

**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, to Pennsylvania-American Water :
Company, of substantially all of the assets, properties and :
rights related to the wastewater collection and treatment :
system owned by the York City Sewer Authority and :
operated by the City of York, (2) the rights of :
Pennsylvania-American Water Company to begin to offer :
or furnish wastewater service to the public in the City of :
York, Pennsylvania, and to three bulk service :
interconnection points located in North York Borough, :
Manchester Township and York Township, York :
County, Pennsylvania, and (3) the rights of Pennsylvania- :
American Water Company to begin to offer or furnish :
Industrial Pretreatment Program to qualifying industrial :
customers in Manchester Township, Spring Garden :
Township and West Manchester Township, York County, :
Pennsylvania :

Docket No. A-2021-3024681 *et al.*

**DIRECT TESTIMONY OF
ASHLEY E. EVERETTE ON BEHALF OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

Date: July 1, 2021

PAWC Statement No. 3

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**DIRECT TESTIMONY OF
ASHLEY E. EVERETTE**

INTRODUCTION

5 **Q. WHAT IS YOUR NAME AND ADDRESS?**

6 A. My name is Ashley E. Everette, and my business address is 852 Wesley Drive,
7 Mechanicsburg, Pennsylvania 17055.

8
9 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

10 A. I am employed by American Water Works Service Company (the “Service Company”) as
11 the Senior Director of Rates and Regulatory. I work in the Mechanicsburg office of
12 Pennsylvania-American Water Company (“PAWC” or “the Company”).

13
14 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
15 PROFESSIONAL EXPERIENCE.**

16 A. I hold a Bachelor’s degree in Economics and a Master’s degree in Business Administration,
17 both from the University of Illinois. I have been employed by the Service Company since
18 September 2019, first as the Director of Rates and Regulatory for Pennsylvania, and now
19 in my current role as Senior Director of Rates and Regulatory with regulatory responsibility
20 for Pennsylvania and West Virginia. In these positions, I am responsible for preparing and
21 presenting rate applications as well as certain aspects of the financial, budgeting and
22 regulatory functions of the Company.

23 Prior to my employment at the Service Company, I was employed by the
24 Pennsylvania Office of Consumer Advocate (“OCA”) as a Regulatory Analyst from
25 September 2012 to September 2019.

1 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**
2 **PENNSYLVANIA PUBLIC UTILITY COMMISSION (THE “COMMISSION” OR**
3 **“PUC”)?**

4 **A.** Yes. I have testified on behalf of PAWC in the Company’s 2020 base rate case and in a
5 2020 petition case.¹ Prior to my employment by the Service Company, I testified on behalf
6 of the OCA in approximately 35 proceedings.

7
8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

9 **A.** My testimony first addresses the financial fitness of PAWC to acquire and operate the
10 wastewater system (“System”) currently owned by the York City Sewer Authority
11 (“Authority”) and operated by the City of York (“City”) (collectively referred to as
12 “York”), which PAWC has agreed to purchase (“Transaction”). Second, my testimony
13 addresses: (a) the identification of ratemaking rate base as required in 66 Pa. C.S § 1329
14 for PAWC’s acquisition of the System; (b) an overview of the rate provisions contained in
15 the Asset Purchase Agreement (“APA”) for PAWC’s acquisition of the System; (c) the
16 customer notices associated with the Transaction; (d) an estimate of the range of transaction
17 and closing costs incurred by PAWC; (e) a statement regarding PAWC’s intentions with
18 respect to accrual of certain post-acquisition improvement costs and deferral of related
19 depreciation; and, (f) the authentication of certain Application appendices.

¹ Additionally, I submitted testimony to the West Virginia Public Service Commission on behalf of West Virginia American Water in 2021.

PAWC'S FINANCIAL FITNESS

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Q. PLEASE DISCUSS PAWC'S FINANCIAL FITNESS.

A. PAWC is the Commonwealth's largest water and wastewater provider, with total assets of \$5.6 billion and annual revenues of \$733 million for 2020. For 2020, PAWC had operating income of approximately \$338 million and net income of approximately \$197 million. These operating results produced cash flows from operations of approximately \$389 million. Given its size, access to capital and its recognized strengths in system planning, capital budgeting and construction management, PAWC is well-positioned from a financial, managerial and technical perspective to ensure that high quality wastewater service meeting all federal and state requirements is provided to York's customers and maintained for PAWC's existing customers.

Q. PLEASE DISCUSS PAWC'S OVERALL FINANCIAL FITNESS AND ACCESS TO CAPITAL TO ACQUIRE THE YORK SYSTEM.

A. 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 Works
4 Company, Inc. (“American Water”). PAWC’s strong credit ratings allow PAWC to obtain
5 additional capacity on this line of credit.

