline.

3. This Stipulation is presented by the Stipulating Parties in conjunction with the

Settlement, which is intended to settle all issues in the above-captioned proceeding. If the Commission rejects or otherwise modifies the Settlement, the Stipulating Parties reserve their respective procedural rights to object to the admission of the above-referenced statements and exhibits, submit additional testimony and exhibits, and cross-examine witnesses at on-the-record evidentiary hearings.

4. This Stipulation is being presented, in conjunction with the Settlement, only to resolve issues in the above-captioned proceeding. Regardless of whether this Stipulation is approved, no adverse inference shall be drawn, nor shall prejudice result to any Stipulating Party in this or any future proceeding as a consequence of this Stipulation, or any of its terms or conditions.

5. Verified Direct Statements and Exhibits of PAWC and Royersford were previously filed with the Commission's Secretary's Bureau. "Confidential" materials filed with the Secretary's Bureau of the Commission by the Stipulating Parties have been so marked and should be placed in non-public folders by the Secretary's Bureau. One electronic copy of the remaining statements and exhibits listed in Paragraph 2 above, together with verifications from the supporting witnesses and the Presiding Officer's order granting this Stipulation, will be filed with the Secretary's Bureau for inclusion in the official case record upon approval of this Stipulation. Additionally, the Stipulating Parties shall ensure that electronic copies of statements and exhibits are filed with the Commission's Secretary as required by 52 Pa. Code § 5.412a (regarding "Electronic submission of pre-served testimony").

6. Attached hereto as **Appendix A** is a proposed "Order Granting Joint Stipulation for Admission of Evidence" for consideration by the Presiding Officer.

III. Request for Relief

WHEREFORE, the Stipulating Parties, by their respective counsel, respectfully request that the Honorable Administrative Law Judge Marta Guhl admit the foregoing statements and exhibits into the record in this proceeding on the terms and conditions set forth in this Stipulation.

Respectfully submitted,

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**A-2020-3019634 - Section 1329 Application of Pennsylvania-American Water Company
Wastewater Division for the Acquisition of Royersford Borough's Wastewater System
Assets**

(updated 12/11/20)

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I&E Statement No. 1
Witness: D. C. Patel

**Application of Pennsylvania American Water Company for Acquisition of the
Wastewater Collection and Treatment System Assets of Royersford Borough**

Docket No. A-2020-3019634

Direct Testimony

of

D. C. Patel

Bureau of Investigation & Enforcement

Concerning:

Summary of 66 Pa. C.S. § 1102 and 66 Pa. C.S. § 1329, and UVE Appraisals

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1 **INTRODUCTION OF WITNESS**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is D. C. Patel and my business address is Pennsylvania Public Utility
4 Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg,
5 PA 17120.

6
7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed by the Pennsylvania Public Utility Commission (Commission) in
9 the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
10 Analyst.

11
12 **Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?**

13 A. My educational and professional background is set forth in the attached
14 Appendix A.

15
16 **Q. PLEASE DESCRIBE THE ROLE OF I&E IN THIS PROCEEDING.**

17 A. I&E is responsible for protecting the public interest in proceedings before the
18 Commission. The I&E analysis and testimony in this proceeding is based on its
19 responsibility to represent the public interest. This responsibility refers to
20 balancing the interests of ratepayers, the regulated utility, and the regulated
21 community.

1 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

2 A. The purpose of my direct testimony is to address issues relating to the Application
3 of Pennsylvania American Water Company (PAWC) for approval of the
4 acquisition of the wastewater collection and treatment system assets of the
5 Royersford Borough (Royersford) and a portion of Upper Providence Township in
6 Montgomery County, Pennsylvania. Specifically, I am addressing the fair market
7 valuations performed by the utility valuation expert (UVE) Jerome C. Weinert,
8 Principal and Director of AUS Consultants, Depreciation and Valuation (AUS) on
9 behalf of PAWC.

10

11 **Q. DOES YOUR DIRECT TESTIMONY INCLUDE AN EXHIBIT?**

12 A. Yes. I&E Exhibit No. 1 contains a schedule that supports my direct testimony.

13

14 **Q. WHAT IS PAWC REQUESTING IN THIS APPLICATION?**

15 A. First, under 66 Pa. C.S. § 1102(a) (Section 1102), PAWC is requesting approval to
16 acquire the Royersford wastewater collection and treatment system assets and the
17 right to begin furnishing wastewater service in the areas currently served by the
18 Royersford Borough. Second, under 66 Pa. C.S. § 1329 (Section 1329), PAWC is
19 seeking to utilize the fair market value to establish the ratemaking rate base of
20 \$13,000,000 for the Royersford wastewater collection and treatment system assets
21 based upon the negotiated purchase price. Finally, under 66 Pa. C.S. § 507,

1 PAWC is seeking approval for the Asset Purchase Agreement dated December 10,
2 2019 entered between PAWC and Royersford (PAWC Application, pp. 14-15).

3
4 **SUMMARY OF 66 PA. C.S. § 1329 AND 66 P.A. C.S. § 1102**

5 **Q. WHAT TYPE OF FAIR MARKET VALUATION DOES SECTION 1329**
6 **ALLOW?**

7 A. Section 1329 allows consideration of the fair market valuation of two utility
8 valuation experts (UVEs) in the acquisition of water and wastewater systems
9 owned by a municipal corporation or authority. One UVE is selected by the buyer
10 and the other is selected by the seller. Each valuation must be made in compliance
11 with the Uniform Standards of Professional Appraisal Practice (USPAP),
12 employing the cost, market, and income approaches. Further, Section 1329 states
13 that the ratemaking rate base of the selling utility shall be the lesser of the
14 negotiated purchase price or the fair market value of the selling utility.

15
16 **Q. HOW ARE FAIR MARKET VALUATIONS INCORPORATED INTO A**
17 **SECTION 1102 APPLICATION?**

18 A. The results of the UVEs' analyses are incorporated into the Section 1102

1 application for a certificate of public convenience to be submitted to the
2 Commission for approval.¹

3
4 **UVE APPRAISALS**

5 **Q. DID PAWC SUBMIT FAIR MARKET VALUE APPRAISALS TO**
6 **SUPPORT ITS APPLICATION?**

7 A. Yes. As mentioned above, PAWC’s application included an appraisal performed
8 on its behalf by AUS and an appraisal performed by Gannett Fleming on behalf of
9 Royersford. The AUS fair market value appraisal valued the Royersford
10 wastewater collection and treatment system assets at \$13,769,801 as of December
11 10, 2019.² The Gannett Fleming fair market value appraisal valued the Royersford
12 wastewater collection and treatment system assets at \$13,219,000 as of March 31,
13 2020.³

14
15 **Q. HAVE YOU EXAMINED THE UVEs’ APPRAISALS AND DIRECT**
16 **TESTIMONY AS PART OF YOUR REVIEW IN THIS PROCEEDING?**

17 A. Yes.

¹ http://www.puc.pa.gov/filing_resources/issues_laws_regulations/section1329_applications.aspx, accessed on December 12, 2020.

² PAWC Application, Appendix A-5.1 – AUS Fair Market Value Appraisal Report dated June 2, 2020.

³ PAWC Application, Appendix A-5.2 – Gannett Fleming Fair Market Value Appraisal Report dated May 31, 2020.

1 **Q. DO YOU HAVE ANY CONCERNS ABOUT THE UVE APPRAISALS?**

2 A. Yes. In the market approach analysis, AUS concluded the maximum value of
3 \$12,873,137 calculated based on a comparable purchase price to replacement cost
4 new less depreciation (CORLD) for the indicated value under this approach and
5 did not factor its market value of purchase price to original cost less depreciation
6 (OCLD) approach of \$8,602,767 or Market Financials – OCLD approach of
7 \$10,916,210 into its overall market analysis conclusion ((PAWC application,
8 Appendix A-5.1, p. 40 and I&E Exhibit No. 1, Schedule 1, pp. 1-3 (Response to
9 I&E-I-1-G)).

10

11 **Q. PLEASE SUMMARIZE AUS' INDICATED OR CONCLUSION VALUE**
12 **UNDER THE MARKET APPROACH.**

13 A. AUS' market approach conclusion is shown in the table below (PAWC
14 application, Appendix A-5.1, p. 40):

15

Market Comparable	Market Value
Purchase price to RCLD (Average)	\$12,873,137
Purchase price to OCLD (Average)	\$8,602,767
Market Financials - OCLD (AUS)	\$10,916,210

16 Based on the above market values, AUS relied on the following values as shown
17 in the table below and used the maximum value of \$12,873,137 as the final

1 indicated value under the market approach analysis (PAWC application, Appendix
2 A-5.1, p. 40):

3	Minimum	\$8,602,767
	Mean	\$10,797,371
	Median	\$10,916,210
	Maximum	\$12,873,137

4

5 **Q. WHAT IS AUS' BASIS FOR USING THE MAXIMUM VALUE IN**
6 **MARKET APPROACH CONCLUSION?**

7 A. In response to I&E-III-2, AUS witness Jerome C. Weinert states that the market
8 indicator of purchase price to CORLD is considered the most consistent market
9 indicator with the other two valuation approaches, i.e., the cost and income
10 approaches. Therefore, AUS relied on that market comparable in making its
11 market approach conclusion (I&E Exhibit No. 1, Schedule 1, pp. 4-5).

12

13 **Q. HAS AUS CONSISTENTLY USED THE PURCHASE PRICE TO CORLD**
14 **INDICATOR IN ITS MARKET APPROACH VALUATION**
15 **CONCLUSION?**

16 A. No. In response to I&E-III-2, PAWC witness Jerome Weinert provided a list of
17 prior acquisition proceedings under Section 1329, where AUS submitted fair
18 market valuations, which indicates different bases were applied/used by AUS in its
19 market approach conclusion in the past: (1) OCLD, CORLD, and Value Line

1 indicators; (2) Average of OCLD, CORLD, and Net Block indicators; and (3)
2 CORLD standalone (I&E Exhibit No. 1, Schedule 1, pp. 4-5).

3
4 **Q. DID PAWC WITNESS JEROME WEINERT EXPLAIN WHY HE HAS**
5 **USED DIFFERENT BASES FOR HIS MARKET ANALYSIS?**

6 A. No, when asked why he has used different Market analysis indicators that those
7 used in the present proceeding, he referred to other discovery responses that did
8 not provide an answer to the question (I&E Exhibit No. 1, Schedule 1, pp. 4-5).

9
10 **I&E RECOMMENDATION**

11 **Q. WHAT IS YOUR RECOMMENDATION REGARDING PAWC'S**
12 **APPLICATION TO ACQUIRE THE ROYERSFORD WASTEWATER**
13 **COLLECTION AND TREATMENT SYSTEM ASSETS?**

14 A. I recommend that the Commission require AUS to use a consistent method going
15 forward to determine the indicated (conclusion) value under the market approach
16 analysis.

17
18 **Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?**

19 A. I do not endorse any particular method, however, variation in market approach
20 analysis could potentially harm the interest of the acquiring utility's ratepayers if
21 the inconsistent application led to a higher ratemaking rate base of the system to
22 be acquired by the utility. Additionally, as discussed above, AUS has switched the

1 basis of a market approach valuation in different proceedings without justification
2 for the variation in approach.

3

4 **Q. WHAT IS I&E’S OVERALL RECOMMENDATION?**

5 A. I recommend that the Commission make the approval of PAWC’s Application
6 subject to the following conditions:

- 7 • The requirement that AUS use a consistent method going forward to
8 determine the indicated (conclusion) value under the market approach
9 analysis; and
- 10 • PAWC should provide a separate cost of service study for the wastewater
11 system of Royersford Borough as described in I&E witness Cline’s
12 testimony (I&E Statement No. 2).

13

14 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

15 A. Yes.

D. C. Patel
Professional and Educational Background

EXPERIENCE:

Pennsylvania Public Utility Commission, Harrisburg, Pennsylvania

June 2015 to Present

Fixed Utility Financial Analyst, Bureau of Investigation and Enforcement

Pennsylvania Insurance Department, Harrisburg, Pennsylvania

March 2013 - June 2015

Insurance Company Financial Analyst, Bureau of Company Licensing & Financial Analysis

Pennsylvania Department of Revenue, Harrisburg, Pennsylvania

November 2010 - March 2013

Accounting Assistant, Bureau of Corporation Taxes (Accounting)

Hersha Hospitality Management, Harrisburg, Pennsylvania

June 2007 - November 2010

Staff Accountant (Taxes), Accounting Department

Corporate Experience-India

February 1987 – April 2007

Worked as Company Secretary for three different companies during this period, which were listed on the Stock Exchanges.