6

7 **Long Term Debt Financing**

8 PAWC carries a corporate credit rating of “A3” from Moody’s Investors Services and an
9 “A” rating from Standard and Poor’s Rating Services. PAWC obtains long-term debt
10 financing through AWCC at favorable interest rates and payment terms. When applicable,
11 PAWC also uses low-cost financing through the Pennsylvania Infrastructure Investment
12 Authority (“PENNVEST”) and the Pennsylvania Economic Development Financing
13 Authority (“PEDFA”).

14

15 **Equity Investments**

16 PAWC may obtain additional equity investments through American Water based on its
17 strong operating performance.

18

19 **Q. PLEASE EXPLAIN HOW PAWC INTENDS TO FUND THE TRANSACTION.**

20 **A.** PAWC will initially fund the Transaction with short-term debt and will later replace it with
21 a combination of long-term debt and equity capital.

1 **Q. WHAT IMPACT, IF ANY, DO YOU ANTICIPATE THAT THE ACQUISITION OF**
2 **THE SYSTEM WILL HAVE ON PAWC'S CORPORATE CREDIT RATINGS?**

3 **A.** As stated above, PAWC does not anticipate that the acquisition of the System will have a
4 significant impact on its credit ratings.
5

6 **Q. DO YOU ANTICIPATE THE TRANSACTION HARMING PAWC'S FINANCIAL**
7 **STATUS IN ANY MANNER?**

8 **A.** No. PAWC does not anticipate that the acquisition of the System will have a negative
9 impact on PAWC's cash flows, credit ratings or access to capital and, therefore, will not
10 deteriorate in any manner PAWC's ability to continue to provide safe, adequate, and
11 reasonable service to its existing customers at just and reasonable rates.
12

13 **FAIR MARKET VALUE RATEMAKING RATE BASE**

14 **Q. PLEASE STATE THE RATE BASE REQUESTED IN THE APPLICATION**
15 **PURSUANT TO 66 PA. C.S § 1329.**

16 **A.** The negotiated purchase price for the acquired assets is \$235,000,000 and the average of
17 the appraisals of the buyer's Utility Valuation Expert ("UVE") and the seller's UVE is
18 \$254,856,690. Accordingly, the negotiated purchase price of \$235,000,000 is the fair
19 market value for ratemaking purposes under Section 1329 (*i.e.* the lower of the negotiated
20 purchase price and the average of the UVEs' appraisals). The fair market value as
21 determined by the Section 1329 process, in addition to the transaction and closing costs
22 described below, becomes part of PAWC's rate base for ratemaking purposes. Note,
23 however, that PAWC reserves its right in future proceedings to make rate base claims

1 related to the acquisition as may otherwise be permitted under the Pennsylvania Public
2 Utility Code (“Code”).

3
4 **Q. PLEASE DISCUSS THE AVERAGE DAILY AR PAYMENT PROVISION OF THE**
5 **ASSET PURCHASE AGREEMENT.**

6 **A.** Pursuant to Section 6.12, the Transaction will include the Average Daily AR Payment. The
7 Average Daily AR Payment is a payment the Company will make to York for the period
8 between the final meter reading and closing. PAWC, in turn, will bill its newly acquired
9 customers for the usage between the final meter reading and closing. This billing will be
10 done at the rates provided for in the approved tariff supplement, which are equivalent to
11 the rates currently charged by York. The amount of the Average Daily AR Payment
12 represents the average daily System revenue, which is determined based on the City’s most
13 recent audited financial statement, for the period from the final meter read through the
14 Closing Date, as discussed in APA Section 6.12. PAWC will record the Average Daily
15 AR Payment as Accounts Receivable, and the Accounts Receivable will be reduced in an
16 equal amount by the revenues PAWC bills the York customers. Ultimately, the Average
17 Daily AR Payment is an accounting entry which has no impact on the ratemaking rate base,
18 the acquired customers, or PAWC’s existing customers.

19
20 **Q. PLEASE DISCUSS THE PROVISIONS OF THE APA REGARDING THE CITY**
21 **DEPOSIT AND THE AGREEMENT PROPOSAL SECURITY.**

22 **A.** Section 3.01 of the APA provides that the Company will deposit \$20,000,000 in
23 immediately available funds payable to the City, that is secured by the City with a tax and

1 revenue anticipation note. This amount will be deducted from the purchase price at
2 Closing. As the deposit does not change the total purchase price, it has no ratemaking
3 impact. If Closing does not occur, the City is obligated to repay the \$20,000,000 deposit
4 in full.

5 In addition, the Company secured its proposal with a \$5 million bond called the
6 Agreement Proposal Security. The APA permits the Company to renew the 180-term for
7 two additional 180-day terms.