EDUCATION/CERTIFICATION:

Gujarat State University, Ahmedabad, India:

Bachelor of Commerce (Major concentration: Accounting)

(June 1980 - April 1983)

Bachelor of Law

(June 1983 - December 1988)

The Institute of Company Secretaries of India, New Delhi, India:

Post Graduate Professional Degree: Company Secretary

(June 1983 - December 1985)

RATE CASE TRAINING:

Attended 37th Western NARUC Utility Rate School in May 2016.

WORKED ON THE FOLLOWING CASES (Testimony not required):

- U-2020-3015258 - Pittsburgh Water and Sewer Authority
- R-2020-3019661 - PECO Energy Co. - Gas Operations (1307(f))
- R-2019-3008255 - Columbia Gas of Pennsylvania, Inc. (1307(f))
- R-2018-3001568 - PECO Energy Co. - Gas Operations (1307(f))
- R-2018-3000253 - Columbia Gas of Pennsylvania, Inc. (1307(f))
- A-2017-2629534 - PPL Electric Utilities (Restructuring Plan)
- R-2017-2631441 - Reynolds Water Co.
- R-2017-2602611 - PECO Energy Co. - Gas Operations (1307(f))
- R-2016-2567893 - Andreassi Gas Co.
- R-2016-2525128 - Columbia Water Co. - Marietta Division
- R-2015-2479962 - Corner Water Supply and Service Corporation
- R-2015-2479955 - Allied Utility Services, Inc.
- R-2015-2493905 - Sands, Inc.

SUBMITTED TESTIMONY IN THE FOLLOWING CASES:

- R-2020-3017951 et al. - Pittsburgh Water and Sewer Authority
- R-2020-3018993 - Columbia Gas Pennsylvania, Inc. (1307(f))
- R-2019-3008208 - Wellsboro Electric Company
- R-2019-3008212 - Citizens Electric Company of Lewisburg, PA
- A-2019-3008491 - Aqua Pennsylvania Wastewater, Inc.
- R-2018-3006814 - UGI Utilities, Inc. (Gas Division)
- M-2018-2640802 and 2640803 - Pittsburgh Water and Sewer Authority
- R-2018-3002645 and 3002647 - Pittsburgh Water and Sewer Authority
- R-2018-3000834 - Suez Water Pennsylvania, Inc.
- R-2018-2647577 - Columbia Gas of Pennsylvania, Inc.
- R-2017-2595853 - Pennsylvania American Water Co.
- P-2016-2526627 - PPL Electric Utilities Corp. (DSP IV)
- R-2016-2529660 - Columbia Gas of Pennsylvania, Inc.
- R-2016-2554150 - City of DuBois - Bureau of Water
- R-2016-2580030 - UGI Penn Natural Gas, Inc.

I&E Exhibit No. 1
Witness: D. C. Patel

**Application of Pennsylvania American Water Company for Acquisition of the
Wastewater Collection and Treatment System Assets of Royersford Borough**

Docket No. A-2020-3019634

Exhibit to Accompany

the

Direct Testimony

of

D. C. Patel

Bureau of Investigation & Enforcement

Concerning:

Summary of 66 Pa. C.S. § 1102 and 66 Pa. C.S. § 1329, and UVE Appraisals

APPLICATION OF PENNSYLVANIA AMERICAN WATER COMPANY (PAWC) FOR
ACQUISITION OF THE WASTEWATER COLLECTION AND TREATMENT SYSTEM
ASSETS OF THE ROYERSFORD BOROUGH

Docket No. A-2020-3019634

PAWC Responses to I&E Set I

Analyst: D. C. Patel

I&E-I-1 Reference PAWC filing, Appendix-A-5.1 concerning the AUS Consultants (AUS) Fair Market Value Appraisal Report and PAWC Statement No. 4:

- A. Explain why Mr. Weinert did not assign equal weight to each of the three appraisal methods in determining his conclusion of the fair market value of \$13,769,801 for the Royersford Borough wastewater system assets;
- B. What is the basis for applying weight of 50%, 40%, and 10% to the indicated values of the cost approach, income approach, and market approach respectively in place of equal weigh
- C. For each prior § 1329 proceeding in which Mr. Weinert has testified, state the proportional weight Mr. Weinert has assigned to the cost approach, income approach, and market approach;
- D. What is the basis of appraisal conclusion of \$13,376,109 based on cost approach ignoring the values of income approach and market approach;
- E. Confirm the market approach analysis consists of three separate methods, i.e., Market Comparables-OCLD, Market Comparables-CORLD, and Market Financials-OCLD;
- F. Provide a detailed explanation why these three methods were chosen to support the market approach analysis; and
- G. Provide a detailed explanation why the market approach conclusion only reflects the Market Comparables-CORLD method value.

Response:

- A. See Mr. Weinert's response to I&E 1-1 B.
- B. As stated in Mr. Weinert's direct testimony (pages 4-5) "For the cost approach I chose a weighting of 50%. It is my opinion that this weighting is appropriate for the cost approach because the major purpose of this appraisal is to be an input to the Commission's establishment of cost for

APPLICATION OF PENNSYLVANIA AMERICAN WATER COMPANY (PAWC) FOR ACQUISITION OF THE WASTEWATER COLLECTION AND TREATMENT SYSTEM ASSETS OF THE ROYERSFORD BOROUGH

Docket No. A-2020-3019634

PAWC Responses to I&E Set I

future ratemaking and the cost approach conclusion is directly reflective of the property cost.

For the market approach I chose a weighting of 10%. It is my opinion that this weighting is appropriate for the market approach because while the market approach provides some information as to the value of the property, establishing comparability between the individual sales to the subject property is difficult and uncertain therefore requiring less weight of the market approach and the 10% weight accomplishes that objective.

For the income approach I chose a weighting of 40%. It is my opinion that this weighting is appropriate for the income approach because the income approach reflects the value of the property’s return to the property’s owner. And the 40% weight accomplishes that objective.”

- C. AUS Consultants has used the same weighting as those used in the Royersford appraisal for all his UVE appraisals with the exception of his New Garden where no specific weightings were assigned to the various appraisal approaches.
- D. AUS Consultants appraisal conclusion is \$13,769,801 determined as follows:

Appraisal Approach	Value Indicator	Weight	Wtd Value Indicator
Cost	13,376,109	50%	6,688,055
Income	14,486,081	40%	5,794,432
Market	12,873,137	10%	1,287,314
Appraisal Conclusion			13,769,801

The income and market approaches were used in the development of the appraisal conclusion of \$13,769,801 by including the income conclusion of \$14,486,081 at a 40% weighting and the market approach conclusions of \$12,873,137 at a 10% weighting.