8
9 **Q. PLEASE SUMMARIZE HOW THE COMPANY PROPOSES TO RECORD THE**
10 **TRANSACTION.**

11 **A.** As shown on **Appendix A-15**, the Company seeks approval to record the \$235,000,000 net
12 value of the assets on its books. The Company requests to record the acquisition on a net
13 basis consistent with generally accepted accounting principles, which advise that property,
14 plant and equipment acquired in a business combination intended to be held and used
15 should be recognized and measured at fair value, and that the accumulated depreciation of
16 the acquiree is not carried forward in a business combination (i.e. net presentation).²

17 Section 1329(c) provides that the “ratemaking rate base” is to be incorporated into
18 PAWC’s rate base. As discussed above, the Company requests the Commission approve
19 the \$235,000,000 purchase price as the ratemaking rate base for York.³ Since Section 1329
20 does not address the proper accounting treatment of the rate base or approval of a

² ASC 805-20 *Business Combinations – Identifiable Assets and Liabilities, and any Noncontrolling Interest* and ASC 820-10-30 *Fair Value Measurement – Initial Measurement*.

³ “The ratemaking rate base of the selling utility shall be the lesser of the purchase price negotiated by the acquiring public utility or entity and selling utility or the fair market value of the selling utility.” 66 Pa. C.S. § 1329(c).

1 depreciation reserve in determining the ratemaking rate base, the Company believes that
2 recording the net value of \$235,000,000 is appropriate and consistent with Section 1329.

3
4 **ASSET PURCHASE AGREEMENT RATE PROVISIONS**

5
6 **Q. PLEASE PROVIDE AN OVERVIEW OF THE RATE PROVISIONS OF THE APA.**

7 **A.** Section 6.04 of the APA, dated as of April 6, 2021, contains provisions related to rates.
8 PAWC has committed to adopt, upon closing of the Transaction, York's base rates then in
9 effect at the time of Closing. PAWC will have no obligation to fulfill or maintain any
10 agreements for discounted or free services to any party.

11 The initial rates to be applicable to the former York wastewater customers are set
12 forth in the *pro forma* tariff supplement attached as **Appendix A-12** to the Application.
13 System customers will be governed by rates for new York Rate Zone "XX." After PAWC
14 closes on the Transaction, System customers will be subject to PAWC's prevailing
15 wastewater tariff on file with the Commission with respect to all rates other than base rates,
16 such as capacity reservation fees, reconnection fees and the like, as well as non-rate related
17 terms and conditions of service. I will discuss the bulk rates in more detail later in this
18 section.

19 Section 6.04 also states that PAWC will not charge York customers a Distribution
20 System Improvement Charge ("DSIC") prior to the effective date of PAWC's next PUC-
21 approved base rate increase.

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

3 **A.** The APA does not set forth or require a “rate stabilization plan” as defined by Section
4 1329(g). Therefore, PAWC is not required under the *Final Implementation Order* at
5 Docket No. M-2016-2543193 to provide testimony, schedules, and work papers in support
6 of a rate stabilization plan.

7 Section 1329(g) defines a “rate stabilization plan” as “[a] plan that will hold rates
8 constant or phase rates in over a period of time after the next base rate case.” As detailed
9 in Section 6.04 of the APA, PAWC will be charging York’s current rates (but not other
10 charges) as the Company’s base rates within the service territory. In addition, Section
11 6.04(c) states “Buyer shall, subject to PaPUC approval in a future base rate proceeding,
12 maintain base rates for System customers for a minimum period of three (3) years from the
13 Closing Date.”

14 While the APA contractually restricts PAWC from proposing an increase in base
15 rates until after the second anniversary of the Closing Date, I am advised by counsel that
16 nothing in the APA purports to restrict the Commission’s authority to set rates that it
17 considers to be “just and reasonable” in the context of a base rate proceeding or otherwise.
18 As such, the instant application does not propose a “rate stabilization plan” for approval by
19 the Commission. In a previous Section 1329 proceeding, the Commission stated the
20 following regarding the relationship between rate commitments and rate stabilization
21 plans:⁴

⁴ See *Application of Aqua Pennsylvania Wastewater, Inc. Pursuant to Sections 1102 and 1329 of the Public Utility Code for Approval of its Acquisition of the Wastewater System Assets of New Garden Township and the New Garden Township Sewer Authority*, Docket No. A-2016-2580061 (Opinion and Order entered Jun. 29, 2017), pp. 41-42. Internal footnote omitted.

1 The ALJ determined that the rate commitment provision contained in the APA does
2 not trump the Commission's ultimate authority to set and allocate rates. We agree.
3 Here, the APA provides firm, unqualified guarantees to the seller as a term of the
4 APA. However, it does not purport to hold rates constant or phase rates in over a
5 period time after the next base rate case. It offers no tariff language for us to
6 approve. Thus, we decline to hold that the rate commitment constitutes a rate
7 stabilization plan pursuant to Section 1329(g) of the Code."), *reversed on other*
8 *grounds, McCloskey v. Pa. Pub. Util. Comm'n*, 195 A.2d 1055 (Pa. Cmwlt. 2018)
9 ("*Aqua/New Garden*").

10
11 PAWC was careful in negotiating the APA to respect the statutory authority of the
12 Commission to set just and reasonable rates.

13 At this time, it is unknown when Closing will occur or when PAWC will file its
14 next base rate case. Nevertheless, it is clear that Section 6.04 respects the statutory
15 authority of the Commission to set just and reasonable rates. PAWC is not asking the
16 Commission in this Application proceeding to maintain rates for a period of time beyond
17 the next base rate case. If PAWC's next base rate case would become effective within
18 three years of Closing, PAWC will maintain York's base rates, subject to Commission
19 approval. Consequently, the APA does not include a rate stabilization plan.

20
21 **Q. WHAT IMPACT, IF ANY, WILL THERE BE ON THE RATES OF YORK'S**
22 **DIRECT CUSTOMERS AS A RESULT OF THE ACQUISITION OF THE**
23 **SYSTEM?**

24 **A.** There will be no immediate impact on the rates of York's direct customers because PAWC
25 has committed to adopt, upon closing of the Transaction ("Closing"), York's rates in effect
26 at the time of Closing. PAWC expects to propose to move York's rates toward

1 consolidated rates in future base rate cases.⁵ Subject to Commission approval, PAWC
2 anticipates allocating a portion of its wastewater revenue requirement to the combined
3 water and wastewater customer base, as permitted by 66 Pa. C.S. § 1311(c).

4
5 **Q. PLEASE SUMMARIZE THE CURRENT RATES TO YORK’S BULK**
6 **CUSTOMERS.**

7 **A.** Under York ownership, the rates charged to the bulk customers are governed by
8 intermunicipal agreements between York and each municipality.⁶ The total charges are
9 determined on the basis of the Authority’s debt service costs and budgeted operating
10 expenses. A June 2021 York ordinance provides for volumetric rates per 1,000 gallons
11 that apply to each bulk customer “during any period during which an intermunicipal sewer
12 service agreement is not currently effective.”⁷

13
14 **Q. WHAT IMPACT, IF ANY, WILL THERE BE ON THE RATES OF YORK’S BULK**
15 **CUSTOMERS AS A RESULT OF THE ACQUISITION OF THE SYSTEM?**

16 **A.** My colleague, Mr. Bernard J. Grundusky, Jr., discusses in his direct testimony⁸ several
17 scenarios which may apply upon PAWC’s acquisition of York. Each scenario is based on
18 the rates currently charged by York to the bulk customers.

⁵ As discussed above, the Asset Purchase Agreement provides that, subject to Commission approval in a future base rate proceeding, PAWC will “maintain base rates for System customers for a minimum period of three (3) years from the Closing Date.”

⁶ The York Water Company owns the West York Borough wastewater collection system. *Application of The York Water Company - Wastewater (York) for approval of: (1) York to acquire certain wastewater facilities from West York Borough; and (2) the right of York to furnish wastewater service to the public in West York Borough, York County, Pennsylvania*, Docket No. A-2016-2552403 (Order entered Dec. 22, 2016).

⁷ **Appendix-18-b.4.**

⁸ PAWC Statement No. 1.

1 **Q. PLEASE SUMMARIZE WHAT RATES PAWC WOULD CHARGE TO THE**
2 **BULK CUSTOMERS UPON CLOSING.**

3 **A.** As discussed in Mr. Grundusky’s direct testimony, the Application includes a petition
4 asking the Commission to modify the agreements with nearby municipalities and The York
5 Water Company that are assigned to PAWC at Closing to revise the contract rates to be
6 equal to the tariffed rates shown in **Appendix A-12**. The tariffed rates for bulk customers
7 in **Appendix A-12** are equal to those provided-for in York’s June 2021 ordinance. In the
8 event that no bulk service contract is in place between PAWC and the bulk customer, the
9 tariffed rates for bulk customers shown in **Appendix A-12** would apply. In either of these
10 scenarios, the rates would be equal to the rates currently charged by York and equal to the
11 rates in the June 2021 ordinance.

12 If PAWC successfully renegotiates the bulk agreements with the municipalities and
13 The York Water Company, the rates provided-for in those agreements would apply.⁹

14
15 **Q. WHAT IMPACT, IF ANY, WILL THERE BE ON THE RATES OF PAWC’S**
16 **CURRENT WATER AND WASTEWATER CUSTOMERS AS A RESULT OF THE**
17 **ACQUISITION OF THE SYSTEM?**

18 **A.** There will be no immediate impact on the rates of PAWC’s current water and wastewater
19 customers. PAWC expects to include York’s wastewater system in PAWC’s future base
20 rate filings. Any impacts on the rates of PAWC’s existing water and wastewater customers
21 would occur only upon Commission approval as part of a base rate proceeding.¹⁰ A non-

⁹ PAWC will submit every new intermunicipal agreement to the Commission for approval pursuant to Section 507.
¹⁰ As discussed above, the Asset Purchase Agreement provides that, subject to Commission approval in a future base rate proceeding, PAWC will “maintain base rates for System customers for a minimum period of three (3) years from the Closing Date.”