- E. AUS’ Market analysis included the analysis of post-Section 1329 sales of Pennsylvania water and wastewater systems with the comparability measure being the purchase price as a ratio to the property original cost less depreciation (OCLD) and replacement cost less depreciation

**APPLICATION OF PENNSYLVANIA AMERICAN WATER COMPANY (PAWC) FOR
ACQUISITION OF THE WASTEWATER COLLECTION AND TREATMENT SYSTEM
ASSETS OF THE ROYERSFORD BOROUGH**

Docket No. A-2020-3019634

PAWC Responses to I&E Set I

(CORLD). Also, an analysis of market financial ratios based on industry water industry financials as reported in Value Line Investment Surveys.

- F. As the purpose of the appraisal is to determine the market value of Royersford's wastewater system, for which only the OCLD and CORLD are known based upon the results of the cost approach analysis, the market analysis had to developed based on similar criteria, i.e., the market comparables had to be analyzed as described in I&E 1-1 E.
- G. The cost approach conclusion of replacement cost less depreciation is the best evidence of the value of assets, i.e., Royersford's wastewater system, that is also the comparability measure to use in the market approach.

Responsible Witness: Jerome C. Weinert, Principal and Director
AUS Consultants, Inc.

Date: November 16, 2020

BUREAU OF INVESTIGATION AND ENFORCEMENT INTERROGATORIES

APPLICATION OF PENNSYLVANIA AMERICAN WATER COMPANY (PAWC) FOR ACQUISITION OF THE WASTEWATER COLLECTION AND TREATMENT SYSTEM ASSETS OF THE ROYERSFORD BOROUGH

I&E Exhibit No. 1
Schedule 1
Page 4 of 5

Docket No. A-2020-3019634

PAWC Responses to I&E Set III

I&E-III-2 Regarding Mr. Weinert’s Market analysis, for each prior § 1329 proceeding where Mr. Weinert has testified:

- A. Identify the indicators Mr. Weinert has used to comprise his Market analysis (e.g., in the present proceeding, Mr. Weinert has used the Market Comparables-OCLD, Market Comparables-CORLD, and Market Financials indicators);
- B. Explain the weight assigned to each Market analysis indicator in arriving at the Market analysis conclusion (e.g., in the present proceeding, Mr. Weinert’s Market analysis conclusion reflects the Market Comparables-CORLD indicator); and
- C. If Mr. Weinert has used different Market analysis indicators than those used in the present proceeding, explain why.

Response:

- A. The following table outlines the Market Approach analysis technique and basis for the Market Approach conclusion:

AUS Consultants Market Approach Analysis Techniques over Time

PA PUC Docket	Property	OCLD	CORLD	Value Line	Conclusion
		No. of comparables	No. of comparables	No. of comparables	Basis
A-2016-2580061	New Garden	2	2	9	1
A-2017-2606103	McKeesport	2	2	9	1
A-2018-3001582	East Bradford	3	3	9	2
A-2018-3002437	Sadsbury	2	2	8	OCLD

BUREAU OF INVESTIGATION AND ENFORCEMENT INTERROGATORIES

APPLICATION OF PENNSYLVANIA AMERICAN WATER COMPANY (PAWC) FOR ACQUISITION OF THE WASTEWATER COLLECTION AND TREATMENT SYSTEM ASSETS OF THE ROYERSFORD BOROUGH

Docket No. A-2020-3019634

PAWC Responses to I&E Set III

A-2018-3004933	Exeter	4	4	8	CORLD
A-2019-3006880	Steelton	5	5	8	CORLD
A-2019-3008491	Cheltenham	5	5	9	CORLD
A-2019-3009052	East Norriton	8	10	9	CORLD
A-2019-3014248	Kane	8	10	9	CORLD

- 1 Considered OCLD, CORLD, Value Line indicators
- 2 Average of OCLD, CORLD, Net Book indicators

B. AUS Consultants does not assign any particular weighting to the individual market analysis indicators; however, the Market indicator of purchase price to replacement cost new less depreciation (CORLD) is considered the most consistent market indicator with the other two valuation approaches, i.e., the cost and income approaches. Therefore, AUS Consultants relied on that market comparable in making its Market Approach conclusion.

C. See AUS Consultants responses to I&E Set III 2A & 2B.

Responsible Witness: Jerome C. Weinert AUS Consultants

I&E Statement No. 2
Witness: Ethan H. Cline

**APPLICATION OF
PENNSYLVANIA-AMERICAN WATER COMPANY FOR ACQUISITION OF
THE WASTEWATER COLLECTION AND TREATMENT SYSTEM ASSETS OF
THE ROYERSFORD BOROUGH**

Docket No. A-2020-3019634

Direct Testimony

of

Ethan H. Cline

Bureau of Investigation and Enforcement

Concerning:

Cost of Service Study

TABLE OF CONTENTS

INTRODUCTION 1
COST OF SERVICE STUDY 4

1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Ethan H. Cline. My business address is Pennsylvania Public Utility
4 Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg,
5 Pennsylvania 17120.

6
7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed by the Pennsylvania Public Utility Commission (“Commission”) in
9 the Bureau of Investigation and Enforcement (“I&E”) as a Fixed Utility Valuation
10 Engineer.

11

12 **Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?**

13 A. Appendix A, which is attached to my testimony, describes my educational
14 background and professional experience.

15

16 **Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.**

17 A. I&E is responsible for protecting the public interest in proceedings before the
18 Commission. The I&E analysis in the proceeding is based on its responsibility to
19 represent the public interest. This responsibility requires balancing the interests of
20 the ratepayers, the company, and the regulated community.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A. The purpose of my direct testimony is to address the necessity of Pennsylvania
3 American Water Company (“PAWC” or “Company”) to undertake a Cost of
4 Service Study for Royersford Borough’s (“Borough”) wastewater treatment,
5 conveyance, and collection system facilities (“System”) in its next base rate case.