1 binding estimate of possible rate impacts for existing water and wastewater customers is
2 shown in **Appendix A-18-d** and discussed in the Customer Notice section below. York's
3 customers, as part of PAWC's overall customer base, will become part of PAWC's overall
4 cost allocation. Nothing contained in the APA would bind the Commission or other
5 interested parties in future ratemaking proceedings.

6
7 **CUSTOMER NOTICE**

8 **Q. IS PAWC PROVIDING NOTICE TO CUSTOMERS OF THE ACQUISITION?**

9 **A.** Yes. PAWC is providing notice of the acquisition to existing PAWC water and wastewater
10 customers as well as to York's wastewater customers. The notices to PAWC customers
11 and York wastewater customers are attached to the application as **Appendix A-18-d**.
12 These notices contain a non-binding estimate of the potential rate impact of the acquisition.

13
14 **Q. HOW WERE THE ESTIMATES OF POTENTIAL RATE IMPACTS**
15 **CALCULATED FOR THE NOTICES PROVIDED IN APPENDIX A-18-D?**

16 **A.** These notices were prepared in accordance with the *Steelton Order*.¹¹ This Order approved
17 a Settlement in which PAWC agreed to the form and calculation of the notices for future
18 Section 1329 acquisition proceedings ("Settlement").

19 In the Settlement, the Joint Petitioners (PAWC, the Commission's Bureau of
20 Investigation & Enforcement, the Office of Consumer Advocate, the Office of Small
21 Business Advocate and the Borough of Steelton) agreed to the form of the notices to be

¹¹ *Application of Pennsylvania-American Water Company Pursuant to Sections 1102 and 1329 of the Public Utility Code for Approval of its Acquisition of the Water System Assets of the Steelton Borough Authority*, Docket No. A-2019-3006880 (Opinion and Order entered Oct. 3, 2019) ("*Steelton Order*").

1 sent to existing PAWC water and wastewater customers and the notice to be sent to the
2 customers of the system being acquired. The forms of the notices were attached to the
3 Settlement as Appendix E and Appendix F.

4 The Joint Petitioners also agreed to the Rate Impact Calculations for these notices.
5 Those calculations are discussed in more detail below.
6

7 **Q. PLEASE DISCUSS ADJUSTMENTS MADE TO THE NOTICE CALCULATION**
8 **AS A RESULT OF THE COMPANY'S 2020 BASE RATE CASE.**

9 **A.** The customer notice calculation attached as **PAWC Exhibit AEE-1** incorporates the
10 authorized water and wastewater revenues, the allocation of wastewater revenue
11 requirement to water operations, and the wastewater capital structure from the 2020 base
12 rate case. Notices for PAWC customers were calculated on the basis of the rates that are
13 authorized by the Commission to become effective January 1, 2022.

14 The Settlement provided that revenues from certain acquisitions were excluded
15 from the calculation and there was no notice requirement for these recently acquired
16 customers. Because an additional base rate case has concluded since the Settlement and the
17 Company intends to provide notice to customers in all systems that were included in the
18 2020 base rate case, the calculation is updated to include revenues from all systems that
19 were included in the Company's 2020 base rate case.
20

21 **Q. PLEASE SUMMARIZE THE CALCULATION OF THE POTENTIAL RATE**
22 **IMPACT SHOWN IN THE NOTICE TO YORK'S CUSTOMERS.**

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

York Wastewater Customers				
Rate Class	Average Usage	Average Monthly Bill at York's Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,458 gal/month	\$32.60	\$48.08	47.5%
Commercial	23,692 gal/month	\$222.19	\$327.73	47.5%
Industrial	404,500 gal/month	\$3,790.17	\$5,590.50	47.5%

3
4 The 47.5% increase shown in the chart above is calculated as 100% of the revenue
5 deficiency after the Act 11 allocation to water customers,¹² divided by the Year One
6 revenues of the System. The current average monthly bill is calculated using York's
7 existing wastewater rates, which will be adopted by PAWC at Closing. The potential
8 average monthly bill after acquisition is calculated by increasing the current average
9 monthly bill amounts by the 47.5% increase. This methodology was used to comply with
10 the Settlement at Docket No. A-2019-3006880 (Exhibit G). Please refer to **PAWC Exhibit**
11 **AEE-1** for the calculation of the customer notice.

12
13 **Q. PLEASE SUMMARIZE THE RATE IMPACT CALCULATION IN THE NOTICE**
14 **TO PAWC WASTEWATER CUSTOMERS.**

15 **A.** As shown in **Appendix A-18-d**, the notice to PAWC's existing wastewater customers
16 shows the following information regarding the potential rate impacts of the acquisition:

¹² 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 prior base rate case. In PAWC's last base rate case, 50% of the wastewater revenue requirement for 2022 was allocated to water customers under Act 11. See Docket No. R-2020-3019369, Summary Proof of Revenues Revised. The Settlement was approved by Order entered February 25, 2021 ("2020 Rate Case").

PAWC Existing Wastewater Customers				
Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 2022 Rates	Average Monthly Bill at PAWC Zone 1 2022 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,458 gal/month	\$78.41	\$84.68	8.0%
Commercial	23,692 gal/month	\$368.05	\$397.49	8.0%
Industrial	404,500 gal/month	\$5,841.78	\$6,309.12	8.0%

The 8% 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 excluding other operating revenues as well as the Year One revenues from the System. This methodology was used to comply with the Settlement at Docket No. A-2019-3006880 (Exhibit G). Please refer to **PAWC Exhibit AEE-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 2022 Rates	Average Monthly Bill at PAWC Zone 1 2022 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,458 gal/month	\$62.80	\$63.62	1.3%
Commercial	23,692 gal/month	\$327.87	\$332.13	1.3%
Industrial	404,500 gal/month	\$4,028.81	\$4,081.18	1.3%

1 The 1.3% increase shown in the chart above represents the potential impact on
2 PAWC water customers of the Act 11 allocation to water customers. This allocation to
3 water customers is divided by PAWC's applicable water revenues from PAWC's most
4 recent base rate case.

5 The current average monthly bill is shown at PAWC's Zone 1 rates effective
6 January 1, 2022 and the average usage for each customer class as reflected in the filing of
7 PAWC's most recent base rate case (Docket No. R-2020-3019369). The average monthly
8 bill for PAWC Zone 1 customers after acquisition is calculated by increasing the average
9 monthly bill amounts by the 1.3% increase, which was calculated as explained above. This
10 methodology was used to comply with the Settlement at Docket No. A-2019-3006880
11 (Exhibit G). Please refer to **PAWC Exhibit AEE-1** for the calculation of the customer
12 notice.

13
14 **Q. DO YOU HAVE ANY FURTHER COMMENTS ON THE CUSTOMER NOTICES**
15 **PAWC IS PROVIDING IN THIS PROCEEDING?**

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

20
21 **TRANSACTION AND CLOSING COSTS**

22 **Q. PLEASE DESCRIBE THE ESTIMATED TRANSACTION AND CLOSING COSTS**
23 **FOR THE TRANSACTION.**

1 A. As set forth in the Commission’s *Final Implementation Order* at Docket No. M-2016-
2 2543193, transaction and closing costs include the UVE’s appraisal fee and the buyer’s
3 closing costs, including reasonable attorney fees. In accordance with the *Final*
4 *Implementation Order* and traditional ratemaking principles, reasonable transaction and
5 closing costs are not to be decided in this Application proceeding; instead, PAWC must
6 justify the costs by a “preponderance of the evidence” in a future base rate proceeding.

7 As a practical matter, the exact extent of such costs cannot be known at the time of
8 filing the Application and will not be finally known until after Closing of the Transaction.
9 The costs depend on a number of variables, including whether this Application is settled
10 or fully litigated. PAWC will track such costs and incorporate them into rate base in a
11 future base rate proceeding as appropriate. Nevertheless, attached to the Application as
12 **Appendix A-10** is PAWC’s estimate of the anticipated range of transaction and closing
13 costs (approximately \$1,150,000 to \$1,300,000).

14
15 **POST-ACQUISITION IMPROVEMENT COSTS**

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

18 A. I am advised by counsel that Section 1329(f) allows “an acquiring public utility’s post
19 acquisition improvements that are not included in a distribution system improvement
20 charge [to] accrue allowance for funds used during construction [“AFUDC”] after the date
21 the cost was incurred until the asset has been in service for a period of four years or until
22 the asset is included in the acquiring public utility’s next base rate case, whichever is
23 earlier.” Section 1329(f) also provides that “[d]epreciation on an acquiring public utility’s

1 post acquisition improvements that have not been included in the calculation of a
2 distribution system improvement charge shall be deferred for book and ratemaking
3 purposes.”
4

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

7 **A.** Yes. As summarized in the Direct Testimony of PAWC Witness Mr. Michael J. Guntrum,
8 P.E., PAWC’s Senior Project Engineer, PAWC Statement No. 2, PAWC will be making
9 post-acquisition improvements to the System. As such, PAWC will likely accrue AFUDC
10 consistent with what is permitted under Section 1329. PAWC will address any claims for
11 AFUDC in the first base rate proceeding in which York’s assets are included.
12

13 **Q. DOES PAWC INTEND TO DEFER DEPRECIATION ON NON-DISC-ELIGIBLE**
14 **POST-ACQUISITION IMPROVEMENTS FOR BOOK AND RATEMAKING**
15 **PURPOSES?**

16 **A.** Yes. Section 1329(f) permits such deferral of depreciation. The statute appears to allow
17 deferral without specific Commission approval; however, out of an abundance of caution,
18 PAWC is specifically petitioning the Commission, as part of this Application proceeding,
19 for permission to defer the depreciation for book and ratemaking purposes.
20