6
7 **Q. DOES YOUR DIRECT TESTIMONY INCLUDE AN EXHIBIT?**

8 A. No. My direct testimony does not contain an exhibit.
9

10 **Q. WHAT IS PAWC REQUESTING IN THIS PROCEEDING?**

11 A. PAWC has filed an application for approval of its acquisition of substantially all
12 of the Borough’s assets, properties and rights related to its wastewater collection
13 and treatment system, related wastewater service rights, fair market valuation
14 ratemaking treatment, accrual and deferral of certain post-acquisition
15 improvement costs, and certain contracts with municipal corporations
16 (“Application”). Specifically, PAWC is requesting, under 66 Pa. C.S. § 1102
17 (“Section 1102”), approval to acquire the Borough’s System and for the right to
18 begin providing wastewater service in the areas currently served by the Borough.
19 Additionally, under 66 Pa. C.S § 1329 (“Section 1329”), PAWC is seeking to
20 utilize the fair market value of the System for the ratemaking rate base. Also
21 under 66 Pa. C.S. § 1329, PAWC is seeking confirmation of its right to collect a
22 distribution system improvement charge (“DSIC”) for the new service and for the

1 accrual of Allowance for Funds Used During Construction (“AFUDC”) for post-
2 acquisition improvements not recovered through its DSIC for book and
3 ratemaking purposes. PAWC is also seeking the deferral of depreciation related to
4 post-acquisition improvements not recovered through the DSIC for book and
5 ratemaking purposes (PAWC St. No. 1, pp. 4-5).

6
7 **Q. WHY DOES PAWC NEED APPROVAL OF THE ACQUISITION UNDER**
8 **SECTION 1102?**

9 A. Section 1102 requires the Commission to issue a Certificate of Public
10 Convenience prior to the Company acquiring the wastewater assets of the Borough
11 and providing wastewater service in the Borough’s service territory. The
12 Commission will only grant a Certificate of Public Convenience if it determines
13 that such a certificate is "necessary or proper for the service, accommodation,
14 convenience or safety of the public.” (66 Pa. C.S. § 1103(a)). Further, “the
15 Commission, in granting such certificate, may impose such conditions as it may
16 deem to be just and reasonable.” (66 Pa. C.S. § 1103(a)).

17
18 **Q. WHAT DOES 66 Pa. C.S. § 1329 ALLOW?**

19 A. Section 1329 allows investor owned water and wastewater utilities to use the fair
20 market valuation in the acquisition of water and wastewater systems that are
21 owned by a municipal corporation or authority. Using the Section 1329
22 framework enables the investor owned utility to establish the ratemaking rate base

1 of the acquired property in the same proceeding that it seeks to acquire the
2 property.

3
4 **Q. WHAT DOES THE FAIR MARKET VALUE APPROACH REQUIRE?**

5 A. The fair market valuation approach dictates that once the buyer and the seller
6 agree to its use, they must engage the services of a licensed engineer to conduct an
7 assessment of the tangible assets of the seller. The licensed engineer assessment is
8 then presented to two utility valuation experts (“UVE”), one to represent the buyer
9 and one to represent the seller, to conduct independent analyses based on the
10 Uniform Standards of Professional Appraisal Practice, employing the cost, market
11 and income approaches. The results of the UVEs’ analyses are then incorporated
12 into the Section 1102 of the Code application submitted to the Commission for
13 approval.¹ For ratemaking purposes, the valuation will be the lesser of the fair
14 market value or the negotiated purchase price. Finally, Section 1329 allows the
15 acquiring public utility’s post-acquisition improvement costs not recovered
16 through a DSIC to be deferred for book and ratemaking purposes.

17
18 **COST OF SERVICE STUDY**

19 **Q. PLEASE DESCRIBE THE BOROUGH’S WASTEWATER SYSTEM.**

20 A. The Borough provides wastewater service to approximately 1,600 customers in the

¹ http://www.puc.pa.gov/filing_resources/issues_laws_regulations/section1329_applications.aspx

1 Borough of Royersford as well as sixteen customers in Upper Providence
2 Township, and a bulk service interconnection providing service to customers in
3 Limerick Township. The System consists of approximately 14 miles of gravity
4 and force sewer mains, two pump stations, and the Royersford Wastewater
5 Treatment Plant (Borough of Royersford St. No. 1, pp. 5-6).

6
7 **Q. WHY IS KNOWING THE COST TO SERVE THE BOROUGH'S**
8 **WASTEWATER SYSTEM IMPORTANT?**

9 A. In general, the primary goal of a Cost of Service Study is to determine a utility's
10 revenue requirement to provide service to its different customer classes. In this
11 case, a Cost of Service Study for the Borough wastewater System is beneficial
12 because it:

- 13 • Determines the cost to operate the Borough wastewater System separately;
- 14 • Calculates the costs of the utility's different services;
- 15 • Separates the costs between the utility's different customer classes and
16 service areas;
- 17 • Attributes costs to the utility's different customer classes and service areas;
18 and
- 19 • Determines how costs will be recovered from the utility's different
20 customer classes and service areas.

21 Moreover, a Cost of Service Study can establish the existence and extent of
22 subsidization (inter and intra-class) and assist in determining the appropriate

1 amount of revenue requirement to be shifted from wastewater customers to water
2 customers, which PAWC has utilized in past base rate cases. Therefore, without
3 the cost of service study that includes segregated wastewater costs, the appropriate
4 ratemaking recommendations for those costs cannot be proposed or implemented.

5
6 **Q. HAS PAWC PREVIOUSLY PROVIDED SEPARATE COST OF SERVICE**
7 **STUDIES FOR SYSTEMS ACQUIRED THROUGH SECTION 1329**
8 **APPLICATIONS IN A BASE RATE CASE?**

9 A. Yes. In its most recent base rate case at Docket Nos. R-2020-3019369 and R-
10 2020-3019371, the Company included several separate cost of service studies for
11 water and wastewater systems it acquired through Section 1329 applications.

12
13 **Q. WHAT DO YOU RECOMMEND PAWC PROVIDE IN THE NEXT BASE**
14 **RATE CASE?**

15 A. I recommend that PAWC include a separate cost of service study for the
16 wastewater System of the Borough using the same methodology it used for other
17 systems acquired through Section 1329 proceedings in the base rate case at Docket
18 Nos. R-2020-3019369 and R-2020-3019371 for the reasons stated above.

19
20 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

21 A. Yes.

ETHAN H. CLINE

PROFESSIONAL EXPERIENCE AND EDUCATION

EXPERIENCE:

03/2009 - Present

Bureau of Investigation and Enforcement, Pennsylvania Public Utility Commission - Harrisburg, Pennsylvania

Fixed Utility Valuation Engineer – Assists in the performance of studies and analyses of the engineering-related areas including valuation, depreciation, cost of service, quality and reliability of service as they apply to fixed utilities. Assists in reviewing, comparing and performing analyses in specific areas of valuation engineering and rate structure including valuation concepts, original cost, rate base, fixed capital costs, inventory processing, excess capacity, cost of service, and rate design.

06/2008 – 09/2008

Akens Engineering, Inc. - Shiremanstown, Pennsylvania

Civil Engineer – Responsible, primarily, for assisting engineers and surveyors in the planning and design of residential development projects

10/2007 – 05/2008

J. Michael Brill and Associates - Mechanicsburg, Pennsylvania

Design Technician – Responsible, primarily, for assisting engineers in the permit application process for commercial development projects.

01/2006 – 10/2007

CABE Associates, Inc. - Dover, Delaware

Civil Engineer – Responsible, primarily, for assisting engineers in performing technical reviews of the sewer and sanitary sewer systems of Sussex County, Delaware residential development projects.

EDUCATION:

Pennsylvania State University, State College, Pennsylvania
Bachelor of Science; Major in Civil Engineering, 2005

- Attended NARUC Rate School, Clearwater, FL
- Attended Society of Depreciation Professionals Annual Conference and Training

TESTIMONY SUBMITTED:

I have testified and/or submitted testimony in the following proceedings:

1. Clean Treatment Sewage Company, Docket No. R-2009-2121928
2. Pennsylvania Utility Company – Water Division, Docket No. R-2009-2103937
3. Pennsylvania Utility Company – Sewer Division, Docket No. R-2009-2103980
4. UGI Central Penn Gas, Inc., 1307(f) proceeding, Docket No. R-2010-2172922
5. PAWC Clarion Wastewater Operations, Docket No. R-2010-2166208
6. PAWC Claysville Wastewater Operations, Docket No. R-2010-2166210
7. Citizens’ Electric Company of Lewisburg, Pa, Docket No. R-2010-2172665
8. City of Lancaster – Bureau of Water, Docket No. R-2010-2179103
9. Peoples Natural Gas Company LLC, Docket No. R-2010-2201702
10. UGI Central Penn Gas, Inc., Docket No. R-2010-2214415
11. Pennsylvania-American Water Company, Docket No. R-2011-2232243
12. Pentex Pipeline Company, Docket No. A-2011-2230314
13. Peregrine Keystone Gas Pipeline, LLC, Docket No. A-2010-2200201
14. Philadelphia Gas Works 1307(f), Docket No. R-2012-2286447
15. Peoples Natural Gas Company LLC, Docket No. R-2012-2285985
16. Equitable Gas Company, Docket Nos. R-2012-2312577, G-2012-2312597
17. City of Lancaster – Sewer Fund, Docket No. R-2012-2310366
18. Peoples TWP, LLC 1307(f), Docket No. R-2013-2341604
19. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2013-2361763
20. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2013-2361764
21. Joint Application, Docket Nos. A-2013-2353647, A-2013-2353649, A-2013-2353651
22. City of Dubois – Bureau of Water, Docket No. R-2013-2350509
23. The Columbia Water Company, Docket No. R-2013-2360798
24. Pennsylvania American Water Company, Docket No. R-2013-2355276
25. Generic Investigation Regarding Gas-on-Gas Competition, Docket Nos. P-2011-227868, I-2012-2320323
26. Philadelphia Gas Works 1307(f), Docket No. R-2014-2404355
27. Pike County Light and Power Company (Gas), Docket No. R-2013-2397353
28. Pike County Light and Power Company (Electric), Docket No. R-2013-2397237
29. Peoples Natural Gas Company LLC 1307(f), Docket No. R-2014-2403939
30. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2014-2420273
31. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2014-2420276
32. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2014-2420279
33. Emporium Water Company, Docket No. R-2014-2402324
34. Borough of Hanover – Hanover Municipal Water, Docket No. R-2014-2428304
35. Philadelphia Gas Works 1307(f), Docket No. R-2015-2465656
36. Peoples Natural Gas Company LLC 1307(f), Docket No. R-2015-2465172
37. Peoples Natural Gas Company – Equitable Division 1307(f), Docket No. R-2015-2465181
38. PPL Electric Utilities Corporation, Docket No. R-2015-2469275
39. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2015-2480934
40. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2015-2480937

41. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2015-2480950
42. UGI Utilities, Inc. – Gas Division, Docket No. R-2015-2518438
43. Joint Application of Pennsylvania American Water, et al., Docket No. A-2016-2537209
44. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2016-2543309
45. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2016-2543311
46. City of Dubois – Company, Docket No. R-2016-2554150
47. UGI Penn Natural Gas, Inc., Docket No. R-2016-2580030
48. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2017-2602627
49. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2017-2602633
50. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2017-2602638
51. Application of Pennsylvania American Water Company Acquisition of the Municipal Authority of the City of McKeesport, Docket No. A-2017-2606103
52. Pennsylvania American Water Company, Docket No. R-2017-2595853
53. Pennsylvania American Water Company Lead Line Petition, Docket No. P-2017-2606100
54. UGI Utilities, Inc. – Electric Division, Docket No. R-2017-2640058
55. Peoples Natural Gas Company, LLC – Peoples and Equitable Division 1307(f), Docket Nos. R-2018-2645278 & R-2018-3000236
56. Peoples Gas Company, LLC 1307(f), Docket No. R-2018-2645296
57. Columbia Gas of Pennsylvania, Inc., Docket No. R-2018-2647577
58. Duquesne Light Company, Docket No. R-2018-3000124
59. Suez Water Pennsylvania, Inc., Docket No. R-2018-3000834
60. Application of Pennsylvania American Water Company Acquisition of the Municipal Authority of the Township of Sadsbury, Docket No. A-2018-3002437
61. The York Water Company, Docket No. R-2018-3000006
62. Application of SUEZ Water Pennsylvania, Inc. Acquisition of the Water and Wastewater Assets of Mahoning Township, Docket Nos. A-2018-3003517 and A-2018-3003519
63. Pittsburgh Water and Sewer Authority, Docket Nos. R-2018-3002645 and R-2018-3002647
64. Joint Application of Aqua America, Inc. et al., Acquisition of Peoples Natural Gas Company LLC, et al., Docket Nos. A-2018-3006061, A-2018-3006062, and A-2018-3006063
65. Implementation of Chapter 32 of the Public Utility Code Regarding Pittsburgh Water and Sewer Authority, Docket Nos. M-2018-2640802 and M-2018-2640803
66. Philadelphia Gas Works 1307(f), Docket No. R-2019-3007636
67. People Natural Gas Company, LLC, Docket No. R-2018-3006818
68. Application of Pennsylvania American Water Company Acquisition of the Steelton Borough Authority, Docket No. A-2019-3006880
69. Application of Aqua America, Inc. et al., Acquisition of the Wastewater System Assets of the Township of Cheltenham, Docket No. A-2019-3006880
70. Philadelphia Gas Works, Docket No. R-2019-3009016
71. Wellsboro Electric Company, Docket No. R-2019-3008208
72. Valley Energy, Inc., Docket No. R-2019-3008209
73. Citizens’ Electric Company of Lewisburg, Pa, Docket Non. R-2019-3008212
74. Application of Aqua America, Inc. et al., Acquisition of the Wastewater System Assets of the East Norriton Township, Docket No. A-2019-3009052