21 **AUTHENTICATION OF APPLICATION APPENDICES**

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

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

3
4 **Q. PLEASE IDENTIFY WHICH APPLICATION APPENDICES WERE PREPARED**
5 **BY YOU OR UNDER YOUR SUPERVISION AND CONTROL?**

6 A. **Appendix A-10** is the Company's estimate of the anticipated range of transaction and
7 closing costs. The *pro forma* tariff supplement is attached as **Appendix A-12** to the
8 Application. In addition, based on financial statements provided by York and on PAWC's
9 audited financial statements, the following appendices were prepared: **Appendix C**
10 (balance sheet of York as of December 31, 2018), **Appendix D** (audited balance sheet of
11 PAWC as of December 31, 2020), **Appendix E** (income statement of York for the 12
12 months ended December 31, 2018), **Appendix F** (audited income statement of PAWC for
13 the 12 months ended December 31, 2020), **Appendix G** (*pro forma* balance sheet of
14 PAWC, giving effect to the transfer),¹³ **Appendix H** (*pro forma* consolidated income
15 statement of PAWC and York for 12 months)¹⁴ and **Appendix K** (estimated annual
16 revenues and expenses).

17
18 **Q. ARE APPENDICES A-10, A-12, APPENDICES C THROUGH H, AND APPENDIX**
19 **K TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE,**
20 **INFORMATION, AND BELIEF?**

21 A. Yes.

¹³ Because financial statements for the year ended December 31, 2020 are not available for York, the combined *pro forma* does not include balance sheet data for York.

¹⁴ Because financial statements for the year ended December 31, 2020 are not available for York, the combined *pro forma* does not include income statement data for York.

CONCLUSION

1

2 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

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

York Wastewater Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at York Rates at Closing	Potential Average Monthly Bill	Potential Increase
Residential	3,458 gal/month	\$32.60	\$48.08	\$15.48 or 47.5%
Commercial	23,692 gal/month	\$222.19	\$327.73	\$105.54 or 47.5%
Industrial	404,500 gal/month	\$3,790.17	\$5,590.50	\$1,800.33 or 47.5%

PAWC Current Customers

Wastewater

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 2022 Rates	Average Monthly Bill at PAWC Zone 1 2022 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,458 gal/month	\$78.41	\$84.68	\$6.27 or 8.0%
Commercial	23,692 gal/month	\$368.05	\$397.49	\$29.44 or 8.0%
Industrial	404,500 gal/month	\$5,841.78	\$6,309.12	\$467.34 or 8.0%

Water

Rate Class	Average Usage	Average Monthly Bill at PAWC Zone 1 2022 Rates	Average Monthly Bill at PAWC Zone 1 2022 Rate Adjusted for Potential Impact of Acquisition	Potential Increase
Residential	3,458 gal/month	\$62.80	\$63.62	\$0.82 or 1.3%
Commercial	23,692 gal/month	\$327.87	\$332.13	\$4.26 or 1.3%
Industrial	404,500 gal/month	\$4,028.81	\$4,081.18	\$52.37 or 1.3%

**Pennsylvania American Water Company
Acquisition of Wastewater Assets of the York
Docket No. A-2021-3024681**

York Wastewater

Residential		
	Minimum Charge	\$18.00
34.58	0.9370	14.60
19.00		
		\$32.60

Rate Impact 47.5%
\$15.48
Total \$48.08

PAWC - Wastewater

Zone 1 - Residential		
	Service Charge	\$11.00
34.58	1.9494	67.41
		\$78.41

Rate Impact 8.0%
\$6.27
Total \$84.68

PAWC - Water

Zone 1 - Residential		
5/8"	Service Charge	\$17.50
34.58	1.3100	45.30
		\$62.80

Rate Impact 1.3%
\$0.82
Total \$63.62

Commercial		
	Service Charge	\$18.00
236.92	0.9370	204.19
19.00		
		\$222.19

Rate Impact 47.5%
\$105.54
Total \$327.73

Zone 1 - Commercial		
	Service Charge	\$27.50
236.92	1.4374	340.55
		\$368.05

Rate Impact 8.0%
\$29.44
Total \$397.49

Zone 1 - Commercial		
1"	Service Charge	\$44.10
160.00	1.3100	209.60
76.92	0.9643	74.17
220.00		
		\$327.87

Rate Impact 1.3%
\$4.26
Total \$332.13

Industrial		
	Service Charge	
4,045.00	0.9370	3,790.17
		\$3,790.17

Rate Impact 47.5%
\$1,800.33
Total \$5,590.50

Zone 1 - Industrial		
	Service Charge	\$27.50
4,045.00	1.4374	5,814.28
		5,841.78

Rate Impact 8.0%
\$467.34
Total \$6,309.12

Zone 1 - Industrial		
2"	Service Charge	\$203.40
160.00	1.2277	196.43
3,885.00	0.9341	3,628.98
4,045.00		
		4,028.81