75. Peoples Natural Gas Company, LLC 1307(f), Docket No. R-2020-3017850
76. Peoples Gas Company, LLC 1307(f), Docket No. R-2020-3017846
77. Philadelphia Gas Works, Docket No. R-2020-3017206
78. Pittsburgh Water and Sewer Authority, Docket Nos. R-2020-3017951 et al.
79. Columbia Gas of Pennsylvania, Docket No. R-2020-3018835
80. Pennsylvania American Water Company, Docket Nos. R-2020-3019369 and R-2020-3019371
81. PECO Energy Company – Gas Division, Docket No. R-2020-3019829

**I&E Statement No. 1-SR
Witness: D. C. Patel**

**Application of Pennsylvania American Water Company for Acquisition of the
Wastewater Collection and Treatment System Assets of Royersford Borough**

Docket No. A-2020-3019634

Surrebuttal Testimony

of

D. C. Patel

Bureau of Investigation and Enforcement

Concerning:

UVE Appraisal

TABLE OF CONTENTS

INTRODUCTION..... 1

UTILITY VALUATION EXPERT (UVE) APPRAISAL..... 2

1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is D. C. Patel and my business address is Pennsylvania Public Utility
4 Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg,
5 PA 17120.

6

7 **Q. ARE YOU THE SAME D. C. PATEL WHO SUBMITTED DIRECT**
8 **TESTIMONY IN THIS PROCEEDING?**

9 A. Yes. I submitted I&E Statement No. 1 and I&E Exhibit No. 1 in this proceeding.

10

11 **Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN**
12 **ACCOMPANYING EXHIBIT?**

13 A. No. However, I refer to my direct testimony herein (I&E Statement No. 1).

14

15 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

16 A. The purpose of my surrebuttal testimony is to address the rebuttal testimony of
17 Jerome C. Weinert, Principal and Director of AUS Consultants (AUS),
18 Depreciation and Valuation on behalf of the Pennsylvania American Water
19 Company (PAWC) (PAWC Statement No. 4-R).

1 **UTILITY VALUATION EXPERT (UVE) APPRAISAL**

2 **Q. SUMMARIZE YOUR RECOMMENDATION RELATED TO THE AUS**
3 **APPRAISAL REPORT.**

4 A. I recommended that the Commission require AUS to use a consistent method
5 going forward to determine the indicated (conclusion) value under the market
6 approach analysis (I&E Statement. No. 1, p. 7).

7
8 **Q. DID ANY PAWC WITNESSES RESPOND TO YOUR RECOMMENDATION?**

9 A. Yes. PAWC witness Jerome C. Weinert responded to my recommendation
10 (PAWC Statement No. 4-R, pp. 30-31).

11
12 **Q. SUMMARIZE MR. WEINERT'S RESPONSE.**

13 A. Mr. Weinert states that in his earlier appraisals, there were insufficient market
14 transactions to rely on a single indicator; however, with nine Section 1329 sale
15 transactions, the purchase price to replacement cost new less depreciation
16 (RCNLD/CORLD) indicator has become mature enough to place reliance on the
17 RCNLD indicator in determining the indicated (conclusion) value under the
18 market analysis approach (PAWC Statement No. 4-R, p. 30).

19
20 **Q. WHAT IS YOUR RESPONSE TO MR. WEINERT'S REBUTTAL**
21 **TESTIMONY?**

22 A. First, Mr. Weinert did not oppose or contest my recommendation to require AUS

1 to use a consistent method going forward to determine the conclusion value under
2 the market approach analysis and simply explained why he uses purchase price to
3 RCNLD as the conclusion value for the market analysis approach. Second, it
4 appears from Mr. Weinert's response that AUS will continue to use purchase price
5 to RCNLD as the sole basis for determining the conclusion value in the market
6 analysis approach because in the last six sale transactions (including this
7 application), he relied on purchase price to RCNLD as the basis for the conclusion
8 value (PAWC Statement No. 4-R, p. 30, ln. 1-2).

9 However, in PAWC's two most recent Section 1329 acquisition
10 applications to acquire the water and wastewater system assets of Valley
11 Township which are pending before the Commission, Mr. Weinert in his fair value
12 appraisal reports relies on different conclusion methods for the market analysis
13 approach as follows.

14 In the PAWC acquisition filing of the Valley Township Water System (at
15 Docket No. A-2020-3019859, PAWC filing, Appendix A-5.1), Mr. Weinert relied
16 on average value of mean and median values of purchase price to original cost less
17 depreciation, purchase price to RCNLD, purchase price to customers, purchase
18 price to cash flow, and market value per share to book value analyses.

19 Additionally, in the PAWC acquisition filing of the Valley Township
20 Wastewater System (at Docket No. A-2020-3020178, PAWC filing, Appendix A-
21 5.1), Mr. Weinert relied on median value of the purchase price to original cost less

1 depreciation, purchase price to RCNLD, purchase price to customers, purchase
2 price to cash flow, and market value per share to book value analyses.

3
4 **Q. WHAT IS YOUR CONCERN WITH REGARD TO AUS'S SWITCHING**
5 **THE METHOD FOR DETERMINING A CONCLUSION VALUE IN THE**
6 **MARKET ANALYSIS APPROACH?**

7 A. Allowing utility valuation experts to rely on different methods without sound
8 reasons for variation to determine a conclusion value in the market analysis
9 approach could potentially harm the interest of the acquiring utility's ratepayers if
10 the inconsistent application of methods led to a higher ratemaking rate base of the
11 system to be acquired.