Rate Impact 1.3%
\$52.37
Total \$4,081.18

Pennsylvania American Water Company
 Acquisition of Wastewater Assets of the York
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Estimated Rate Increase

Revenue Requirement Increase (Attachment page 2)	\$ 17,557,000
Act 11 Percentage (R-2020-3019369 Revised Proof of Revenues)	50%
Amount of increase allocated to water through Act 11	<u>8,778,500</u>
Amount of increase allocated to wastewater customers	\$ 8,778,500

Increase applied to York Wastewater Customers

Revenue Requirement Increase - After Act 11	\$ 8,778,500
Current York Wastewater revenues	18,487,000
Estimated increase to wastewater customers	47.5%

Amount of increase allocated to wastewater customers and applied to the combined revenues of all PAWC wastewater customers and acquired customers:

Revenue Requirement Increase	\$ 8,778,500
Current York Wastewater revenues	18,487,000
PAWC Wastewater Revenues (R-2020-3019369 Proof of Revenues excl. Other Operating Revenues)	<u>91,630,546</u>
Estimated increase to wastewater customers	8.0%

Amount of increase allocated to water customers:

Revenue Requirement Increase	\$ 8,778,500
PAWC Water Revenues (R-2020-3019369 Proof of Revenues excl. Other Operating Revenues & Contract Sales)	<u>675,266,314</u>
Estimated increase to Water Customers	1.3%

**Pennsylvania American Water Company
 R-2020-3019369 - Revised Proof of Revenues
 Act 11 Allocation**

	Water Operations Excluding Steelton	Water Operations Steelton	Wastewater SSS Excluding Sadsbury and Exeter	Sadsbury Wastewater	Exeter Wastewater	Scranton Wastewater	McKeesport Wastewater	Kane Wastewater	Total Wastewater	Total Company
Additional Annual Operating Revenue Before Act 11	\$ 25,133,708	\$ 2,359,719	\$ 6,892,402	\$ 745,997	\$ 6,929,998	\$ 10,401,176	\$ 16,338,292	\$ 1,701,586	\$ 43,009,451	\$ 70,502,878
ACT 11 Allocation - WW COS Recovered from Water	22,714,348	(1,235,909)	(836,759)	(725,899)	(3,306,776)	(2,505,411)	(13,321,577)	(782,017)	(21,478,439)	50% \$ -
Additional Annual Operating Revenue	47,848,056	1,123,810	6,055,643	20,098	3,623,222	7,895,765	3,016,715	919,569	21,531,012	50% 70,502,878

**Pennsylvania American Water Company
Acquisition of Wastewater Assets of the York
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Revenue Requirement Increase

Rate Base	\$ 235,000,000	Appendix A-11
Rate of Return %	6.98%	See Calculations
Rate of Return	<u>16,403,000</u>	
O&M	8,075,000	Appendix K
Taxes Other	1,083,000	Appendix K
Depreciation	5,744,000	Appendix K
Taxes	4,739,000	See Calculations
Revenue Requirement	<u>36,044,000</u>	
York Wastewater Year-1 Revenues	18,487,000	Appendix K
Revenue Requirement Increase	17,557,000	

**Pennsylvania American Water Company
Acquisition of Wastewater Assets of the York
Docket No. A-2021-3024681**

Summary

Revenue Requirement

Rate Base	\$	235,000,000
Pretax ROR %		9.00%
Pretax ROR		21,150,000
Plus: O&M Expense		8,075,000
Taxes Other		1,083,000
Depreciation		5,744,000
Total Revenue Requirement		36,052,000

Income Tax Calculation

Revenues	\$	36,052,000
Less: O&M Expense		8,075,000
Taxes Other		1,083,000
Depreciation		5,744,000
Interest		4,747,000
SIT Taxable Income		16,403,000
State Income Tax Rate		9.99%
State Income Tax		1,639,000
FIT Taxable Income		14,764,000
Federal Income Tax Rate		21.00%
Federal Income Tax		3,100,000
Total Income Taxes		4,739,000

Interest

Rate Base	\$	235,000,000
Weighted Cost of Debt (1.85% + 0.99%)		2.02%
	\$	4,747,000

Wastewater	Capital Structure	Cost Rate	Weighted Cost	Revenue Multiplier	Revenue Requirement
Long-Term Debt	39.44%	4.45%	1.76%		1.76%
Wastewater Financing	10.14%	2.55%	0.26%		0.26%
Preferred Stock	0.05%	8.80%	0.00%	1.40631	0.00%
Common Equity	50.37%	9.85%	4.96%	1.40631	6.98%
			6.98%		9.00%

Cost of Equity for Distribution System Improvement Charge (DSIC) 9.85% M-2021-3025288

Capital Structure based on PAWC last wastewater base rate case R-2020-3019369 PAWC Statement No. 13-R, Exhibit No. 13-R, 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