12
13 **Q. DO YOU HAVE ANY CHANGE IN YOUR RECOMMENDATION?**

14 A. No. I continue to recommend that the Commission make the approval of PAWC's
15 Application subject to the requirement that AUS should use a consistent method
16 going forward to determine the conclusion value under the market approach (I&E
17 Statement No. 1, p. 7).

18
19 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

20 A. Yes.

**I&E Statement No. 2-SR
Witness: Ethan H. Cline**

**Application of Pennsylvania-American Water Company for Acquisition of
the Wastewater Collection and Treatment System Assets of the Royersford Borough**

Docket No. A-2020-3019634

Surrebuttal Testimony

of

Ethan H. Cline

Bureau of Investigation and Enforcement

Concerning:

Cost of Service Study

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COST OF SERVICE STUDY 2

1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Ethan H. Cline. My business address is Pennsylvania Public Utility
4 Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg,
5 Pennsylvania 17120.

6

7 **Q. ARE YOU THE SAME ETHAN H. CLINE WHO SUBMITTED I&E**
8 **STATEMENT NO. 1 ON DECEMBER 22, 2020?**

9 A. Yes.

10

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

12 A. The purpose of my surrebuttal testimony is to address the rebuttal testimony of
13 submitted by Rod. P. Nevirauskas on behalf Pennsylvania American Water
14 Company (“PAWC” or “Company”) concerning PAWC’s ’s application for the
15 Public Utility Commission (“PUC” or “Commission”) approval of its acquisition
16 of substantially all of the Borough of Royersford’s (“Borough”) assets, properties
17 and rights related to its wastewater collection and treatment system, related
18 wastewater service rights, fair market valuation ratemaking treatment, accrual and
19 deferral of certain post-acquisition improvement costs, and certain contracts with
20 municipal corporations (“Application”).

21

22 **Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN EXHIBIT?**

23 A. No. My surrebuttal testimony does not include an exhibit.

1 **COST OF SERVICE STUDY**

2 **Q. WHAT DID YOU RECOMMEND REGARDING THE COSTS**
3 **ASSOCIATED WITH THE BOROUGH'S SYSTEM?**

4 A. I recommended that PAWC include in its next base rate case a separate cost of
5 service study for the Borough's system using the same methodology it used for
6 other systems acquired through the Section 1329 proceedings in the base rate case
7 at Docket Nos. R-2020-3019369 and R-2020-3019371 (I&E St. No. 2, p. 6).

8
9 **Q. DID THE COMPANY AGREE WITH YOUR RECOMMENDATION?**

10 A. No. Mr. Nevirauskas stated that he disagrees that the Commission should order
11 the completion of a cost of service study in all acquisitions, even all Section 1329
12 acquisitions. He supported his opinion by indicating that cost of service studies
13 are burdensome and expensive, increase rate case expense for ratepayers, and are
14 inconsistent with the Commission's policy of favoring single tariff pricing.
15 (PAWC St. No. 3-R, pp. 7-8).

16
17 **Q. DO YOU AGREE WITH MR. NEVIRAUSKAS THAT COST OF SERVICE**
18 **STUDIES UNNECESSARILY DRIVE UP RATE CASE EXPENSES FOR**
19 **RATEPAYERS?**

20 A. No. Cost of service studies are not necessarily burdensome and not costly to
21 produce compared to the overall cost of operating a utility. Ratepayers will
22 benefit from any such costs because having the cost of service study available in
23 PAWC's next base rate case will preserve parties and the Commission's ability to

1 reasonably assign costs where appropriate and to fully evaluate the rate impact of
2 this acquisition.

3
4 **Q. DO YOU AGREE WITH MR. NEVIRAUSKAS THAT COST OF SERVICE**
5 **STUDIES ARE INCONSISTENT WITH THE COMMISSION'S POLICY**
6 **FAVORING SINGLE TARIFF PRICING?**

7 A. No. A cost of service study is an important tool in ratemaking that helps to ensure
8 that certain customers and customer classes are not allocated an excessive level of
9 costs while ensuring that rates are not merged into single tariff pricing too quickly.
10 Further, it clearly identifies any subsidization required from existing water or
11 wastewater customers for the acquired system or any subsidy provided by the
12 acquired system, which makes determination of rates and rate increases more fact
13 based for newly acquired systems that are acquired at existing rates.

14
15 **Q. ARE YOU RECOMMENDING THAT THE COMMISSION REQUIRE A**
16 **COST OF SERVICE STUDY FOR EVERY POTENTIAL FUTURE**
17 **ACQUISITION AS MR. NEVIRAUSKAS SUGGESTED?**

18 A. No. The need for a cost of service study should be assessed on a case-by-case
19 basis. I am only recommending a cost of service study be provided in this
20 proceeding.

21
22 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

23 A. Yes

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Application of Pennsylvania-American Water :
Company Pursuant to Sections 507, 1102 and :
1329 of the Public Utility Code for Approval : Docket No. A-2020-3019634
of its Acquisition of the Wastewater System :
Assets of Royersford Borough :

VERIFICATION OF D. C. PATEL

I, **D. C. Patel**, on behalf of the Bureau of Investigation and Enforcement, hereby verify that **I&E Statement No. 1, I&E Exhibit No. 1** and **I&E Statement No. 1-SR** were prepared by me or under my direct supervision and control.

Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same if called to the stand at any evidentiary hearing held in this matter.

This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

Signed in Enola, Pennsylvania, this 14th day of January 2021.

DCPatel

D. C. Patel

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Application of Pennsylvania-American Water :
Company Pursuant to Sections 507, 1102 and :
1329 of the Public Utility Code for Approval : Docket No. A-2020-3019634
of its Acquisition of the Wastewater System :
Assets of Royersford Borough :

VERIFICATION OF ETHAN H. CLINE

I, **Ethan H. Cline**, on behalf of the Bureau of Investigation and Enforcement, hereby verify that **I&E Statement No. 2** and **I&E Statement No. 2-SR** were prepared by me or under my direct supervision and control.

Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same if called to the stand at any evidentiary hearing held in this matter.

This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

Signed in Mechanicsburg, Pennsylvania, this 14th day of January, 2021.

/s/ Ethan H. Cline_____

Ethan H. Cline